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## Cory Booker wants a ‘baby bond’ for every U.S. child. Would it work?

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Cory Booker’s plan to fight intergenerational poverty, a cornerstone of his presidential bid, includes a novel proposal: a trust fund for every American child seeded by the federal government that could eventually provide up to nearly \$50,000 for college tuition, buying a home or starting a business.

The “baby bond” measure is among a number of bold and often controversial policy ideas animating the Democratic presidential primary, a reflection of how the candidates vying for the party nomination are focused on addressing historical inequities in American society.

Like a universal basic income or a federal jobs guarantee, Booker’s baby bond plan would face considerable political and administrative hurdles, experts said. It has never been fully tested, after an experiment in the United Kingdom was cut short a decade ago.

“I’m not sure that there is anything out there that is truly a precedent,” said William A. Darity Jr., an economist at Duke University and leading exponent of the baby bonds idea.

With its aims of narrowing the wealth gap between rich and poor and raising the economic status of historically disadvantaged communities, baby bonds fit into the broader landscape of liberal policy proposals that are energizing Democrats ahead of a high-stakes contest with President Trump next year.

The party’s focus on remedying discrimination, particularly for African Americans, has prompted Booker and his rivals to endorse an array of ambitious policies that would rewrite the social contract along liberal lines.

Booker’s baby bond is novel in the form he proposes, adding to its allure for liberal policy thinkers who hope it could deliver a targeted blow to racial disparities in wealth. Kindred programs such as child savings accounts are spreading at the state and local level, but they differ in key respects from baby bonds and have not matured to the point where account holders have access to the funds.

Booker, a Democratic senator from New Jersey and one of two leading black candidates in the presidential primary, pitches his plan as a way to assist lower-income youths while more sweeping liberal policy proposals, such as reparations for the descendants of slaves, are debated.

“I’m not going to wait,” he said in an interview last week. “My community, communities of color, low-income communities of all backgrounds, urgently need a change now.”

How it would work

The concept of a government-funded nest egg for young adults has a long history: As early as 1797, Thomas Paine called for the government to provide about 15 pounds (roughly \$1,800 today) to every 21-year-old.

Under Booker's legislation, the roughly 4 million children born every year in the United States would receive \$1,000 in interest-bearing "American Opportunity Accounts" managed by the Treasury Department. The government would contribute up to \$2,000 to each account every year, with lower-income children receiving the largest payments.

By age 18, the poorest children would have roughly \$46,200 in their accounts, while the wealthiest children would have roughly \$1,700, according to an analysis by Booker's office. Blacks and Latinos would collect nearly twice the amount that whites would on average, the analysis found.

The program would cost about \$60 billion per year, paid for by raising estate taxes on wealthy Americans and closing the tax break for inherited capital gains.

Conservative policy experts argued that Booker's proposal could create perverse incentives that exacerbate the problems he wants to solve.

"If you are a child receiving a baby bond, you might have less incentive to save, less incentive to get an education, knowing that this account is sitting there," Rachel Greszler, a research fellow in economics at the Heritage Foundation, said in an interview.

"It changes decision-making over time, and you want people to make decisions that they would absent any of these government programs," she said.

Booker, who was mayor of Newark from 2006 to 2013 and still lives in the city's Central Ward, argued the opposite — that baby bonds would have a "transformational effect" on low-income children in his state.

"I think people really underestimate the impact that poverty has in limiting life potential," he said.

The most famous and ill-fated baby bonds experiment from the past two decades took place in the United Kingdom, when then-Prime Minister Tony Blair proposed child trust funds as the Labour Party's flagship idea ahead of the June 2001 elections.

Funds for the program were allocated in 2003, with Blair promising an initial sum of 250 to 500 pounds (roughly \$600 to \$1,200 today) for each newborn. The government would make supplemental contributions, and family members were encouraged to "top up" children's accounts to ensure additional growth.

"The child trust fund, introduced in yesterday's Budget, is a big, progressive idea with far-reaching consequences for extending opportunity in Britain," Blair wrote in an op-ed for the Guardian in April 2003. "It flows from our belief that the duty of government is not just to attack entrenched privileges that hold people back, but to vigorously promote equality in life chances."

The policy was controversial from the beginning, drawing criticism from the Conservative Party for its cost and from Liberal Democrats for offering benefits that would not be felt for 18 years. Booker's plan would avoid this outcome by allowing children from 2 to 18 to participate in the program right away.

“That’s a really important insurance policy,” he said, arguing that his approach will help the program gain swift political support. “If we can get people receiving the benefits, even if it is just \$5,000, this will get people to understand what it’s all about.”

In the U.K., government baby bond payments were eliminated under the austerity measures that followed the Great Recession.

