BABY BONDS PROVIDE AN OPPORTUNITY TO CLOSE LARGE RACIAL WEALTH GAP

Statement of

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before the

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B24-0236 – THE "CHILD WEALTH BUILDING ACT OF 2021" AND TAX POLICY PROPOSALS TO BUILD WEALTH EQUITY IN THE DISTRICT'S POST COVID-19 ECONOMIC RECOVERY

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* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

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Chairman McDuffie and members of the council, thank you for the opportunity to provide testimony on Baby Bonds in the District of Columbia. The views we express today are our own and should not be attributed to the Urban Institute, its board, or its funders.

Wealth is not just for the wealthy. It is insurance against tough times, tuition to get a better education and a better job, capital to build a small business or buy a home, savings to retire on, and a springboard into the middle class. Wealth translates into opportunity. Wealth enables people to reach their full potential and to contribute more to the overall economy, which benefits Americans of all backgrounds. A strong, vibrant, and thriving middle class is important for economic growth.

Wealth is an important tool and asset for families and it can provide a platform for generational opportunity and prosperity, but not all families have equal access to this important asset. Legacies of discrimination and structural racism have led to the incredibly unequal the distribution of wealth across race and ethnicity. Nationally representative data from 2019 (which is of course before the COVID-19 pandemic hit the US) shows that white families held eight times the wealth of Black families and five times the wealth of Latino families.[1] In dollar terms, white families at the median held a little over $189,000 in wealth compared with $36,000 for Latino families and just over $24,000 for Black families. These gaps continued into and during the pandemic. Quarterly data from the St. Louis Fed's "Real State of Family Wealth" confirm that substantial racial wealth gaps remain largely unchanged despite fluctuations from 1989 through 2020.[2]

But that is the national picture. Here locally, a 2016 Urban Institute study (coauthored by our fellow panelist and regular collaborator Darrick Hamilton) found that white families in the Washington region have 81 times the wealth of Black families and 22 times the wealth of Latino families.[3] In dollar terms, that translates to $284,000 in wealth for white families at the median compared with $13,000 in wealth for Latino families and just $3,500 for Black families. These wealth disparities carry forward and are compounded by credit health disparities.[4] The share of DC residents in communities of color with subprime credit scores is 5.7 times higher than in majority-white communities in the city (33.1 percent versus 5.8 percent). Without sustained support and intentional policies that address racial barriers, racial inequities will remain.

Racial Wealth Inequities Are Driven Primarily by Systemic Barriers, Not Individual Decisions

The wealth gaps we see between white people and most people of color did not arise from individual failings. Rather, they are caused by legacies of racism and ongoing systemic barriers that have

[1] Kilolo Kijakazi, Margaret Simms, Signe-Mary McKernan, and Cary Lou, "How Policymakers Can Ensure the COVID-19 Pandemic Doesn't Widen the Racial Wealth Gap," *Urban Wire*, February 12, 2021.

[2] Ana Hernández Kent and Lowell R. Ricketts, "The Real State of Family Wealth: Quarterly Trends in Average Wealth and Demographic Wealth Inequality," Federal Reserve Bank of St. Louis, last updated March 30, 2021, https://www.stlouisfed.org/household-financial-stability/the-real-state-of-family-wealth.

[3] Kilolo Kijakazi, Rachel Marie Brooks Atkins, Anne Price, Darrick Hamilton, and William A. Darity Jr., *The Color of Wealth in the Nation's Capital* (Washington, DC: Urban Institute, 2016).

