THE NEED FOR BABY BONDS IN THE UNITED STATES

FIRST FOCUS
CAMPAIGN FOR CHILDREN

Long-standing systemic and institutional racism and its continued effect on government policy has created unacceptable outcomes across the spectrum of child well-being for children in communities of color including but not limited to Black, Hispanic, American Indian/Alaska Native, Asian, Native Hawaiian and other Pacific Islander, immigrant households, and children living in the U.S. territories.[1] The COVID-19 pandemic and its economic fallout further exacerbated entrenched disparities for children of color and their families.[2]

For instance, consider our country's racial wealth gap: As of 2019, white households had eight times the wealth of Black households and five times the wealth of Hispanic households.[3] This disparity is even greater for young people — on average, young white Americans (ages 18-25) hold nearly 16 times the wealth of young Black Americans.[4]

Many factors contribute to the racial wealth gap.[5] Homeownership represents the biggest driver of the accumulation of wealth in the United States, but due to redlining and predatory lending practices by government agencies and banks, many households of color continue to be excluded from owning and passing down property in the U.S. Children born into households with little or no wealth often face greater challenges to success. Parents and caregivers with limited wealth have less ability to help their children with the cost of higher education or building their own business.

The American Opportunity Accounts Act

A national "baby bonds" program, as proposed by Rep. Ayanna Pressley (D-MA) and Sen. Cory Booker (D-NJ) in the American Opportunity Accounts Act (H.R. 1041/S. 441) offers one way to address the racial wealth gap. This legislation would authorize federally funded and managed savings accounts (American Opportunity Accounts) for children under the age of 18. The government would automatically deposit $1,000 for each child born (annually adjusted for inflation), and funds would grow over time as the account earns interest until age 18. Each year, a child could receive up to an additional $2,000 deposit from the government. Children from lower-resourced households would be eligible for higher amounts.

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1 U.S. Government Accountability Office. "Child Well-Being: Key Considerations for Policymakers." November 2017. https://www.gao.gov/assets/gao-18-41sp.pdf.

2 First Focus on Children. "Fact Sheet: Kids and COVID By the Numbers." March 12, 2022. https://firstfocus.org/resources/fact-sheet/kids-and-covid-by-the-numbers.

3 Bhutta, Neil, Chang, Andrew, Dettling, Lisa, and Hsu, Joanne. "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances." Board of Governors of the Federal Reserve System. September 28, 2020. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.html.

4 Zewde, Naomi. "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults." The Review of Black Political Economy. Volume 47, Issue 1. November 16, 2019. https://journals.sagepub.com/doi/full/10.1177/0034644619885321.

5 "Nine Charts about Wealth Inequality in America (Updated)." Urban Institute. Updated October 5, 2017. https://apps.urban.org/features/wealth-inequality-charts/.

The program's funding would be exempt from annual appropriations and the investments would be excluded from asset limits for other government benefits.

A young person could access the funds at 18 for allowable uses such as educational expenses, purchasing a home, or other targeted wealth-building assets that break down the structural barriers in our society that many Black, Hispanic, and other communities of color face in accumulating wealth and achieving economic mobility. The creation of other types of savings accounts for children has been found to improve children's social and emotional development.[6]

Analysis of the American Opportunity Accounts Act from the financial services firm Morningstar finds that it would narrow the racial wealth gap for families by one-fourth when taking home equity into account.[7]

Youth who face the biggest challenges to financial stability as they transition to adulthood, such as foster youth and youth experiencing homelessness on their own, in particular would benefit from these funds. As part of implementation of any baby bonds program, lawmakers should ensure that these young people are able to seamlessly access their funds upon turning 18.

Momentum for Baby Bonds is Building

Legislatures in California, Connecticut and Washington, D.C. have already passed baby bond programs and state government agencies are in the process of funding these programs and getting them off the ground. An additional eight states also have introduced baby bonds legislation. Federal lawmakers should look to the lessons learned as these programs are rolled out.

Congress Must Act Now

Children in marginalized communities should not fare worse than their non-marginalized peers simply because of who they are or where they come from. Federal policies must proactively work to end disparities such as the racial wealth gap and ensure that every child has the opportunity to reach their full potential. Baby bonds are one effective way to reach this goal. We urge Congress to do right by children and pass the American Opportunity Accounts Act without delay.

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6 Seaman, Andrew. "Savings Accounts Tied to Development: Study." Reuters Health. January 28, 2014. https://www.reuters.com/article/us-saving-accounts-kids/saving-accounts-for-kids-tied-to-development-study-idUKBREA0R1VO20140128.

7 Mitchell, Lia and Szapiro, Aron. "Income-Based Program Designs Show Promise for Closing the Racial Wealth Gap." Morningstar. September 2020. https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/wp_Policy_Baby_Bonds_final.pdf.