



## Policy Brief on Baby Bonds

Author\*: William Darity Jr.

\*William Darity Jr., Duke University



### SHORT CONFERENCE DESCRIPTION:

The goal of the *Financial Independence* policy conference held on September 16 and 17, 2024 in Washington, D.C. was to bring together experts from the asset and income fields to share theory, evidence, and best practices as part of an effort to work toward development of a new social contract capable of ending poverty. It was divided into four sessions. Sessions one and two focused on Children’s Savings Accounts and Baby Bonds as promising asset building policy proposals for solving the wealth inequality aspect of poverty. The third session focused on Unconditional Cash Transfers, the Child Tax Credit, and Child Allowances as promising income policy proposals for solving the income inequality aspect of poverty. Because poverty has both an income and asset component, the final session discussed why a core component of a new social contract meant to end poverty must include the combining of these strategies. This policy brief is part of the Baby Bonds’ session.

### SUGGESTED CITATION:

Darity, W., Jr. (2024). *Baby Bonds* [Policy Brief]. In *Using Wealth and Income Policies to Forge a New Social Contract: Giving People Something to Live For*. University of Michigan, School of Social Work, Center on Assets, Education, and Inclusion.

<https://doi.org/10.7302/24648>

---

When we first developed the original version of the “Baby Bonds” proposal toward the end of the first decade of the 21st century, the motivation was our perception of the timidity of the Obama administration about implementing policies that were designed specifically to improve the condition of Black Americans. The only significant Black-specific program introduced under Obama’s presidency was “My Brother’s Keeper,” a project based upon the premises of Black male dysfunction and Black family pathology. Instead, we sought to design a plan intended for all Americans—what can be described as a universal program rather than a Black-specific program—that might have a disproportionate benefit for Black Americans.

Baby Bonds constitute a policy to provide each newborn infant in the United States with a publicly financed trust account that can be accessed after they reach the age of majority, whether 18 years or slightly older. The amount of each trust account is to be calibrated on the basis of their family's wealth position. The wealth target in the early version of the Baby Bonds plan was set at the national median, resulting in a scheme where children whose families are at the richest end of the wealth scale will receive a token sum of \$50, while children from the most wealth poor families will receive a \$50,000 to \$60,000 trust account. Because the typical Black family has about 15 cents for every dollar of net worth held by the typical White family, the average Black child will receive a larger trust account than the average White child—hence, the disproportionate benefit of a universal program.

The policy is sharply distinct from Child Savings Accounts (CSAs). While both types of programs are, in principle, universal, CSAs usually give all eligible children an identical sum of money. Baby Bonds are universal, but they are not uniform in payouts. The sums under Baby Bonds generally are significantly larger than CSAs for children from families experiencing wealth poverty because baby bonds median wealth target. With Baby Bonds, families and others cannot contribute directly to the accounts. Finally, unlike CSAs, Baby Bonds guarantee recipients a fixed real rate of interest, at least one percent, over the course of the life cycle between birth and young adulthood.

Growing efforts to establish Baby Bonds at the state or municipal level also depart from the original structure. Generally, these initiatives are uniform—paying children exactly the same amounts—but they are not universal. Customarily, they are means-tested. For example, the Connecticut program is limited to children whose families are Medicaid-eligible, and the California program focuses on children orphaned by the pandemic. Again, the amounts are considerably smaller in the state and local plans since they do not target wealth inequality. Local-level Baby Bonds usually do

not prohibit contributions from relatives, nor do they guarantee a fixed interest rate on the accounts.

Senator Cory Booker introduced a national program for the United States, "Opportunity Accounts." It is very similar to the early Baby Bonds proposal except for determining the amounts for each child's accounts. Booker's proposed legislation deposits an initial \$1,000 in each child's trust account, followed by variable amounts annually until young adulthood, where the annual amounts are gauged by their family's income rather than family wealth. Booker's plan focuses on income instead of net worth because, given the nature of our tax system, it is easier to calculate family income than family wealth. The strategy of providing variable payments to each recipient each year is a clever modification from the original Baby Bonds plan because it reduces the effectiveness of parents engaging in the manipulation of their resources to ensure the largest one-time payment to their child in their birth year.

A newly proposed plan in Denmark is another under consideration that was influenced directly by the idea of Baby Bonds. A Green Party member of the Danish Parliament, Christina Olumenko, wrote to me in September 2024 to discuss the Netherlands' legislation. It differs from the original baby bonds proposal because it aims to provide a significant asset directly to young adults rather than infants. The Dutch proposal will give all persons 13,400 euros (currently the equivalent of U.S. \$14,606) at age 25.

Frequently, proponents of Baby Bonds contend it is a universal program that will close the racial wealth gap. It could potentially accomplish that goal, again, if Black-White net worth inequality is measured at the median after a generation of recipients receive the trust accounts. However, if the difference is measured at the mean, the original version of the baby bonds plan will not come close to bridging the gap, and the gap should be measured at the mean.

---

Most discussions of economic inequality tend to focus on the median because the middle values in a distribution, uncontaminated by outliers, are assumed to be more representative of the typical experience of members of each group. But in this case, we contend that the mean gap is more relevant. The ferocious degree of concentration of wealth in the United States means that 97 percent of the wealth held by all White Americans is possessed by White households with a net worth greater than the median White household. Thus, a focus on the median, rather than the mean, takes virtually all White wealth out of consideration for equality... Furthermore, the gap at the mean is not solely due to the presence of a small number of extraordinarily rich White billionaires. One-quarter of White households have a median net worth in excess of \$1 million, a circumstance that is true for only 4 percent of Black households ... In addition, members of the White working class have two to three times the wealth than members of the Black professional managerial class... (Darity et al., 2020, 117, 117n.14)

---

On the other hand, if the baby bonds plan was modified to target the mean, it could, over the span of a generation, function as a universal policy that erased the racial wealth gap. This would require a substantial increase in the expense of the program (Dvir-Djerassi 2024), in the vicinity of eight to ten times larger per annum.

Baby Bonds are a powerful avenue toward mitigating the excesses of wealth inequality in the United States. While

potentially transformative in its effects, its impact should not be overstated. As currently designed, no existing Baby Bonds plan at any level of government will eliminate the racial wealth gap. That will require a reparations plan for Black Americans whose ancestors were enslaved in the United States. Baby Bonds must be viewed as a complement for reparations, not a substitute.

---

## References

- Darity Jr., W. A., Mullen, A. K., & Slaughter, M. (2022). The Cumulative Costs of Racism and the Bill for Black Reparations. *Journal of Economic Perspectives*, 36(2), 99-122.
- Dvir-Djerassi, A. (2024). Closing the Racial Wealth Gap: A Counterfactual Simulation of Universal Inheritance. *The Russell Sage Foundation Journal of the Social Sciences*, 10(3), 70-91.



#### Co-Hosts:

Center on Assets, Education, and Inclusion ([AEDI](#))

Center for Social Development ([CSD](#))

Center for Guaranteed Income Research ([CGIR](#))

[Poverty Solutions](#)

#### Funders:

Annie E. Casey Foundation

Charles Stewart Mott Foundation

McKnight Foundation

University of Michigan's School of Social Work