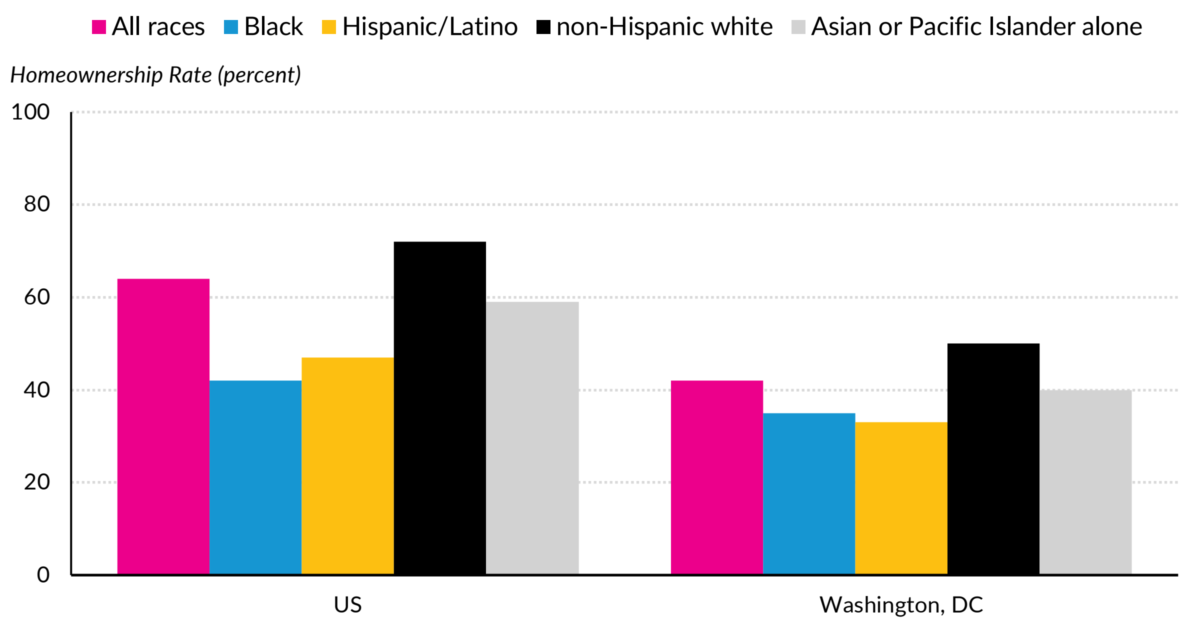
[4] Caleb Quakenbush, Madeline Brown, Kassandra Martinchek, Breno Braga, Signe-Mary McKernan, Oriya Cohen, Shamoiya Washington, and Alexander Carther, "Tracking the Credit Health of Washington, DC Residents" (Washington, DC: Urban Institute, 2021).

hindered and continue to hinder families of color from accumulating wealth at the same rates as otherwise comparable white families. The single largest source of wealth for most American families comes from the value in their homes.[5] However, not only are Black families much less likely to own a home nationally (i.e., less than half of Black families own their home, with a homeownership rate nearly 30 percentage points lower than the white homeownership rate nationally),[6] research from our copanelist Andre Perry shows their homes are valued substantially less, especially when they reside in predominantly Black and brown neighborhoods.[7] Here in DC the gaps are smaller, but the overall story remains the same, with 35 percent of Black DC residents owning their home compared with 50 percent of non-Hispanic white residents. What this means is that far fewer Black families have access to wealth through homeownership, and the families that have that primary asset are often not getting fair value and wealth from it.

Families of Color Are Much Less Likely than White Families to Own Homes

FIGURE 1

US and Washington, DC, Homeownership Rate by Race



Source: Owner-occupied housing units as a percentage of all occupied housing units, American Community Survey, 2015–2019.

