Booker Thinks He Can End Inequality by Giving Tax Dollars to Toddlers: 5 Things to Know About ‘Baby Bonds’

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Sen. Cory Booker (D-N.J.) claims he has a plan to end wealth inequality in the United States by giving babies thousands of dollars each year.

Booker — who is one of 23 Democrats in the 2020 presidential primary — sees wealth inequality as a top problem in the United States, and he has a plan that he thinks would stop it.

Here are five things to know about wealth inequality in the United States and Booker’s “baby bonds”:

What is wealth inequality?

Wealth inequality is the massive disparity in total wealth — meaning total assets (income, properties, stocks, etc.) minus total liabilities (debts) — between the top earners in the United States and the average workers.

Currently, three men in the United States — Jeff Bezos, Bill Gates, and Warren Buffett — own as much wealth as the bottom 50 percent of Americans. The richest 5 percent of Americans own two-thirds of the wealth in the country.

This disparity increases when it is broken down by race. The median wealth of a family that is black is just 2 percent of the median wealth of a family that is white in the United States, and black and Latino Americans are more than twice as likely to have zero or negative wealth because of debts.

Wealth inequality is often perpetuated down family lines, as children of wealthy parents inherit and grow the wealth passed down through generations.

Is wealth inequality a problem?

It depends on who is asked.

Some argue that wealth inequality is bad for all Americans because there is less wealth to be split among the average consumers. If a majority of the wealth is pooled among a few people, it isn’t being spent by those in the lower and middle classes.

People in this camp tend to believe redistribution is the only way to stop the inequality and restore balance to the economy. Booker claimed there "is no American Dream without equity."

Others claim wealth inequality isn't a problem at all. The Cato Institute — a libertarian thinktank — notes that there are several reasons why wealth inequality isn't a problem. There is no evidence that wealth inequality increases poverty or forces the poor to stay poor while the rich get richer.

People in this camp tend to believe the wealthy earned their success and improved the world in the process. For example, Bezos, the founder of Amazon, is worth more than $150 billion, but he also created hundreds of thousands of jobs.

Additionally, this camp argues that redistribution won't solve the problem. For example, if the government took every penny from Bezos, Buffett, and Gates — approximately $345.3 billion — and split it equally to the nearly 329 millionAmerican citizens, each person would only get a one-time payment of around $1,050. Ignoring the economic disruption and mass layoffs that would likely occur if this happened, a thousand dollars isn't enough to drastically improve the wealth levels of any American.

What is Booker's plan?

During a speech on Sunday, Booker told the crowd at a conference for MoveOn that he could reduce racial and wealth inequality by issuing interest-bearing government bonds to each child when they are born.

Watch Booker explain "Baby Bonds":

Booker's plan is to give every baby — no matter the wealth of the parents — a $1,000 bond. Then, depending on the wealth of the parents, the government would add up to $2,000 per year to the bond.

By the time the child hits 18 years old, he or she could have a bond worth upwards of $50,000 to use to fund a college education, a down payment on a house, or a new business.

