

A Birthright to Capital

Equitably Designing Baby Bonds to Promote Economic and Racial Justice

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Introduction

In the United States, there has long existed a narrative that with a little resiliency, grit and personal responsibility, people can pull themselves up and achieve economic success. For some, that may mean starting a new business or becoming the first in their family to obtain a higher education. For others, it could be becoming a homeowner for the first time or living out their golden years in comfort. Regardless of what the end goal may be, this pervasive narrative—often referred to as the American Dream—tells us that even if your lot in life is subpar, with perseverance, hard work and the virtues of the free market, you can turn your proverbial rags into riches.¹

Of course, the inverse of this argument is that the virtues of the market will likewise punish those who are not astute, lack motivation or are unwilling to work to secure their slice of the American Dream. In other words, the deserving poor will receive their just rewards. But what is conspicuously missing from this narrative is that the likelihood of making any of the previously mentioned goals happen, and of achieving the American Dream, has less to do with what we do and more to do with the wealth position in which we are born.

Although income is critically important to achieving economic security, the reality is that wealth is *the* paramount indicator of economic prosperity and well-being. Wealth is the capital that provides the financial agency and economic security necessary to take risks and shield against loss, giving us the choice, freedom and optionality to fully engage in the market. Without it, choices to engage the market are limited or non-existent, leading to persistent inequality.

For example, compared to families with little or no wealth, wealthier families are better positioned to finance an elite, private K-12 and college education for their children, have easier access capital to start a business and have the resources to pay for expensive medical procedures. In addition, these families can reside in neighborhoods with more amenities and have a greater ability to weather financial storms. Finally, and perhaps most importantly, these families have the means to leave behind an inheritance for the next generation to build on.

In other words, when it comes to economic security, wealth is both the beginning and the end.

Unfortunately, over the past several decades, the underpinnings of what makes the American Dream possible have progressively become less about hard work and determination and more about the role of power and capital—generated through wealth—and how that power and capital has been used to alter the rules and structures of transactions and markets. In fact, because wealth provides those who have it with the ability to exert political influence through campaign contributions, power and capital inevitably become self-reinforcing. And without government intervention, these forces generate an iterative cycle of both stratification and inequality.²

Though it should be no surprise, given the rise in economic populism in recent years, the lack of meaningful government interventions over the past five decades has given way to rising economic inequality. As a result, households in the top 10% own the lion's share of wealth in the United States today, while Black and Latinx households—which collectively make up about 30% of the nation's population—own just 7.5% of the nation's wealth.³ Put differently, only a tiny sliver of the nation's population has the resources necessary to achieve the American Dream and those that do are generally wealthy, White households who historically have had a more privileged path toward doing so.

It is within this context that, over the course of this paper, we will outline the case for why the United States government should provide an account, with up to \$60,000 held in public trust, to every one of the four million children born each year in the United States. Moreover, in proposing specific policy design considerations for such a program, this paper will also outline why this economic right to wealth, often referred to as a Baby Bond or a Baby Trust,^{*} should be calibrated to the economic position of a child's family.

While providing a birthright to capital may seem new or radical, the concept of economic rights is neither of these. In his 1797 pamphlet, *Agrarian Justice*, Thomas Paine called for the creation of a national fund, capitalized through a tax on inherited property, that would provide seed capital to young adults when they turned 21, as well annual income support to adults over the age of 50. Nearly 150 years later, in 1944, President Franklin Roosevelt introduced the idea of an economic bill of rights, in which he called for physical security, economic security, social security and moral security.⁴ Unfortunately, since the early 1970s, political sentiment regarding social mobility has shifted radically from government mandates to promote economic security toward a neoliberal approach in which the market is presumed to be the solution for all our problems, economic or otherwise. As a result, the onus of social mobility has shifted further onto the individual, while the market has become more inadequate at addressing rising inequality.⁵

Ultimately, by creating an economic birthright to wealth for every newborn, we can ensure that all children are provided with the capital and, by extension, the choices to fully engage in the market and to take advantage of asset-building opportunities that create long-term economic prosperity. More importantly, by ensuring that these accounts provide the most support to low-wealth families—and that they are paired with other supports that help families build and maintain economic security throughout their lives—we can begin to meaningfully address the economic gap between the rich and poor, and the ever-growing wealth gap between White, Black and Latinx households.

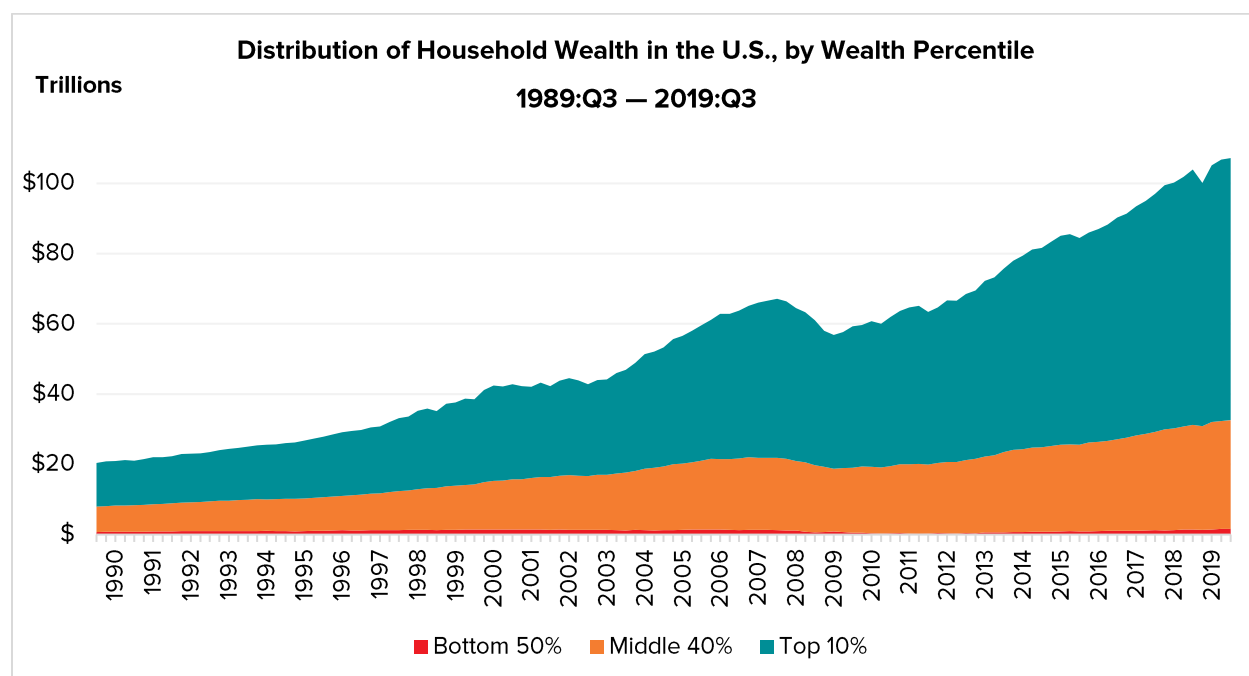
^{*} The term “Baby Bonds” was coined by the late Columbia University historian Manning Marable. The program is more affectionately known as “Baby Bonds” but is more accurately labeled a “Baby Trust,” since it is actually a trust account program, not a bond account program.

Wealth Inequality Has Risen Sharply Over the Past Several Decades

Regardless of race, the market alone has been inadequate in addressing rising wealth inequality. In fact, inequality grows even in times of economic expansion. Since the 1960s, there have been eight periods of economic expansion—including the current record-setting expansion that began in June 2009. And yet, most of the gains made during this time have gone to the elite or the upper-middle class.

Research by the Urban Institute, for example, has found that between 1963 and 2016, the average wealth of families in the middle of the income distribution doubled while that of families in the top 10% increased by nearly five times. As a result, the average gap in wealth between these two groups today is twice as large as it was just a half-century ago.

In terms of total wealth, recent data from the Federal Reserve shows that as of the third quarter of 2019, the top 10% of households in the country now own just under 70% of the nation's wealth.⁶ Overall, the wealth now held by the top 10% of households amounts to almost \$75 trillion—more than twice the net worth of the bottom 90% of households *combined* (\$32.57 trillion).

