

Baby Bonds: Economic Opportunity for All Children

The Problem: Families Need Resources to Help Their Children Close the Gap in Educational Attainment and Wealth

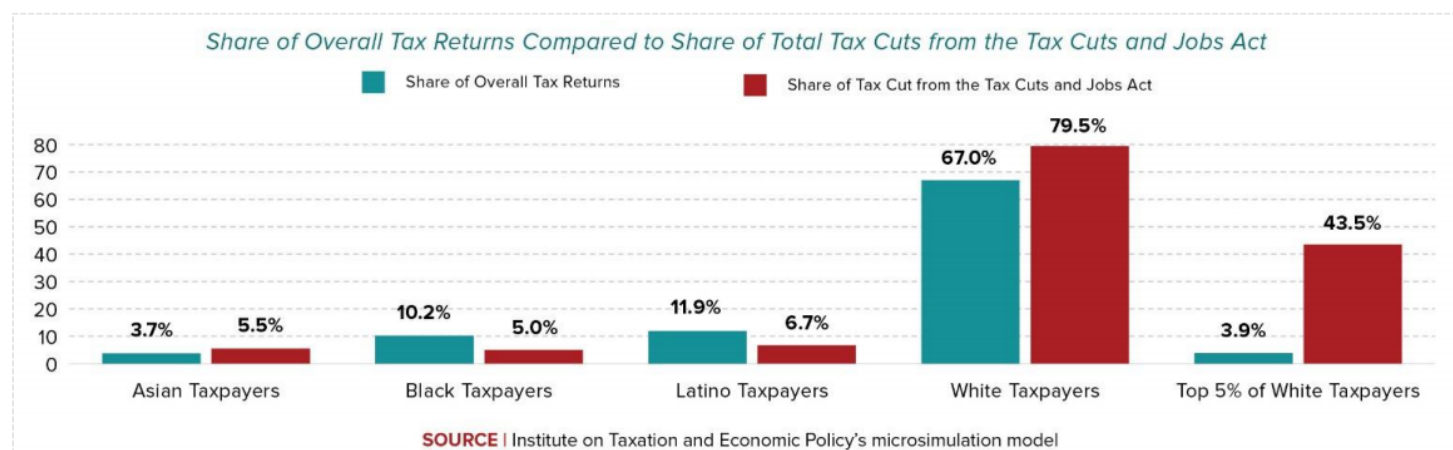
The United States has significant disparities in educational attainment by income and race, which means that many young people are missing out on a college education. Only 13% of young adults in the lowest-income quintile have obtained a bachelor's degree by age 24 compared to 62% in the higher-quintile.¹ When broken out by race, adults of color are less likely to have a four-year degree compared to White adults.²

But these disparities, as with many other economic issues facing our most vulnerable families, start early on. Children from low-income households have lower expectations of completing college than higher-income peers.³ And they continue among students who enroll in college. Ninety-seven percent of college students from low-income families still have unmet financial needs after receiving financial aid.⁴

While the rising cost of obtaining a higher education is certainly an issue that needs to be addressed, too many families are living on the financial edge. Today, according to the 2019 Prosperity Now *Scorecard*, 40% of households are just one financial emergency away from economic ruin, meaning they don't have the wealth necessary to live at the poverty level for three months if they were left without stable income.⁵ For communities of color the problem is even worse, as nearly three out of every five households of color (57%) are currently living in this financial red zone.⁶

Making these disparities worse, Black and Latino households have just a fraction of the wealth owned by White households. For example, when durable goods, such as a family car, are subtracted, the median Black and Latino household owns just \$3,400 and \$6,300 in wealth, respectively, compared to \$140,500 in wealth owned by their White peers.⁷

Just as alarming, all of these disparities come against the backdrop of the recently enacted Tax Cuts and Jobs Act, which concentrates an overwhelming amount of its \$1.9 trillion benefits in the hands of wealthy, mostly White, households, further driving economic inequality and the racial wealth divide to shocking new heights.⁸





The Solution: Baby Bonds for All Children

Children's Savings Accounts (CSAs) are long-term savings or investment accounts that provide seed deposits and incentives to help children build savings for postsecondary education. Research indicates that having this money in a CSA set aside for college can help build and sustain both children's and parent's expectations for their educational future, and research also shows a strong correlation between expectations and outcomes.

While CSAs are helpful in building expectations and providing small amounts of funds for college, to address the significant inequities in higher education and the racial wealth divide, the scope needs to be much larger than the typical existing CSA programs. A primary proposal for doing this is baby bonds.

Building on an idea developed and long-championed by economist Darrick Hamilton and William "Sandy" Darity Jr.,⁹ as well as 15 years of practice and research around CSAs, baby bonds would provide every child, at birth, with the economic resources needed to begin building long-term economic security and generational wealth. Recently, Senator Cory Booker (D-NJ) and Representative Ayanna Pressley (D-MA-7) have endorsed this concept through their American Opportunity Accounts Act.

Starting at birth, the American Opportunity Accounts Act would provide each of the approximately four million children born each year an account seeded with an initial \$1,000 deposit. Each year, until the child turns 18 and based on their family's economic circumstance at tax time, their accounts would be boosted through additional, automatic yearly investments of up to \$2,000 deposited directly into the accounts. At age 18, the funds could be used by the child to invest in wealth-building opportunities, such as a higher education or homeownership.

To ensure that all children can benefit from the program, regardless of what economic circumstances they are born into or what actions their parents take, automatic enrollment at birth is a critical design feature of the policy. And to protect the value of the accounts and to ensure that they can grow modestly over time, the program would be administered by the U.S. Department of the Treasury.

Ultimately, for children who come from our most financially vulnerable families, this interpretation of the baby bonds idea would provide low-income children with as much as \$34,000 in investments. And because the automatic enrollment feature would allow those investments to grow to their maximum potential, this initial \$34,000 would grow to be more than \$45,000.

While the challenges of fully addressing gaps in education, as well as in other asset-building areas, which have given rise to economic inequality and a growing racial wealth divide, baby bonds can be an important and bold first step in the providing all children with a meaningful opportunity to achieve long-term economic prosperity. More importantly, by investing in the future aspirations of low- and moderate-income children, this proposal would greatly benefit all of us in the long run.

¹ http://pellinstitute.org/downloads/publications-Indicators_of_Higher_Education_Equity_in_the_US_2019_Historical_Trend_Report.pdf

² <https://scorecard.prosperitynow.org/data-by-issue#education/outcome/four-year-college-degree>

³ https://www.researchgate.net/publication/222420079_RacialEthnic_Group_and_Socioeconomic_Status_Variation_in_Educational_and_Occupational_Expectations_from_Adolescence_to_Adulthood

⁴ <https://www.clasp.org/publications/report/brief/barriers-success-high-unmet-financial-need-continues-endanger-higher>

⁵ https://prosperitynow.org/sites/default/files/resources/2019_Scorecard_Key_Findings.pdf.

⁶ https://prosperitynow.org/sites/default/files/resources/2019_Scorecard_Key_Findings.pdf.

⁷ https://prosperitynow.org/sites/default/files/resources/Running_in_Place_FINAL_3.2018.pdf

⁸ <https://www.nytimes.com/2018/10/11/business/trump-tax-cuts-white-americans.html>

⁹ https://www.aeaweb.org/conference/2018/preliminary/1767?q=eNqrVipOLS7OzM8LqSxIVbKqhnGvRjQMIWp1lBKLi_OTgRwIHWS1KJcXAgrJbESJK9rChLnZE2FiJZlppaDTCgqKFwwCpgaKNXWAlwwfOQb6w