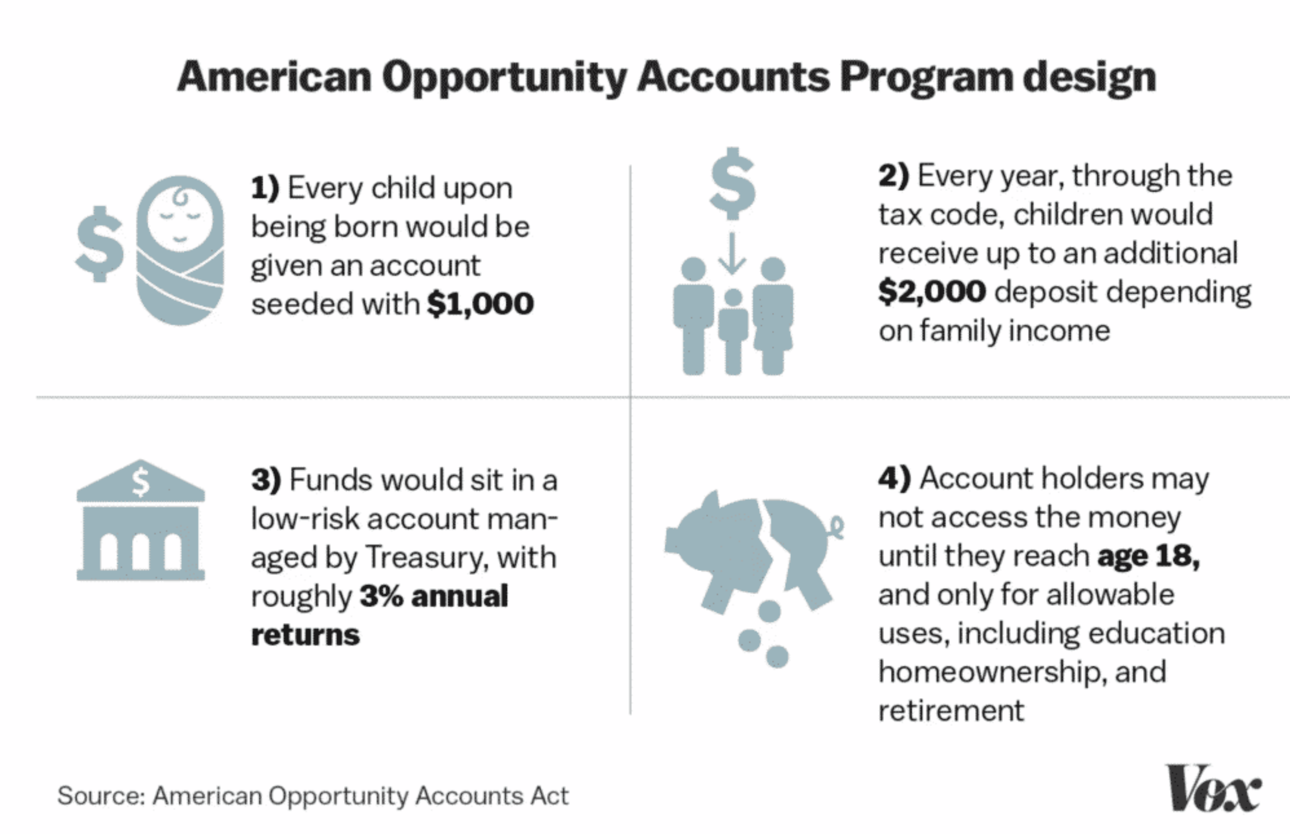
Would it end wealth inequality?

Booker's "baby bonds" could reduce income inequality, but there are no guarantees.

As Booker noted in his speech to MoveOn, his proposed legislation for baby bonds was studied by Columbia University, and researchers found it could greatly reduce the racial wealth gap.

A key cornerstone of wealth creation is investment, which this proposal would generate. However, like with all investments, it is up to the individual to make the right decisions.

Booker's plan only allows for the money to go toward retirement plans, home ownership, or college tuition.



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While homeownership and retirement tend to be stable investments, college degrees can cost well above the $50,000 potential of the bond and do not guarantee the generation of wealth.

Who is going to pay for it?

Booker's legislation — the "American Opportunity Accounts Act" — calls for raising the capital gains tax in the United States from 20 percent to 24.2 percent. He would also increase the estate tax — referred to by some conservatives as the death tax — by increasing the government's cut on wealth passed down from generations.

Capital gains taxes have been found to reduce the overall GDP while decreasing activity in the stock market, lowering investment in the private sector. Less investment in the private sector could result in job losses and lower wages.

Booker's plan could accomplish a reduction in wealth inequality in the United States, but it's up to Americans to decide if they think it is a problem that needs to be solved at a cost to the overall economy.