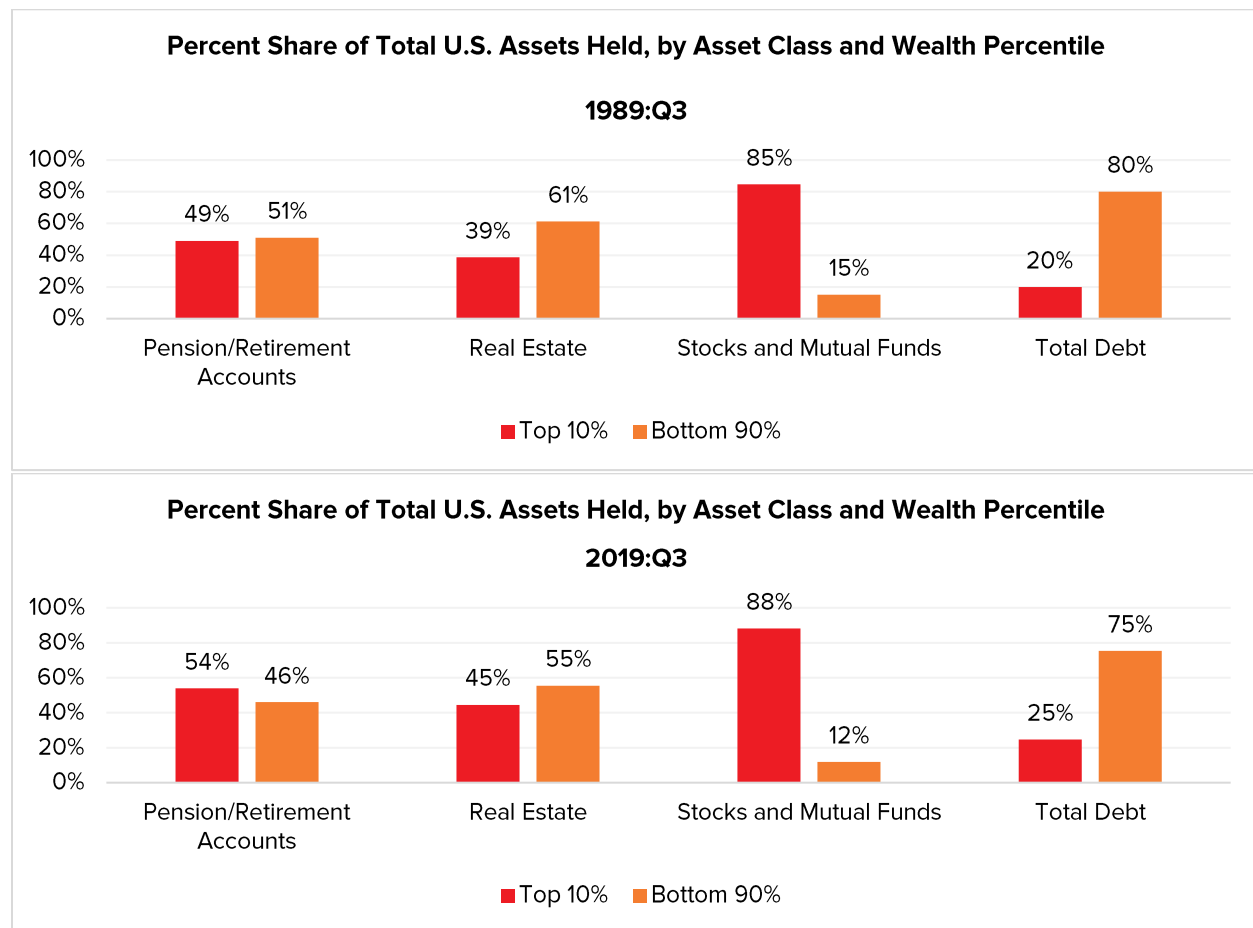


Source: Federal Reserve, [Survey of Consumer Finances and Financial Accounts of the United States](#)

Looking further at the extremes of the wealth distribution, the top one percent now owns just under \$35 trillion in wealth (or more than the bottom 90% combined), while the collective net worth of the bottom 50% stands at \$1.67 trillion. Since 1989, those in the top one percent of households have seen their collective levels of wealth increase by over 600%, while those in the bottom 50% have seen theirs rise by about 150%.

As astonishing as these statistics may be, it should be noted that the story behind rising wealth inequality is not just about the fact that the wealthy have more wealth, which they certainly do; it is also about the assets and debts that make up that wealth. While it is true that wealth begets more wealth, the composition of wealth not only plays a tremendous role in a household's net worth but also in the overall problem of rising inequality. As economist Thomas Piketty⁷ and others have noted, because the return on capital that makes up a household's wealth—bonds, stocks, homeownership, etc.—are significantly higher than the growth of income, the economic system of the United States is designed to perpetuate inequality.

To this point, while average real household incomes grew by just over 30% between 1989 and 2018,⁸ the value of the S&P 500 increased by nearly 400% over the same period.⁹ Those tremendous gains have gone mostly to the top 10% of households who historically have derived a larger share of their wealth from corporate stocks and mutual funds. By comparison, in addition to historically holding an overwhelming amount of the nation's debt, households in the bottom 90% have derived a larger share of their wealth from the real estate market,¹⁰ which has historically grown at a far lower pace than the stock market. Of course, we would be remiss if we did not acknowledge that the critical ingredient to facilitate portfolio diversification and financial assets is capital in the first place.¹¹

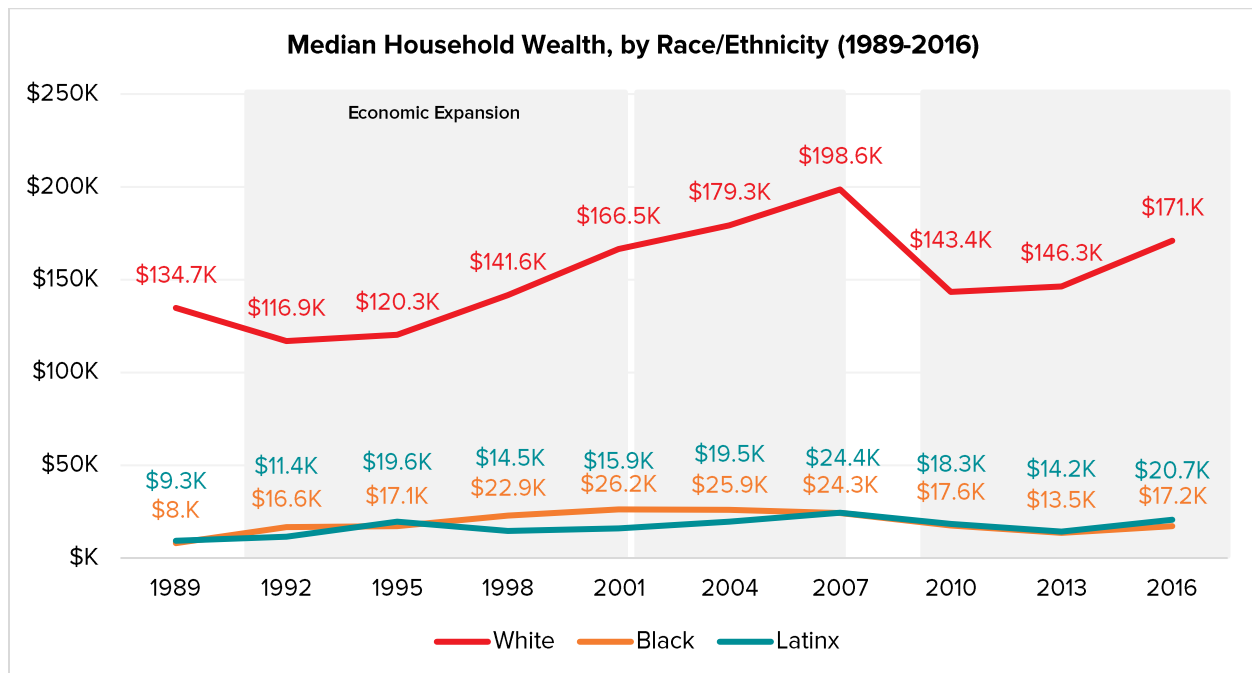


Source: Federal Reserve, [Survey of Consumer Finances and Financial Accounts of the United States](#)

Racial Wealth Inequality Has Also Risen Sharply, Leaving Black and Latinx Households Far Behind

When we factor race into the wave of economic inequality we are currently experiencing, market forces have also been ineffective at substantially reducing the long-standing economic gap between White, Black and Latinx households, much less protecting what little wealth these communities have. Indeed, without government intervention “market forces” lead to a consolidation of capital and perpetuate wealth inequality and the racial wealth gap in particular.¹² In fact, when examining the three most recent economic expansions in U.S. history against data from the Federal Reserve’s Survey of Consumer Finances, it’s evident that the fruits of a thriving economy have overwhelmingly benefited a relatively small share of White households, while the brunt of a struggling economy has been borne mostly by Black, Brown and other racially marginalized communities.

For example, in 2001, at the end of the expansion that began in the early 1990s, median White household wealth rose to \$166,500. That is about a \$50,000 increase from where their wealth had been in 1992, just after the expansion began in March 1991.¹³ By comparison, median Black and Latinx households saw their wealth rise to \$26,200 and \$15,900, respectively, an increase of \$9,600 and \$4,500 from where their household net worth stood in 1992.