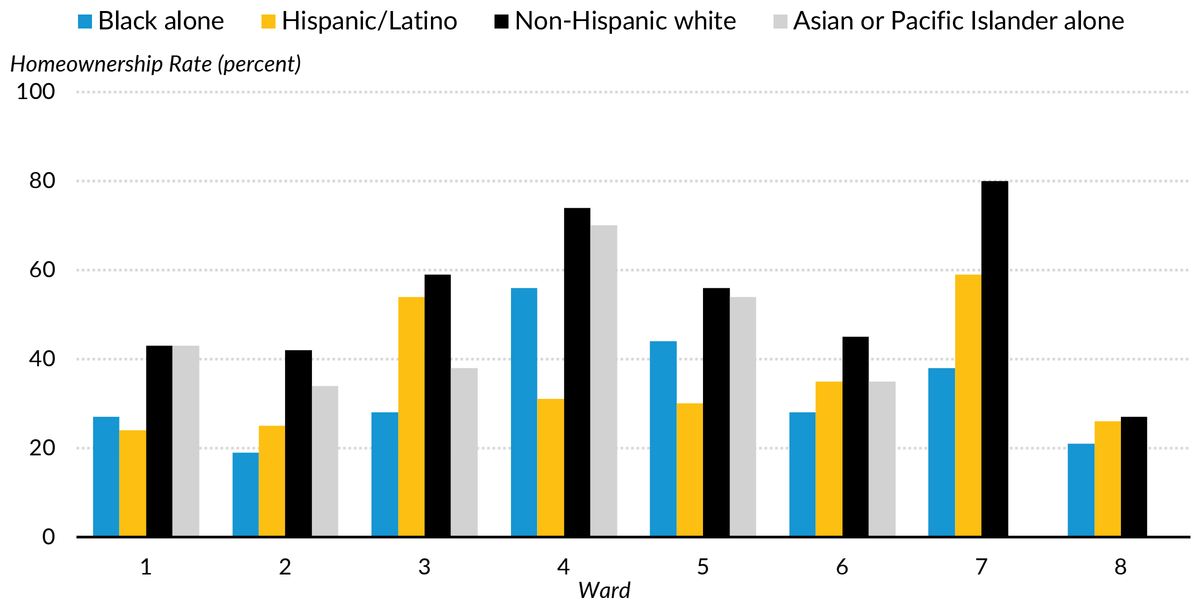
[5] Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," FEDS Notes, Board of Governors of the Federal Reserve System, September 27, 2017.

[6] Alanna McCargo and Jung Hyun Choi, "Closing the Gaps: Building Black Wealth through Homeownership" (Washington, DC: Urban Institute, 2020).

[7] Andre Perry, "The Devaluation of Assets in Black Neighborhoods: The Case of Residential Property" (Washington, DC: Brookings Institution, 2018).

FIGURE 2

Washington, DC, Homeownership Rate by Ward and Race



Source: Ward calculations provided by Urban–Greater DC. Owner-occupied housing units as a percentage of all occupied housing units, American Community Survey, 2015–2019.
Note: "Asian or Pacific Islander alone" values are suppressed in Wards 7 and 8 because of reliability issues.

Black people in the District have faced more than two centuries of economic exclusion and deliberate barriers to building wealth.[8] For instance, following emancipation, white people who enslaved Black people in the District were compensated for "financial loss," while Black people who had been held in bondage received no compensation. For decades in the early 20th century, civil service was legally segregated, so many Black workers had limited access to the district's primary labor market. In more recent decades, urban renewal efforts targeted what are now formerly Black neighborhoods, particularly in Southwest, leading to significant displacement. And of course, gentrification through an influx of predominately well-educated and high-income white residents in much of the city in the past 20 years has turned what has long been known as "Chocolate City" into one where Black residents are now less than half of the city's population.[9] These trends in disinvestment and displacement in the District have constrained the ability of Black families in particular from growing wealth at the same levels and with the same access as white families.

[8] Kijakazi et al., *The Color of Wealth*.

[9] Katherine Shaver, "D.C. Has the Highest 'Intensity' of Gentrification of Any U.S. City, Study Says," *Washington Post*, March 19, 2019.

Income Alone Will Not Solve Wealth Inequities

The racial wealth gap is three times larger than the racial income gap.[10] Our country continues to cope with discrimination, and the low wealth it causes is being passed from generation to generation. Urban Institute research finds that white families are about five times more likely than Black families to receive a large financial gift or inherit money, and when they do, they receive less than white families.[11] Even controlling for differences in income, Black families receive an astounding $5,000 less in large gifts and inheritances than white families (as measured over a two-year period). These average differences add up to substantial amounts over time and contribute to the wealth gap. This is money that could be used for major family investments such as education, a home, or a small business. Bold wealth-based solutions are needed to close the wealth gap. These would be a complement to income-based solutions, which help people meet basic needs.

Baby Bonds Evidence as a Bold Wealth-Based Solution

To address wealth disparity, scholars (perhaps none more prominently than Professor Hamilton) and policymakers have proposed "Baby Bonds," which are an economic birthright to capital. These accounts would be held in public trust to be used as a foundation to an economically secure life. Naomi Zewde simulated how a universal Baby Bonds program would narrow wealth inequalities by over 90 percent while improving the net asset position of young adults.[12]

The capital finance provided by Baby Bonds is intended to deliver a more egalitarian and "authentic" pathway to economic security regardless of the financial position of families individuals are born into. The program would complement the economic right to old-age pension and provide a more comprehensive Social Security program designed to provide capital finance from cradle to grave.

