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## A Cheap, Race-Neutral Way to Close the Racial Wealth Gap

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7-9 minutes

What if a single, cheap, easy-to-administer, and race-neutral policy could help close the country's chasmic racial wealth gap in less than a generation?

Reader, it exists. It is called a baby-bond program. For something like \$80 billion a year—roughly 2 percent of the annual federal budget, less than a tenth of the annual cost of Social Security—the United States could not only end its most pernicious forms of poverty, reduce wealth inequality, improve social mobility, foster self-sufficiency among poor families, and increase family net worth en masse, but also put black and white families on more equal footing.

There is a strong moral case for doing that, and a strong economic case, too. The average white family is 10 times wealthier than the average black family. Black families with kids have a single penny in wealth for every dollar that white families with kids have. And white high-school dropouts have a higher net worth, on average, than black college graduates. Black individuals cannot close this gap on their own. Washington created the wealth gap. Washington needs to fix it.

Today's racial wealth inequality is a product of many decades of government policy, not the differing actions and choices of black and white individuals. The Social Security Act, for instance, initially excluded agricultural and domestic workers, who were disproportionately black. The GI Bill offered college tuition, home loans, and unemployment benefits to white veterans, while excluding black veterans. The Federal Housing Administration instituted redlining and fomented racial housing segregation. "It's not about savings," Thomas Shapiro, the director of the Institute on Assets and Social Policy at Brandeis University, told me. "It's about institutional practices."

Contemporary institutional practices sustain the gap created in past centuries. Consider how the tax code not just perpetuates, but actively generates, racial wealth inequality. A refusal to levy significant taxes on inheritances encourages dynastic wealth, meaning white wealth. (Ahem.) The country taxes paid labor more heavily than passive income, predominantly accumulated by white families. The home-mortgage interest deduction, the 529 college-savings program: These kinds of regressive elements Swiss-cheese the code. And in myriad other ways, government policies extract money from black families and black communities. Fines-and-fees policing, for instance, functions as a covert tax on black Americans.

Even when they earn very high incomes, many black individuals end up accumulating far less wealth than their white peers. That's in part because black workers tend to offer more financial support to poor relatives, and in part because black kids are more likely to have to take out hefty student loans to pay for college. Those factors add up to less money socked away in a savings account or invested in the stock market, and less money to pass along to children.

Even if a multifarious, complicated set of policies helped create the racial wealth gap, another multifarious, complicated set of policies is not necessary to start to close it. A little-known but elegant solution is waiting for implementation, a policy suggested by Thomas Paine in *Agrarian Justice* and rewritten for the modern era by Darrick Hamilton, who leads the Kirwan Institute for the Study of Race and Ethnicity at Ohio State University, and Sandy Darity, the director of the Samuel DuBois Cook Center on Social Equity at Duke University. Baby bonds are simple. The government would create investment accounts for infants, giving babies born to poor families large seed grants and babies born to rich families small ones. The money would grow, and kids would gain access to it when they reached adulthood, to use for school, a down payment, or a start-up.

That's it. Black families need wealth. The government could just give it to them. "At the root of the racial wealth gap, and wealth inequality in general, is capital itself," Hamilton told me. "Baby bonds are specifically aimed at giving people that seed capital, that asset that passively appreciates over their lifetime."

Government investment and the magic of compound interest would eliminate much of the racial wealth gap, perhaps 70 or 80 percent over time. Naomi Zewde of the City University of New York studied a hypothetical baby-bond program that would provide rich babies \$200 in assets and poor babies \$50,000 in assets, with infants born to middle-class families getting scaled amounts in between. As of 2015, the median white young adult had a net worth of \$46,000, versus \$2,900 for the median black young adult. Had they been granted baby bonds at birth, white young adults would be worth \$79,159 and black young adults \$57,845, Zewde found. White kids would be roughly 40 percent wealthier than black kids, not 16 times as wealthy.

Of course, baby bonds are not a magic bullet. Hamilton stressed the importance of considering reparations on their own terms. "I see reparations as a retrospective approach that is more direct, more parsimonious," and race-specific, he said, whereas baby bonds are prospective, race-neutral, and "in perpetuity moves society toward becoming more egalitarian." Eliminating student debt, ending mass incarceration, rationalizing the country's system of health insurance, stopping covert redlining, ending poverty as measured by income—all of those are necessary elements of racial justice, and would be complementary policies to help make the country's wealth distribution more equitable.

One thing that will likely not do much to end the racial wealth gap is President Donald Trump's Opportunity Zones initiative, which he has made the centerpiece of his election-year pitch to black voters. The program, part of the sweeping 2017 tax law, provides tax breaks for development projects in underinvested areas. When it passed, experts warned that the money would primarily go to real-estate developers working on existing projects, intensifying gentrification without aiding low-income neighborhoods. That seems to be precisely what is happening.

The black-white wealth gap was wide when Trump became president, and might be even wider when he leaves office. Typical white households hold 10 times the wealth of typical black households. Closing much of that gap could take just a single policy and a sliver of the federal budget.

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