A Birthright to Capital
Equitably Designing Baby Bonds to Promote Economic and Racial Justice

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SUMMARY, KEY FINDINGS & POLICY RECOMMENDATIONS
full report available here

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. Often referred to as the American Dream, this narrative 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.® 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.

But what is conspicuously missing from this narrative is that the likelihood 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. 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 to capital to start a business and have the resources to pay for expensive medical procedures. In addition, these families have a greater ability to reside in neighborhoods with more amenities, to weather financial storms and to leave behind an inheritance for the next generation to build on.

Put differently, when it comes to economic security, wealth is the paramount indicator of economic prosperity and well-being as it provides the capital to take risks, fully engage in the market, shield against losses and invest in tomorrow. Unfortunately, today 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.

With this context in mind, a newly released report by The Kirwan Institute for the Study of Race and Ethnicity at The Ohio State University and Prosperity Now—A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice—highlights the sharp rise in economic and racial wealth inequality over the past three decades to center 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, this new report also proposes specific policy design considerations for establishing a national Baby Bonds program, as well as outlines 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.

Key Findings from A Birthright to Capital include:

- The top 10% of households in the country now own nearly 70% of the nation’s wealth, while the bottom 50% of households just over 1.5%.

- The collective net worth of the top 10% of households now amounts to almost $75 trillion—more than twice the net worth of the bottom 90% of households combined ($32.57 trillion).


® 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.
• Households in the top 1% now own just under $35 trillion in wealth, while the collective net worth of the bottom 50% stands at $1.67 trillion. Since 1989, households in the top 1% have seen their collective levels of wealth increase by over 600%, while those in the bottom 50% have seen theirs rise by about 150%.

• White households now own over 85% of the nation’s wealth, while Black and Latinx households—which collectively make up about 30% of the nation’s population—own just 7.5%.

• 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 over that time. In total, the collective net worth of White households today amounts to $91.30 trillion while that of Black and Latinx households collectively totals $8.10 trillion.

• At the household level, median Black and Latinx households currently own 10 ($17,200) and 12 cents ($20,700) in wealth, respectively, for every dollar of wealth owned by median White households ($171,000). Without durable goods—such as the family car, electronics and furniture—median Black and Latinx households own less than $0.03 ($3,400) and $0.05 ($6,400) in wealth, respectively, for every dollar owned by median White households ($140,500).

• While average real household incomes grew by just over 30% between 1989 and 2018, the value of the S&P 500 increased by nearly 400% over the same period. Over that period, the top 10% of households have held over 80% of the nation’s corporate stocks and mutual funds. At the same time, the bottom 90% of households have held more than 70% of the nation’s debt over the past three decades.

• Broken out by race, nearly a quarter (23%) of the wealth owned by White households today is derived from the ownership of corporate stocks and mutual funds, while Black and Latinx households derive 6% and 11%, respectively, of their wealth from corporate stocks. In addition to generating higher returns than other investments, corporate stocks also receive favorable treatment from the tax code in the form of lower tax rates.

**Key Policy Design Recommendations from A Birthright to Capital Include:**
Building on an idea developed and long championed by economists Darrick Hamilton and William “Sandy” Darby Jr., as well as 15 years of practice and research around children’s savings programs, *A Birthright to Capital* clearly defines several policy parameters for creating a national Baby Bonds program that is equitably and meaningfully structured to address rising economic inequality, but especially the racial wealth gap. Our policy design recommendations for establishing a national Baby Bonds program include:

• **Enrollment and Age of Eligibility:** Automatic enrollment should be a critical component of a national Baby Bonds program as it ensures that all children benefit from the program regardless of family circumstances and would be administratively simple for the government to manage. In addition to automatic enrollment, Baby Bonds 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.

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.
• **Administration and Account Structure:** A national Baby Bonds program should be administered by a central entity, in this case 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.

Finally, 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.

• **Seed Amount and Deposits:** To meaningfully address wealth inequality and the racial wealth gap, we suggest a universal race-conscious approach 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.

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: 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 conception of this idea, 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. Like Senator Booker’s American Opportunity Accounts Act, 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).

• **Allowable Uses of Funds and Age of Disbursements:** The ultimate 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 example, 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.

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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. 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.

- **Cost Estimate and Funding:** 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, this 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. While we believe that funding a program like Baby Bonds could certainly come from general revenue through the Treasury—as a program that empowers, protects and enables impoverished and working families to improve their economic mobility will inevitably benefit the overall economy—another appropriate funding source for a national Baby Bonds program is our nation’s largest wealth-building tool: the U.S. tax code.

Each year, the federal government spends over half a trillion dollars through the U.S. tax code to boost economic outcomes and build lifelong wealth for families. Unfortunately, most of that spending has gone to support the wealth-building potential of the wealthy, instead of more fully supporting low- and moderate-income families. To this point, after the passage of the 2017 tax law, families in the top 20% are collecting four-fifths of the 20s17 law’s benefits, leaving the bottom 80% to divvy up what’s left.

Today, there are more than 30 federal tax programs focused on helping families build assets and wealth, and many of these programs are upside-down, 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.

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 designing a national Baby Bonds program in ways that ensure that this program provides the most support to low-wealth families—and by pairing this program 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.

**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.