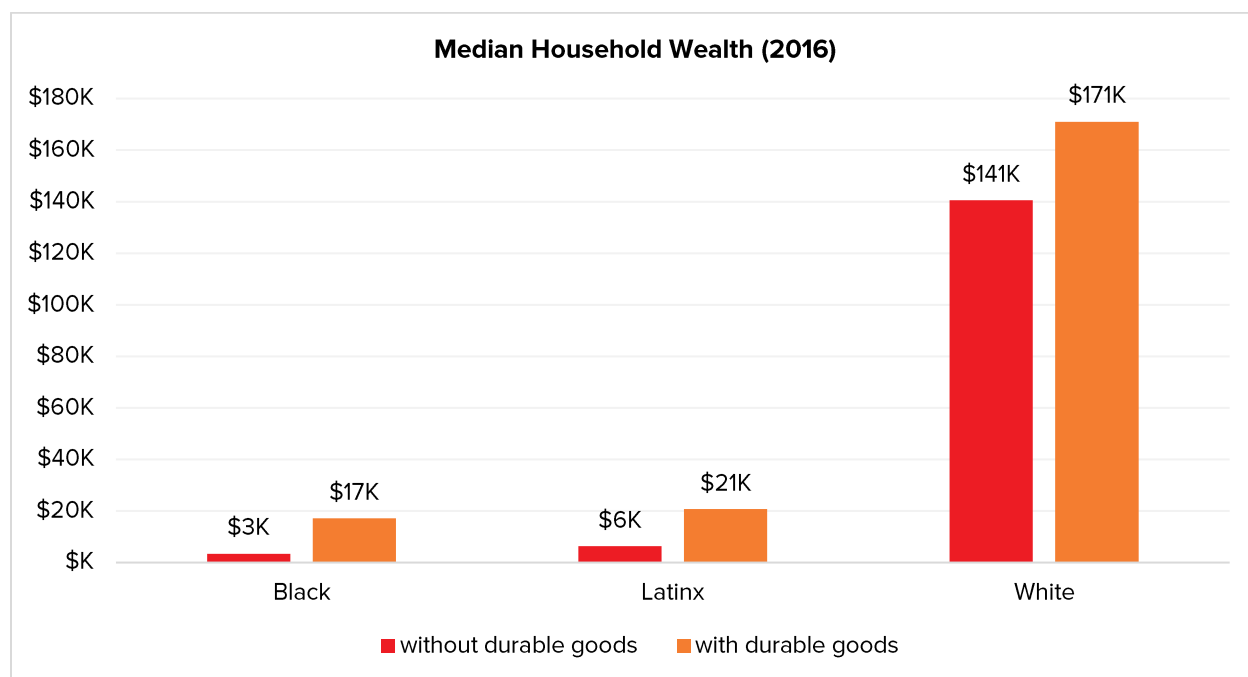
Source: Federal Reserve, [Survey of Consumer Finances](#)

As with the wealth disparities between those at the top and everyone else, the difference in wealth accumulation highlighted above can be attributed, in part, to the reality that building more wealth is often

easier when you already have wealth. However, as seemingly straightforward as this may seem, it is not often the case for Black, Brown and other subaltern communities of color.

Continuing the example from above, in 2001, median Black household wealth had reached a peak of \$26,200. And yet, even as the next expansion began almost immediately after the prior one concluded, median Black household wealth started to steadily decline over the next decade. By 2013—three years into an economic recovery—median Black household wealth had reached its lowest point since the late 1980s.¹⁴ In contrast, by 2013 White households saw their median wealth recover from the impact of the Great Recession. Black and Latinx households would begin to recover from the Great Recession three years later.¹⁵

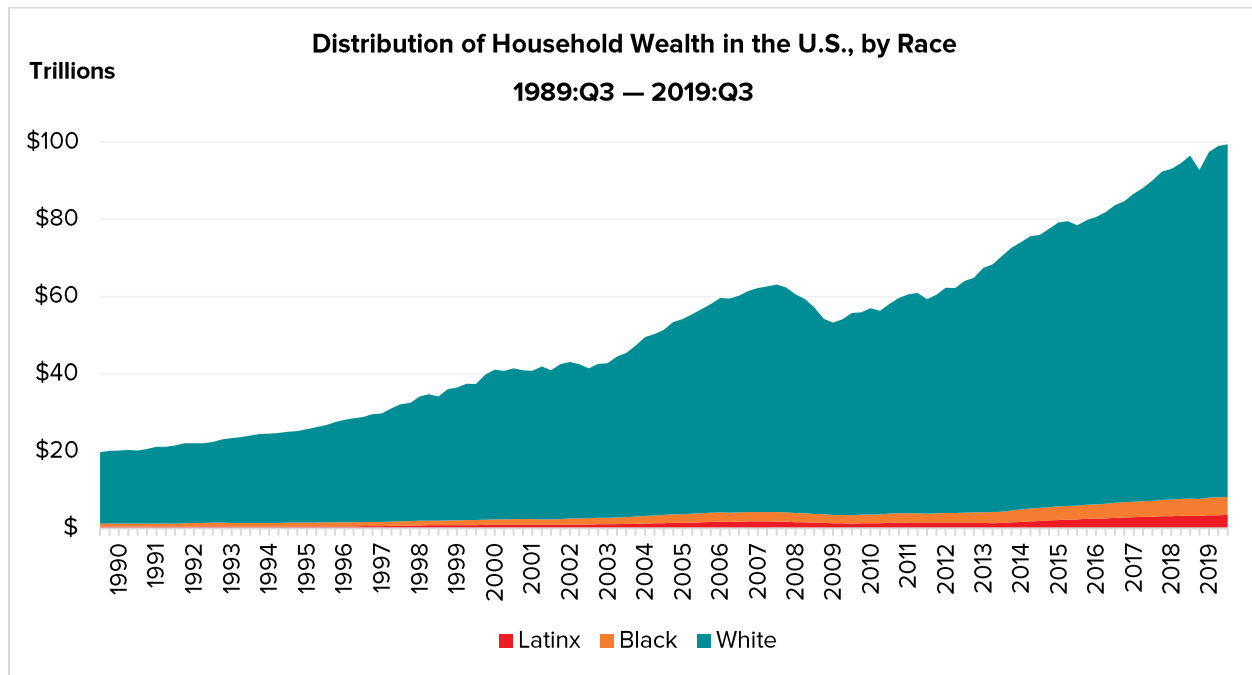
Today, data from the most recent Survey of Consumer Finances shows that the racial wealth gap has left median Black and Latinx households currently owning a respective 10 and 12 cents in wealth (\$17,200 and \$20,700 total) for every dollar of wealth owned by their White counterparts (\$171,000).¹⁶ Even worse, as economist Edward Wolff has noted in his work,¹⁷ when durable goods—such as the family car, electronics and furniture (assets that cannot be quickly liquidated to weather a financial storm)—are removed from the wealth holdings of these communities, the median Black and Latinx household has barely any wealth to speak of when compared to White households in a similar position.



Source: Federal Reserve, [Survey of Consumer Finances](#) (wealth with durable goods), Edward N. Wolff, [Household Wealth Trends in the United States, 1962 to 2016: Has Middle-class Wealth Recovered?](#) (wealth without durable goods)

In terms of total wealth, despite historic lows in unemployment for Black and Latinx workers, the collective wealth of White households has increased by nearly \$12 trillion since the beginning of 2017, while the collective wealth of Black and Latinx households has grown by just over \$1 trillion since that time. As a result, though White households have owned more than 80% of the nation's wealth over the past three decades

(today it is over 85%), their collective net worth now stands at \$91.30 trillion while that of Black and Latinx households collectively stand at \$8.10 trillion (collectively the own 7.5% of the nation's wealth).¹⁸



Source: Federal Reserve, [Survey of Consumer Finances and Financial Accounts of the United States](#)

Ultimately, these disadvantages in wealth facing communities of color may be felt by all of us. A recent study by the consulting firm McKinsey estimates that, over the next decade (2019-2028), this unaddressed racial wealth gap could cost the U.S. economy \$1.5 trillion.¹⁹ The report suggests that our national economy would do better when all individuals are allowed to thrive, not just those who are already wealthy or large corporations. Regardless, it is unjust and antidemocratic for one's race to be so determinative of their wealth holdings and for wealth to be so dramatically concentrated.

The Government Has Long Supported Wealth-Building, but That Support Has Never Been Morally Grounded or Equal

Over the past decade, aided by several social and racial justice movements as well as several high-profile activists and politicians, many across the country have become more attuned to the vast differences in wealth between White households and Black, Brown, and other racially marginalized households. However, even as awareness of rising racial economic inequality continues to grow, some may find themselves inclined to accept this growing problem as merely the result of hard work and determination. But the truth of the matter is that this thinking is incompatible with the evidence which tells us that even when people of color work hard and do things "the right way," it does not always translate into the outcomes that can allow these communities to overcome inherent and systematic economic disadvantages.