Children's savings accounts, which are a predecessor to Baby Bonds, have been proposed in Congress with bipartisan sponsorship and have been implemented by states and local governments. Baby bonds differ from children's savings accounts in at least three important respects. First, baby bonds prioritize wealth-building in an expansive sense; they do not simply fund education. Second, baby bonds do not emphasize personal saving, because the wealth gap was not created by individual saving behavior. Third, for children born into low-wealth families, the endowment is large enough (with interest compounded over time) to cover the down payment on a home, pay for a college education, or help get a business off the ground.

Our country's current focus on racial justice and inclusive recovery provides the opportunity to change the wealth inequality trajectory. Washington, DC, has the opportunity to be a leader in piloting and evaluating what it looks like to build wealth through Baby Bonds and to lay the groundwork for closing the wealth gap in other cities, states, and the across the nation. Baby bonds give young adults an equitable chance at building wealth – a chance that is important for families in DC and for our nation.

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[10] Signe-Mary McKernan, Caroline Ratcliffe, Eugene Steuerle, and Sisi Zhang, "Less Than Equal: Racial Disparities in Wealth Accumulation" (Washington, DC: Urban Institute, 2013).

[11] Signe-Mary McKernan, Caroline Ratcliffe, Margaret Simms, and Sisi Zhang. 2012. "Do Financial Support and Inheritance Contribute to the Racial Wealth Gap?" (Washington, DC: Urban Institute, 2012).

[12] Naomi Zwede, "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults" *Review of Black Political Economy* 47, no. 1 (2019): 3–19.

Additional Context and Considerations

In particular, a strong Baby Bonds program would

- **Consider savings penalties (asset limits) in public safety-net programs.** Asset limits in means-tested programs, which restrict program eligibility to individuals with low levels of savings or other assets, could disqualify Child Trust Account recipients from safety-net programs and may discourage future saving. The Assets for Independence Program's exclusion of Individual Development Account savings from counting against asset limits for determining means-tested program eligibility may have been important for achieving and sustaining the program's effects on savings and material hardship and suggestive effects on asset building.[13]
- **Provide automatic enrollment,** which is important according to research on child development accounts.[14] If enrollment is not automatic, participation rates will be lower, and the most disadvantaged families may be left out. In the Assets for Independence randomized evaluation, the challenging process for opening Individual Development Accounts at one site may have contributed to lower participation and savings.[15]
- **Incorporate nontuition costs as eligible education expenses.** This could improve education outcomes: A randomized controlled trial of the Assets for Independence matched-savings program in the United States found no effect of participation on education or training outcomes, while an evaluation of the Percorsi matched-savings program in Italy did. One possible reason is that Assets for Independence accounts could be used for a narrower range of education or training needs (i.e., tuition, fees, and books and supplies bought directly from an eligible educational institution). The Percorsi evaluation found that after tuition fees, a large share of participants' expenses were for computers, software, transportation, and additional training and rent.[16]

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[13] Signe-Mary McKernan, Gregory B. Mills, Caroline Ratcliffe, William J. Congdon, Mike Pergamit, Breno Braga, and Kassandra Martinchek, "Building Savings, Ownership, and Financial Well-Being: First- and Third-Year Assets for Independence Program Randomized Evaluation Findings in Context" (Washington, DC: Urban Institute: 2020).

[14] "Child Development Accounts," Washington University in St. Louis, Brown School Center for Social Development, accessed May 20, 2021, https://csd.wustl.edu/child-development-accounts/.

[15] Greg Mills, Signe-Mary McKernan, Caroline Ratcliffe, Sara Edelstein, Michael Pergamit, Breno Braga, Heather Hahn, and Sam Elkin, *Building Savings for Success: Early Impacts from the Assets for Independence Program Randomized Evaluation* (Washington, DC: Urban Institute, 2016).

[16] Davide Azzolini, Signe-Mary McKernan, and Kassandra Martinchek, "Households with Low Incomes Can Save: Evidence and Lessons from Matched Savings Programs in the US and Italy" (Washington, DC: Urban Institute, 2020).