Ryan Bourne, an economist with the libertarian Cato Institute, noted that a U.S. version of the program could face the same risk given its estimated cost.

“It’s not beyond the realms of possibility that even if such a program were implemented, it would have to be reassessed in future in light of existing budget deficits and a need to get debt back on a downward path,” he said in an interview.

### Oklahoma experiment

The federal government has never attempted a baby bonds program, despite a wave of bipartisan proposals for child retirement accounts starting in the mid-1990s.

The last presidential candidate to propose one was Hillary Clinton, who backed off the idea during the 2007 Democratic primary campaign after it was widely condemned by Republicans.

“Would the children of illegals get this money?” Rudolph W. Giuliani, then running for the GOP nomination, said on the campaign trail. “I guess they do. They’re citizens, right, if they’re born in the United States.”

Today, state governments have embraced an alternative policy: tax-advantaged college savings plans for young children using the 529 platform.

The most rigorous experiment is taking place in Oklahoma, where the Ford Foundation provided about 1,350 babies with \$1,000 each in state-owned 529 college savings accounts in 2007.

Researchers with Washington University in St. Louis said the SEED for Oklahoma Kids study is generating positive social outcomes, such as raising mothers’ expectations for their children’s future educations, even though the money has not yet been spent.

Several mothers communicated their optimism in research interviews a few years into the experiment.

The quotes were published under pseudonyms in a 2012 paper.

“I was one of the first of my grandmother’s grandkids to even step foot in a college, so hopefully my kids will break that cycle and complete it,” said Miranda, a 30-year-old single mother of two. “I made it there. I went a semester ... But I want my kids to finish the cycle. I want them to finish college.”

The Oklahoma effort differs from Booker’s proposal in several ways. Notably, the funds can only be used to pay for higher education, and the program encourages parents to contribute to their children’s accounts, which is not allowed under Booker’s bill.

In Elizabeth, N.J., a young mother living at a facility run by Covenant House, a leading charity for homeless and runaway youths, expressed hopes that baby bonds might become a reality for her toddler son.

“I feel as if it would make him explore the world more,” said Margaret, 21, who declined to give her last name, citing concerns about her privacy. “I feel as if the money would help him stay on the right track.”

Margaret said she grew up in poverty, with a disabled father and a mother who used drugs and was not present in her childhood. She said “baby bonds” would help her son, Carmelo, be a “good citizen rather than out in the streets.”

“I’ve had experience with the streets and I don’t want that for him,” she said in an interview. “I don’t want him anywhere near that ... I don’t want him to grow up like I did.”

### Racial wealth gap

Booker and others have also voiced optimism that baby bonds would help close the racial wealth gap. The ratio was nearly 10-1 in favor of whites in 2016, with the median white family holding \$171,000 in wealth compared with \$17,600 held by the median black family, according to the Federal Reserve.

There is evidence that the policy could have a substantial impact.

Columbia University postdoctoral researcher Naomi Zewde has calculated how a particular group — Americans who were 18 to 25 years old in 2015 — would have benefited from a baby bonds program that began at their birth and was similar to Booker’s proposal.

In a paper last year, she reported that the program would have narrowed the wealth disparity between whites and blacks in that group from a factor of 15.9 to 1.4 at the median, or middle of the income distribution.

Darity disagreed with her approach, saying that he is less confident about the program’s likely effect on the racial wealth gap after considering the mean, or average, wealth figures for blacks and whites.

“The problem is, if you limit your attention to families in the middle, you ignore the 97 percent of the wealth that is held by whites,” he said.

In an email, Zewde wrote that baby bonds are “meant to even out the experience of most young adults,” not address the vast wealth held by white billionaires.

“Most whites are not billionaires, yet they do have substantially more capital than black families. Baby bonds addresses this inequality, the one lived by most people,” she wrote.

Altogether, Booker and his rivals have offered more than a dozen plans — from a jobs guarantee to housing support to expanded tax credits — that are meant to boost communities of color without using race to determine benefits.

Baby bonds fit into this category for Booker, who is also the lead sponsor of a bill that would establish a commission to study reparations proposals.

“I don’t in any way claim that the things I’m doing [with baby bonds] would address the balancing of the racial justice scales in the way that reparations would. But I’m not waiting. I’m trying to do things now,” Booker said.

Darrick Hamilton, a scholar on race and economics at Ohio State University who helped to develop the baby bonds concept used in Booker's bill, warned supporters not to think of the policy as a "silver bullet."

"I think the Booker campaign is well aware that baby bonds is not reparations, and people who link the two together cannibalize both ideas," said Hamilton, who has consulted on policy for several Democratic presidential candidates.

"It does a disservice to both policies. They serve as complements."