For example, a recent study entitled “The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap” shows that greater educational attainment does little to reduce the wealth gap between White households and Black households.²⁰ According to this study, Black households who are headed by a college graduate have less wealth than a White household headed by a high school dropout.²¹ Beyond education, researchers at Demos and the Institute on Assets and Social Policy have also found that being part of a two-parent household, working full-time, or even spending less does little to close the racial wealth gap.²²

In other words, it is meager economic circumstance resulting from generations of institutional and explicit racism and discrimination—not poor decision making or deficient knowledge—that constrains choice and leaves communities of color at such an economic disadvantage when compared to economically advantaged White households. Rooted in a lack of wealth, these limited choices and economic disadvantages have been cultivated over the course of our history through immoral and unequal public policy choices that have favored and fostered the wealth-building potential of White households over that of communities of color.

For instance, if not for the government sanctioning, explicitly and implicitly, the forced and free labor extracted from enslaved people over the course of 250 years, it would be difficult to imagine there being a period where more millionaires were living in the Mississippi Valley—an area the size of Maine—than anywhere else in the United States.²³ And yet, this was the case by 1860,²⁴ as the framework the government instituted that allowed slavery to thrive essentially served to subsidize the ability of Whites to generate vast amounts of their income²⁵ and subsequent wealth from the enslaved.

Income Derived from Slavery Throughout the South in 1860

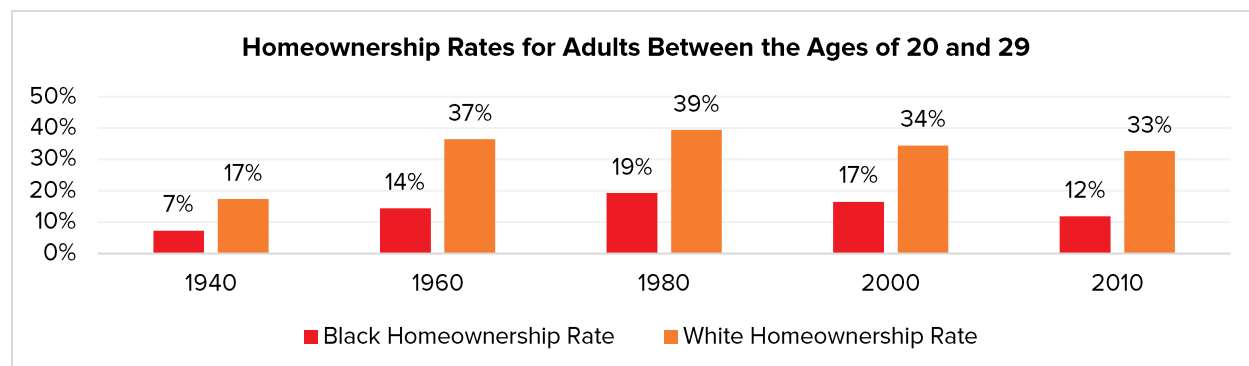
State	Percent of the Population That Were Slaves	Per Capita Earnings of Free Whites (in dollars)	Slave Earnings per Free White (in dollars)	Fraction of Earnings Due to Slavery
Alabama	45	120	50	41.7
South Carolina	57	159	57	35.8
Florida	44	143	48	33.6
Georgia	44	136	40	29.4
Mississippi	55	253	74	29.2
Louisiana	47	229	54	23.6
Texas	30	134	26	19.4
North Carolina	33	108	21	19.4
Tennessee	25	93	17	18.3
Arkansas	26	121	21	17.4
Virginia	32	121	21	17.4
The Deep South (AL, SC, FL, GA, MS, LA, TX)	46	163	50	30.6
All Eleven Confederate States	38	135	35	25.9

Source: Roger L. Ransom, [The Economics of the Civil War](#)

Another example of note in which the government supported wealth-building for some and not for—or at the expense of—others is the Homestead Act. Made possible, in large part, by land stolen by the U.S. government from indigenous people, researchers have estimated that 20% of the U.S. population can trace their family history of building wealth to this one piece of legislation.²⁶ But despite the enormous wealth-building impact that resulted from the distribution of about 10% of all land in the United States, White southerners made it difficult for former enslaved African Americans to participate in the program, further ensuring that the promise of “forty acres and a mule” would remain unfulfilled.²⁷

More recently, gaps in homeownership—the largest source of wealth for most households in the country—between White households and households of color can be traced to New Deal housing reforms, which were meant to expand access to this asset broadly. Established at a time of legal segregation, communities of color—Black households in particular—often encountered racism, discrimination and extreme resistance from both government officials and lenders as they sought to leverage these programs to secure their share of the American Dream.²⁸ Unfortunately, even when these communities could purchase a home, they were often directed or left resorting to financial products that only served to strip them of their wealth. In Chicago, for example, recent research by the Samuel DuBois Cook Center on Social Equity at Duke University and the Nathalie P. Voorhees Center at the University of Illinois-Chicago found that the predatory practice of “contract buying” or “contract for deed” employed during the 1950s and 1960s (which provided the responsibility of owning a home without any of the benefits) led Black families to lose between \$3.2-4 billion in wealth.²⁹

To put into context just how much of a disadvantage these and other discriminatory efforts have left Black families at when it comes to building wealth, consider that today’s homeownership gap between Black and White families (31%)³⁰ is one percentage point smaller than it was in 1890 (32%).³¹ Moreover, when it comes to the next generation, according to a recent study by The Kirwan Institute for the Study of Race and Ethnicity at Ohio State University, the gap in homeownership between White and Black millennials (aged 20–29) is as large today as it has ever been since the U.S. Census has systematically collected homeownership information by race.³² It should be noted that, even for White millennials, we would have to stretch back to Greatest Generation, just coming out of the Great Depression in 1940, to find similarly aged young adults (aged 20–29) with lower homeownership rates. What’s worse, since the 1940s, the homeownership rate for young Black adults has gone up by just under five percentage points, while that of young White adults has increased by almost three times as much.³³



Source: Darrick Hamilton and Christopher Famighetti, [State of the Union: Millennial Dilemma - Housing](#)

Over the 20th century and unto the 21st century, this convergence of public policies, discriminatory program implementation, exclusion from credit markets and financial predation would become further entrenched as the rule, not the exception, for Black, Latinx and other marginalized racial groups in nearly every aspect of American life. For example, in agriculture, over the span of just 14 years (1950-1964), this confluence of state complicit fraud, theft and discriminatory exclusion from U.S. Department of Agriculture loans and grants led Black farmers in Mississippi to lose 800,000 acres of land, which amounts to at least \$3.7–\$6.6 billion in lost value in today’s dollars.³⁴

Ultimately, while history is rife with clear examples of the government actively supporting the wealth-building potential of White households over Black households,³⁵ and over other households of color,³⁶ today the tax code stands on its own for its massive efforts of continuing the country’s long-running legacy of favoring wealth-building for a few over everyone else.

The Tax Code as a Facilitator of Wealth Inequality

The U.S. tax code is the largest asset-building tool the federal government uses to boost the economic outcomes of our nation’s households.³⁷ Through it, each year the government spends hundreds of billions of dollars on asset-building tax programs meant to help families build financial security and, ultimately, wealth.

According to data from the Office of Management and Budget,³⁸ in 2017—prior to the enactment of the Tax Cuts and Jobs Act—the federal government spent an estimated \$730 billion through tax subsidies and tax breaks designed to help families purchase a home, attend college, and save and invest for the future.³⁹ Unfortunately, from this enormous amount, the tax code provided millionaires with an average tax benefit that was 700 times greater (\$160,000) than what it provided working families earning about \$50,000 (\$226). This is because although the overall tax code is moderately progressive, certain aspects of the tax code, such as its preference for investment income over earned income, end up helping the wealthy build more wealth.⁴⁰ As a result, even tax programs meant to provide all with an equal opportunity to build assets, such as tax-advantaged educational savings accounts, often tend to be both highly regressive and inequitable in practice.

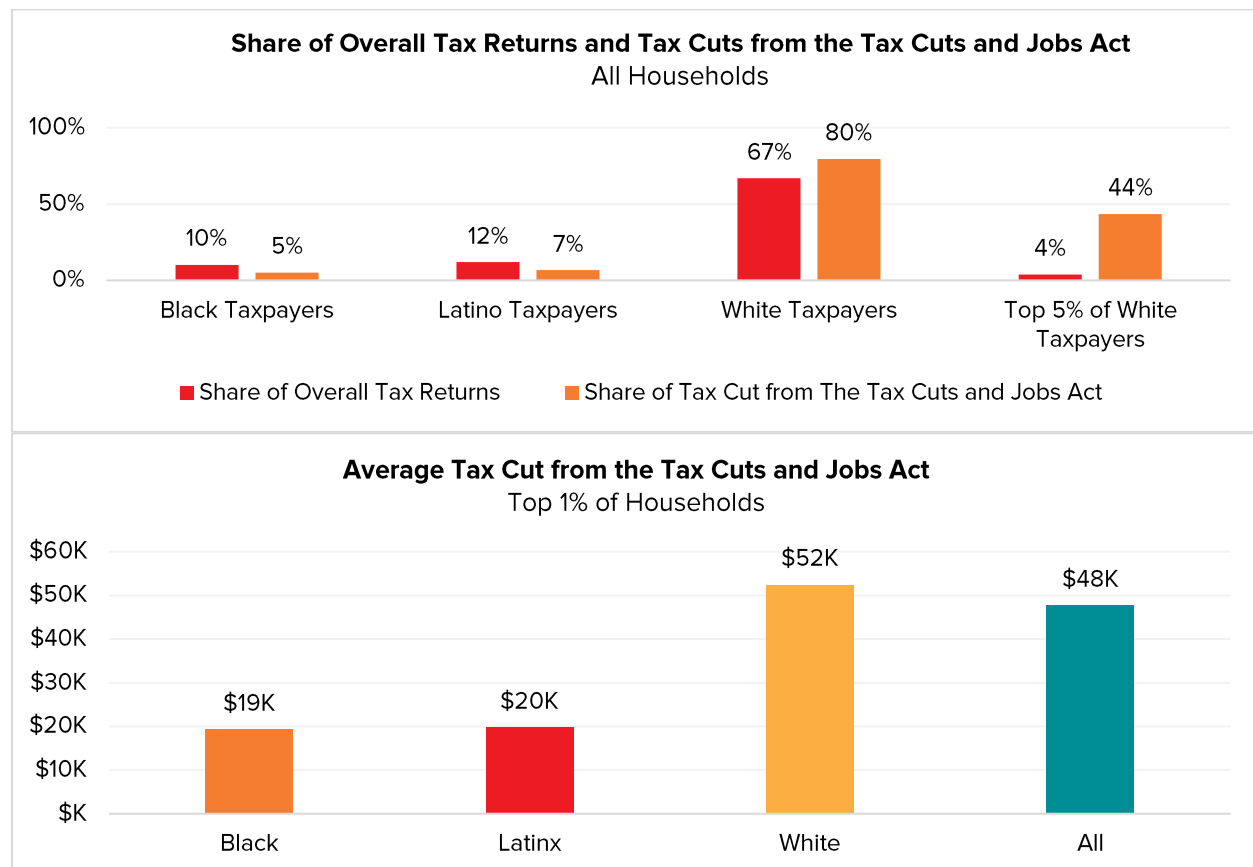
To this point, a 2012 study by the Government Accountability Office (GAO) that examined 529 College Savings Plans and Coverdell Education Savings Accounts found that less than three percent of U.S. families had 529s or Coverdell Accounts and most of these accounts belonged to high-income, wealthy families.⁴¹ Overall, the GAO study found that about 70% of these tax-advantaged educational savings accounts were held by families earning \$100,000 or more,⁴² with the median income of account holders standing at about \$142,000.⁴³ Given that census data has long shown that White households far outpace households of color in earning incomes at these levels,⁴⁴ programs like these and other regressive features of our tax code serve to further advantage those who have historically done well in our economy.

As the scholar Richard Reeves has noted in his work on the American middle class,⁴⁵ this has allowed upper-middle class families and the top 1% to “hoard” even more economic resources, thus widening the gap between them and everyone else. In addition, this accumulation of resources by those at the top also further

widens the gap between White households and households of color as this asset-based upper-middle class and top 1% is overwhelmingly White.

Unfortunately, after the passage of the nearly \$2 trillion dollar Tax Cuts and Jobs Act—which cut the corporate tax rate from 35% to 21%, 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—the tax code now invests even more in rising economic inequality and the ever-growing racial wealth gap. Research conducted by Prosperity Now and the Institute on Taxation and Economic Policy (ITEP) found that out of nearly \$275 billion in tax cuts within the 2017 tax law, \$200 billion (72%) benefits the top 20% of households (with incomes of \$110,000 or more).⁴⁶

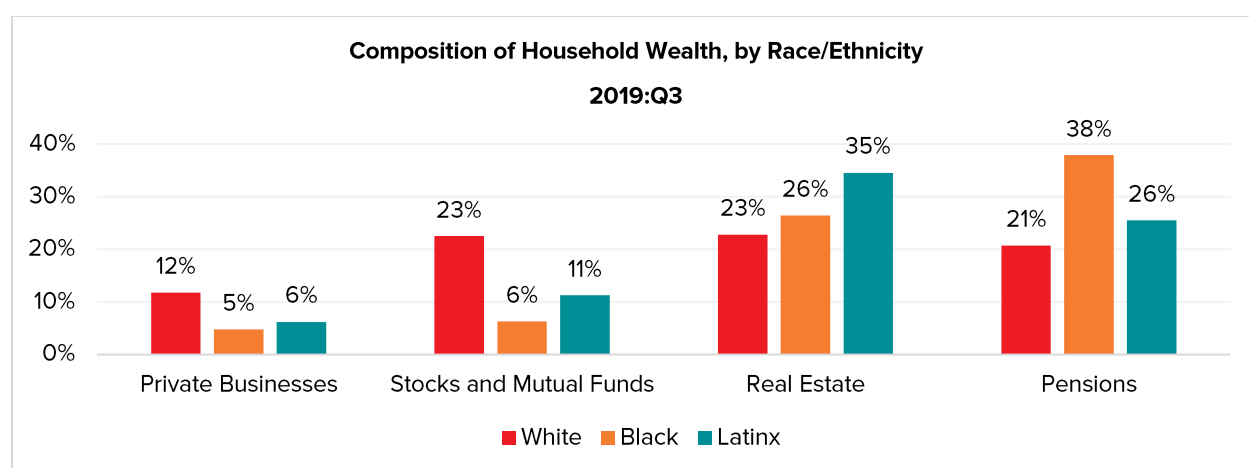
Adding to this, though the tax code is race-neutral, this research, along with studies published by the Roosevelt Institute,⁴⁷ the Center on Budget and Policy Priorities,⁴⁸ PolicyLink⁴⁹ and others, shows that the tax code heavily favors the wealth-building potential of White households over everyone else. In fact, when examining the previously cited \$275 billion tax cut figure through the lens of race, \$218 billion (80%) goes to White households, with more than 40% of that going to White households in the top 5 percent (with incomes of \$243,000 or more). Moreover, even among the top 1% of households, Black and Latinx households receive 60% less wealth-building support from the 2017 tax law when compared to their elite White peers.⁵⁰



Source: Institute on Taxation and Economic Policy and Prosperity Now, [Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide](#)

It should be noted that the respective under- and over-representation of Black and Latinx households among the top and bottom of the income distribution certainly plays a role in the way our tax code treats these communities (relative to the support it provides to White households). However, there are a whole host of other reasons why the tax code, today and in recent memory, ends up building the wealth of wealthy, mostly White, households over households of color. Primary among those is the fact the tax code heavily favors and rewards unearned incomes—such as those generated through business activities, corporate stocks and investments—over incomes earned through wages or salaries.

Today, according to the Federal Reserve, White households not only earn higher incomes, on average and at the median, than Black and Latinx households, but more of their wealth is generated from non-labor assets such as stocks and mutual funds⁵¹ that receive favorable treatment from the tax code in the form of lower tax rates.



Source: Federal Reserve, [Survey of Consumer Finances and Financial Accounts of the United States](#)

The unequal access to wealth-building opportunities that Black and Latinx families have faced is particularly unfortunate in light of more than 15 years of research from the Children’s Savings Account (CSA) field which shows that having even small amounts of wealth—in the form of college savings—can have a meaningful impact on the lives of low-income families with regards to the benefits of establishing an account and impacting aspirations towards educational success. *Baby Bonds*, the next iteration of CSAs, aims to implement the transformative effect of seeding children a more substantive endowment.

Lessons Learned from Children’s Savings Accounts

CSAs are long-term savings or investment accounts that help children (from birth to age 18) build a nest egg for the future. CSAs are generally seeded with an initial deposit provided by the CSA program. Account balances grow through bonus deposits provided by the program, such as benchmark bonuses for children and/or their parents completing activities or for accomplishments (e.g., participating in financial coaching or receiving good grades), as well as deposits by families. In most CSA programs, upon reaching adulthood, participants use the funds for postsecondary education.

One study indicated that low- and moderate-income children whose families saved \$500 or less are three times more likely to attend college and four times more likely to graduate than those whose families have not saved.⁵² Research indicates that having college savings helps foster a college-bound identity in children in which they see themselves as someone who *will* go to college.⁵³ In other words, having college savings raises children's expectations for their future, and research shows a strong association between children's expectations and their educational outcomes.⁵⁴ This is particularly important for children from low-income households as research shows that their expectations can be lower than for children from higher-income households, largely because of financial challenges related to attending college.⁵⁵

Research from the SEED for Oklahoma Kids (SEED OK) experiment—a randomized control trial in which babies in the treatment group received \$1,000 deposited into a 529 college savings account at birth—demonstrates that having money set aside for college in a CSA has remarkable effects on both children and parents. Mothers of treatment-group children, who received the 529 account, maintained higher expectations for their children's future educational attainment by the time their children reached age four than mothers whose children did not receive the account.⁵⁶ This impact matters, because other research has shown a correlation between parental expectations and children's future educational attainment.⁵⁷

In addition to the impacts on parental expectations, the SEED OK study found that children with a CSA had increased social-emotional development—the ability to identify and understand their own feelings, develop empathy, manage strong emotions and establish and sustain relationships—at age four than children in the control group without the CSA.⁵⁸ Early social-emotional development can help set children up for later success, with research showing a positive correlation with later academic achievement. Moreover, SEED OK found that mothers benefited from their children having a CSA too, with mothers in the treatment group reporting decreased symptoms of maternal depression than mothers of children in the control group.⁵⁹

Over the Years, Momentum has Continued to Build for Large, Progressive Children Savings & Wealth-Building Programs

As advocates and researchers, such as Michael Sherraden,⁶⁰ have continued to elevate and document the power that wealth and assets can have on those with few economic resources over the past 15 years, momentum has continued to develop at both the national and international level for larger and more progressive asset-building programs. In the United States, numerous proposals have been introduced over this period that sought to ensure that all families have the infrastructure to meaningfully invest in their children's futures. Among these initiatives are:

- The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act, introduced in 2005 by U.S. Senator Chuck Schumer (D-NY) and former U.S. Senator Rick Santorum (R-PA), which would have provided newborns with an account with an initial \$500 deposit that families could then build on through their own savings or other incentives.
- A proposal by then-U.S. Senator Hillary Clinton (D-NY) during the 2008 presidential campaign to give every child born a \$5,000 account, which would grow over time to be used for a college education or a downpayment on a home.

- The USAccount Act, which was introduced in 2014 by former Congressman Joseph Crowley (D-NY), which would have provided newborns a \$500 initial deposit and additional opportunities for families to contribute to those accounts through incentives.

Internationally, similar initiatives have included:

- The United Kingdom's Child Trust Fund, which began in 2005 and provided the families of every child born on and after September 1, 2002 with supports to build savings for their future through a combination of seed deposits, age-timed deposits and tax-related incentives. Due to political and funding constraints, the program's supports were whittled away over its brief history until the government finally ceased to provide contributions in early 2011.
- Israel's Child Savings Plan, which began in 2017, automatically provides every child born with a savings account into which the government contributes a monthly deposit of 51 Israeli shekels (about \$14 U.S. dollars) until the child turns 18. Managed by a pension fund or a bank, parents can also contribute up to 51 Israeli shekels each month into the account. Every year, parents receive an account statement, detailing deposits and returns.

Although different in magnitude than Baby Bonds, the design we detail in the remainder of this paper for a national Baby Bonds program builds off these ideas, as well as more than 15 years of best practices and research from Children's Savings Account (CSA) programs. However, though student loan debt is an albatross on wealth creation—particularly for Black and Brown households—the concept of Baby Bonds is keenly focused on the initial endowment itself as a necessary ingredient to put families on a pathway to additional wealth accumulation. In doing so, we aim to ensure that these accounts are substantially endowed and will lead to significant wealth-building, not just modest savings. To that end, we envision these accounts providing all children—but especially those from lower-wealth families—with the necessary capital to have financial agency and economic security to take risks and shield against losses.

Creating an Economic Birthright to Capital for Everyone

At its core, Baby Bonds is about providing all children, as soon as they are born, with meaningful seed capital that they can use as young adults toward efforts that lead to asset and wealth accumulation, such as purchasing a home, starting a business or obtaining a debt-free education. But more than that, Baby Bonds is about ensuring that the economic position of a child's family does not preclude them from being able to fully engage in the market and to take advantage of any of these opportunities that create long-term economic prosperity.

With that in mind, it should be noted that a national Baby Bond initiative was never intended as a substitute for a comprehensive reparations program. Reparations is a necessary policy for the U.S. to acknowledge, redress and get beyond its "original sin" of slavery and long history thereafter of state-sanctioned exploitation and extrapolation of the labor, assets and personhood of Black people and their communities. Reparations provides a retrospective, direct and parsimonious approach to address the Black-White racial wealth gap. Moreover, it is a racially just policy because it requires the U.S to take public responsibility and

atone for its long history of racial injustice. The seed capital program, Baby Bonds, is a universal prospective approach that is economically and racially just. Given the lack of overlap in White and Black distributions of wealth, this targeting of wealth and outcome makes Baby Bonds trend toward both economic and racial justice. A permanent seed capital program, like Baby Bonds, would provide everyone, regardless of their race and economic position at birth, with a capital foundation upon which to build wealth and asset security, and, in perpetuity, trend toward just and egalitarian access to capital and wealth.

Indeed, the race-based retrospective approach of reparations and the universal, race-conscious, prospective approach of Baby Bonds would serve as complements for a more honest, moral and economically just society.

Ultimately, the idea behind a national Baby Bonds program is about creating a new social contract that is self-fulfilling, one that both provides all with an equal opportunity to build wealth and the resources to do so. By providing children from lower-wealth households with capital at birth, a national Baby Bonds program is also about putting systems in place that can begin to shift the wealth-building dynamic that has taken hold over the past 45 years in which wealth has been the exclusive domain of the wealthy.⁶¹

To successfully fulfill its purpose, a Baby Bonds program will need to be constructed in ways that combat the decades-long trend in which our policies have allowed those with vast economic resources to amass even more resources. Doing that requires that certain features guide the development of any Baby Bonds proposals. These include:

- **Affordability and Safety:** Accounts should carry no fees and should provide appropriate consumer protections to safeguard funds against unfair, deceptive, abusive and predatory wealth-stripping practices.
- **Inclusivity, Progressivity and Equity:** Substantial and progressive support should be provided to low-wealth households.
- **Significant and Sustained Impact:** Accounts should meaningfully increase the economic position of low-wealth households.
- **Simplicity and Accessibility:** Creating the account, accessing account information and account disbursements should be as simple and user-friendly as possible. The accounts should also include features that maximize access by low-wealth households, such as automatic enrollment.
- **Transparency:** In addition to the accounts being federally managed until the funds are ready to be used by the account holder, parents and children should be provided with easy-to-understand and recurring information about the accounts.

In addition to these features, a national Baby Bonds program also needs to “divorce” the choices that parents can make on behalf of their children from the benefits that such a program aims to provide children. Put differently, children should be able to build wealth regardless of their parents’ economic situations or whether they are able to make investments in their future. By separating these two dynamics, Baby Bonds then becomes a promise to reserve capital for all Americans.

Design Considerations for a National Baby Bonds Program

As we have detailed through this paper, wealth inequality, especially by race, is not only large and growing but is also the result of intentional public actions that have benefited those who are wealthy and White over those that are poor and of color. Though significant structural changes to our policies around wealth and asset building, particularly changes to the tax code, are needed, a national Baby Bonds program must be designed with the same intentionality it took to create the problem it seeks to solve.

As we detail below, in creating a strong foundation for addressing wealth inequality, we believe that a national Baby Bonds program needs to clearly define several policy parameters, including how and when a child can be provided with an account, how the accounts will be structured and administered, how much financial support will a child receive and what kinds of asset-building activities account funds can be used for when the time comes.

1. Enrollment and Age of Eligibility

Today, most large city and state CSA programs have automatic enrollment, meaning that all qualified children in those locations are automatically enrolled in the program unless their parents or guardians affirmatively opt-out. At a national level, automatic enrollment for a Baby Bonds program is strongly recommended for two reasons:

- **Inclusion:** Automatic enrollment ensures that all children benefit from the program regardless of family circumstances. Research on the Harold Alfond College Challenge, a universal, statewide program in Maine, found that when the program used opt-in enrollment, families with more education and more financial savvy were more likely to enroll their children in the program.⁶²
- **Administrative Simplicity:** In opt-in CSA programs, as in federal programs that require sign-up such as SNAP and Medicaid, a significant number of eligible families do not sign up despite extensive outreach efforts. By automatically enrolling children, the funds that would have been expended on outreach and marketing to encourage sign-up can go directly into children's accounts instead.

In addition to automatic enrollment, the accounts should be endowed at birth and have plenty of time to accumulate. This will ensure that Baby Bonds have the maximum impact when fully implemented. One such way of ensuring that this occurs simply and efficiently would be to incorporate this program as part of the process of securing a child's social security number. For example, once a parent has applied for their child's Social Security number following their birth, the Social Security Administration could notify the Treasury Department to automatically open a Baby Bonds account for the child.

To create equity for children born before enactment of the program but still several years away from adulthood, accounts could also be created for those under the age of thirteen through critical touchpoints such as the public-school system. Not only would this ensure that more financially vulnerable children are quickly enrolled in the program at rates comparable to those from well-off families, but also that these children have access to some meaningful amount of capital from which they can begin to build assets and wealth when they reach adulthood.

2. Administration and Account Structure

Many state and city CSA programs—including Nevada College Kick Start, Rhode Island Collegeboundbaby, San Francisco Kindergarten to College and St. Louis College Kids—are administered by a central entity, typically the city or state treasurer’s offices. Similarly, we propose that a national Baby Bonds program be housed within the U.S. Department of the Treasury, which would open and service the accounts. Leveraging Treasury’s experience running federal savings programs, like the Thrift Savings Plan and the former *myRA* program, the Treasury Department could create and service a program for Baby Bonds with no or low fees, strong consumer protections, excellent customer service and human-centered product design.

In order to ensure that the accounts can grow and generate steady and safe returns, the deposits made into the accounts (outlined below) should be invested in U.S. Treasuries, a stable and safe investment that would have moderate returns over time. These accounts should grow with a guaranteed annual rate of return comparable to Social Security, which in 2018 was estimated to be 5.7% for an average-earning young worker.⁶³

So that all families are given an equitable opportunity to ensure that their children have the resources they need for their futures, families would not be allowed to take any actions with the accounts, including making any additional deposits, withdrawing funds from the accounts or choosing a different investment option. This would ensure that the actions of a child’s family, however well-intended they may be, do not affect the asset accumulation in the child’s Baby Bond, either positively or negatively, over other children.

It should be noted that some may argue against the use of a standard, federal government-managed account for a national Baby Bonds program, instead suggesting that the private sector manage accounts, as is the case with most state 529 college savings plans. However, the experience with the private sector account management structure has been mixed, with varied fee structures, protections and customer service experiences across different state 529 programs. Moreover, many of the 529 plans are not very accessible for families with low incomes, due in part to account structures (e.g. minimum deposits, account fees, etc.) and/or broader public policy issues (e.g. asset limits for public benefits), which make it harder for these families to save or actively discourage them from doing so.

Adding to this, history and empirical evidence have already demonstrated that low- and moderate-income and low-wealth families are the ones most likely to be taken advantage of by financial providers with profit or predatory intentions. And so, if this program is to provide the capital that those with fewer resources need to achieve economic agency and mobility, these federal investments should be protected from extraction as much as possible. Having a single federal account provider and servicer not only keeps the program consistent with the design feature of simplicity outlined previously but also places it within a system that can establish universal, clear and strong consumer protection standards.

3. Seed Amount and Deposits

While all children should be included in the program regardless of their family’s economic status, they should not all receive equal deposit amounts. Though a universal program, such as one in which all children born in the United States would be eligible, could help foster a “stakeholder”⁶⁴ society, an approach that provides all families with equal support would worsen inequality.⁶⁵

To meaningfully address wealth inequality and the racial wealth gap, we suggest a universal race-conscious approach⁶⁶ in which all children would be eligible for the program, but the program-provided funds would be structured progressively. Considering that many programs that are intended to serve all by being “race-neutral” or “economic status-neutral” end up disproportionately benefiting more wealthy, White households, Baby Bonds must be intentional about benefiting lower-wealth households and be racially inclusive.

Given the size of the racial wealth gap, a progressive structure that calls for the amount of initial deposits and other incentives to be larger for children whose households are at the lowest end of the economic scale will mean that low-wealth children in families of color will receive more support, both on a dollar and proportional basis, than White families. However, given that close to four million White children are in poverty,⁶⁷ a nationally progressive Baby Bonds program will substantially benefit these children as well.

Deposits could be administered in a variety of ways, including as a single lump sum at birth as this idea was originally envisioned. In addition to being administratively simple, this would also allow ample time for funds to grow in a steady and safe investment focused on capital preservation until a child becomes an adult. As this concept was originally conceived,⁶⁸ this lump-sum amount could be as large as \$50,000 or \$60,000 for children from the lowest-wealth families and as low as \$500 or \$50 for children from the highest-wealth families.

An alternative structure is to make smaller but meaningful deposits annually, beginning at birth and ending when a child becomes an adult. Because family economic status is only assessed once at birth in the original structure, it would be possible for some families with temporarily low incomes (e.g., medical student parents) to receive deposits as large as persistently poor households. To address this, a national Baby Bonds program could begin at birth with a consistent amount, regardless of the economic position of a family. This would then be followed by annual deposits based on family economic circumstances (ideally their wealth position). Not only would such an approach help to address the problem outlined previously (of families with temporarily low incomes), it would also allow all parents and their children to be engaged in this national wealth-building effort. This approach can be seen within Sen. Cory Booker’s (D-NJ) and Rep. Ayanna Pressley’s (D-MA) American Opportunity Accounts Act in which a low-income child can have more than \$45,000 (with interest) in their Baby Bonds account by their 18th birthday.

We should note that although this proposal aims to address rampant wealth inequality, particularly racial wealth inequality, measuring a household’s wealth is a complex issue. Unlike income, which is tracked on an annual basis by the IRS, wealth data at both granular levels and for more immediate needs—beyond assessing estates for tax purposes—is often not readily available within the federal system. That said, for most families, the sources of wealth are relatively few and predictable. These sources include homeownership, small business ownership, and savings or investments with a financial institution.

With that in mind, as more and more proposals are made to tax wealth—such as those by Sen. Bernie Sanders (D-VT),⁶⁹ Sen. Elizabeth Warren (D-MA),⁷⁰ Sen. Cory Booker (D-NJ)⁷¹ and economists Emmanuel Saez and Gabriel Zucman⁷²—which will require the IRS to be able to track wealth, it is possible that wealth could be more immediately used to guide this program. Indeed, given that the IRS requires records for

transactions above \$10,000, and that financial accounts have become increasingly electronic, creating and fine-tuning a federal system for systematically tracking household wealth will likely become easier moving forward. To accelerate this process, the Treasury Department could also work with other financial regulators, such as the Federal Reserve, and/or assemble a special advisory board to advise on the development of such a system.

In the absence of such a system, we do not believe that implementing a national Baby Bonds program should have to wait solely because such a tool does not currently exist or may take time to develop. As Sen. Booker's and Rep. Pressley's American Opportunity Accounts Act proposes, the Treasury Department could initially use income, as reported to the IRS for tax purposes, as a means for determining progressivity for the program. In doing so, it would leverage an existing system for assessing a family's economic position over the course of a year—which is already used for delivering social services and tax benefits—thus making it possible for both the Treasury Department and the IRS to administer the program at a large scale immediately. Although universal, ultimately, wealth should be the means-test to determine contribution progressivity.

Finally, to create greater engagement with the accounts while also building on the positive effect children savings have been shown to have—such as an increase in children's expectations for their future—the Treasury Department should provide account holders with recurring account statements. These statements should provide account holders with critical information about their Baby Bond, such as deposits made into the account, current account balance and investment returns.

4. Allowable Uses of Funds and Age of Disbursements

Ultimately, the goal of Baby Bonds is to ensure that youth, especially those from families of lower economic status, have the capital they need to determine and invest in their own futures through asset- and wealth-building activities, such as higher education, homeownership and entrepreneurship. Disbursing the funds for any of these allowable purposes should be made as simple as possible and with a low administrative burden.

For higher education expenses, the Treasury Department could transfer funds to the Department of Education or directly to higher education institutions. For homeownership, funds could be directed to title or settlement companies. For entrepreneurship or small business investments, funds could be directed to a selected financial institution business account. In all these cases, the institutions receiving the funds would have met certain consumer protection standards and be subject to oversight by the Treasury Department or another government entity, if not so already.

The timing of the disbursement of funds could also vary. For example, rather than providing access to all of the asset-building capital within the account to a child as soon as they turn 18, as this idea was initially envisioned, access to the funds could be unlocked later on in the adolescence development of a child, which some researchers find may last until age 24.⁷³ In addition, funds could also be rolled into a nominal interest accruing account (after the final year of program eligibility) until the individual is ready to use their funds or until they reach retirement.

A delay in the distribution of the funds, or flexibility in leaving them for later in life or retirement, could be helpful with curbing some of the actions that impacted companies, institutions and markets may undertake in order to exploit or extract from better endowed young adults. Certainly, such a move should not be considered a panacea for addressing actions and actors that seek to maximize financial extraction from account holders. Instead, it should be paired with safeguards and regulations from the Treasury Department to minimize these and other distortions, such as borrowing against the Baby Bond, as much as possible before, during withdrawal, and after the first withdrawal of funds for allowable uses occurs.

In addition, federal agencies with oversight over impacted markets, such as the Department of Education, could also promulgate rules, either on their own or with partner agencies, that provide meaningful enforcement measures for countering abusive and predatory practices related to this program. For example, if a higher educational institution is found to be inappropriately increasing tuition in response to the Baby Bonds program, the Department of Education could revoke the institution's access to federal student aid.

5. Cost Estimate and Funding

When it comes to funding a national Baby Bonds program, conversations will likely arise around how such an expensive program could possibly be paid for with current resources. Unfortunately, all too often those conversations devolve into discussions that fuel pay-for tropes that either deem bold and necessary solutions unworkable or creates an environment of scarcity that unnecessarily pits critical priorities and advocates against each other in hopes of securing much-needed funding. But programs that empower, protect and enable impoverished and working families to improve their economic mobility will inevitably benefit the overall economy. Because of this, we believe that funding a program like Baby Bonds could certainly come from general revenue through the Treasury, rather through an arbitrary process of taking funding from one program or priority to fund another.

Alternatively, given that this program is meant to help families of limited means ensure that their children have meaningful wealth-building capital when they come of age, an appropriate funding source, *hidden in plain sight*,⁷⁴ for a national Baby Bonds program is our nation's largest wealth-building tool: the U.S. tax code. As we detailed earlier in this brief, the U.S. tax code is the single largest tool the federal government uses to boost economic outcomes and build lifelong wealth for families, spending over half a trillion dollars each year to do so.

In 2017—prior to the passage of the 2017 tax law (the Tax Cuts and Jobs Act)—this enormous amount of money was spent on the following four types of assets:

- Homeownership – \$267 billion
- Savings and Investments – \$235 billion
- Retirement – \$193 billion
- Higher Education – \$35 billion

Unfortunately, as we also detailed earlier, the issue with the U.S. tax code is not the amount of money that we spend each year on these efforts, but to whom those dollars are distributed. An overwhelming amount of the 2017 expenditures listed above went to helping those at the top build more wealth.

Today—after the passage of the 2017 tax law—this is even more true, as families in the top 20%—who are wealthy and mostly White—are collecting four-fifths of the law’s benefits, leaving the bottom 80% to divvy up what’s left.

There are more than 30 federal tax programs focused on helping families build assets and wealth, and many of these programs are upside-down,⁷⁵ meaning there is no shortage of programs that could be reformed to fund a national Baby Bonds program. In fact, redirecting tax expenditures from any number of these programs would not only allow for a national Baby Bonds program to be operationalized at relatively little additional cost over our current tax spending for supporting wealth building, it would also help to move our federal asset-promoting budget in a direction that makes it truly transformative for all Americans.

How we go about this would depend heavily on the structure that a national Baby Bonds program takes. With approximately four million babies born each year in the U.S., if a progressive lump sum approach is taken and if the average Baby Bond endowment is set at \$25,000, the program would cost about \$100 billion a year. If an approach like that found within the American Opportunity Accounts Act is taken, in which the program provides all children with a uniform initial amount followed by progressive annual deposits, the cost of the program would amount to about \$60 billion a year.⁷⁶

Given the size of our current wealth-building budget, any number of upside-down tax provisions (individually or collectively) could potentially serve as viable, long-term funding sources for a national Baby Bonds program. Over a ten-year period, these include, but are not limited to, the following changes/provisions:

1. Restoring the individual Alternative Minimum Tax to 2017 parameters – \$429 billion⁷⁷
2. Eliminating the 20% deduction for pass-through income – \$415 billion⁷⁸
3. Increasing the corporate tax rate to 25% – \$359 billion⁷⁹
4. Restoring the top individual tax rate to 39.6% – \$139 billion⁸⁰
5. Restoring the Estate Tax to 2017 parameters – \$83 billion⁸¹
6. Restoring the corporate Alternative Minimum Tax – \$40 billion⁸²
7. Closing the carried interest loophole – \$12 billion⁸³
8. Restoring 529 rules to 2017 parameters – \$500 million⁸⁴

In addition to these changes, ending “stepped-up basis,” which allows wealthy households to avoid paying taxes on unrealized gains if they pass down their assets to their heirs, could also provide a significant amount of funding for a national Baby Bonds program. Over a ten-year period, ITEP estimates that closing this tax loophole, by taxing the capital gains of these assets at death, would generate nearly \$880 billion.⁸⁵

Addressing the Racial Wealth Gap

Given that the racial wealth gap is a problem that was created, fueled and nurtured over generations, no single “silver bullet” solution can remedy such an expansive and complex problem. For instance, if housing, lending and other asset markets are allowed to remain discriminatory, seed capital alone will not close the racial wealth gap. But a national Baby Bonds program at the size described previously, structured in progressive ways, can serve as a foundational element to meaningfully address the disparities in wealth between households of color and White households, especially those between Black and White households.

To that end, according to a 2019 study by Naomi Zewde, a professor at the City University of New York (CUNY) and a Roosevelt Institute fellow, had a national Baby Bonds program been put in place during the mid-1990s (benefiting 18-25-year-olds today)—in which the average size of the Baby Bond for children from households with wealth among the bottom 20% amounted to about \$45,000, while that of those in the top 20% amounted to just under \$10,000—the wealth gap between White and Black households would have closed by a factor of over 11 (from 15.9x to 1.4x).⁸⁶

Overall, a growing body of research shows that providing significant and targeted seed capital to Black and Latinx households can serve a foundational element for bridging the ever-growing racial wealth gap.

Conclusion

As we have noted throughout this paper, the rugged liberalism that feeds our discourse has not only failed to uplift working families and the poor, it has also fueled an expansive economic gap between those at the top and everyone else, as well as an immoral gap between White, Black and Latinx households. Given the inherent belief that with perseverance, hard work and the virtues of the free market that anything is possible it's difficult to imagine a system that has reinforced social and economic hierarchy for generations would somehow self-correct or reverse course on its own. But with wealth inequality rising to seemingly unsustainable and unstoppable heights, a nation inching every day toward becoming more plural and the greatest transfer of wealth on the horizon,⁸⁷ now is the time to leverage ideas as old as Thomas Paine to eliminate the transmission of economic advantage or disadvantage across generations and ensure that everyone—regardless of their family's economic status—has what they need to succeed from the day they are born.

Fortunately, the next several years present a tremendous opportunity to begin to enact bold solutions that meaningfully influence and promote economic and racial justice in this country. This is due, in large part, to the 2020 presidential election which has served to both further elevate national conversations about the economy and race and pushed candidates to propose solutions for creating a more inclusive economy by addressing the injustices communities of color have long faced. At the same time, the expiration of the individual provisions within the Tax Cuts and Jobs Act at the end of 2025 will provide us with another chance to push our nation's wealth-building budget in a direction that truly helps those with little or no wealth build wealth. However, as we look to these opportunities to more fully support working families and the poor, we should also keep in mind that a national Baby Bonds program must be considered in the context of multiple lifelong supports, including those that provide economic support more immediately. This includes, but is not limited to, the Earned Income Tax Credit and the Child Tax Credit, as well as reforms that could expand their impact and reach, such as a child allowance, a federal job guarantee⁸⁸ and other direct income supports whether or not they are attached to work.

In other words, the conjunction of a progressive National Baby Bonds with other social welfare programs that ensure individuals have essential resources to build *economic security over a lifetime*—a notion made prominent by Urban Institute Fellow Kilolo Kijakazi—could not only make up an economic bill of rights to promote economic inclusion and social mobility across a host of domains,⁸⁹ it could also serve as a foundational element for establishing a more moral and decent economy that facilitates assets, economic security and social mobility for all its citizens, regardless of the race and the economic positions in which they are born.

About

Prosperity Now believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

The **Kirwan Institute for the Study of Race and Ethnicity** is an interdisciplinary engaged research institute at The Ohio State University established in May 2003 by its founding director, John A. Powell. It was named for former university president William E. “Brit” Kirwan in recognition of his efforts to champion diversity at OSU. The institute produces rigorous research that promotes economic inclusion, civic engagement and social equity, particularly related to race, ethnicity, gender, sexual orientation and other social identity stratifications. Here at the Kirwan Institute we do this through research, engagement, and communication. We would like to thank the Hewlett Foundation and Omidyar Network for their operational support for the Kirwan Institute. The views expressed in this report are those of the authors alone and do not necessarily represent those of our funders or The Ohio State University.

End Notes

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