Universal Baby Bonds Progressively Raise Net Worth of All Reduce Black-White Wealth Inequality

Naomi Zewde
CUNY Graduate Center
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How unequal is the wealth distribution?

If we take 100 people to represent the U.S. and $100 to represent its wealth...
$40
Goes to just one guy
How unequal?

Another $40 goes to the next 9

$40
How unequal?

The last $20 is spread across 90 Americans.
Concentration of Wealth is Increasing


1963
- $12 million
- $9
- $6
- $3
- 10th: $-19
- 50th: $41,028
- 90th: $238,860

1983
- 99th percentile: $1,457,201
- 95th: $409,182
- 10th: $724
- 50th: $82,746
- 90th: $520,133

2016
- 99th percentile: $10,400,000
- 95th: $2,387,250
- 10th: $-950
- 50th: $97,300
- 90th: $1,186,570


Note: 2016 dollars.
Racial Disparities in Wealth are Persisting


Notes: 2016 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later.
Of all the factors contributing to racial wealth inequity for households with kids...

Income by Race (Thousands)


White: 69, 79, 80, 82
Black: 31, 40, 38, 39
Hispanic: 31, 43, 38, 41

Percent with Bachelor's or More


White: 19, 26, 31, 39
Black: 16, 19, 20, 21
Hispanic: 14, 16, 17, 18

CUNY SPH
Of all the factors contributing to racial wealth inequity for households with kids...

Income by Race (Thousands)

Percent with Bachelor's or More

White

Black

Hispanic
Race, and its historical legacy, is more influential than behavior.

Net worth by race and education (1,000s)

Net worth by race and family structure
Race, and its historical legacy, is more influential than behavior

Net worth by race and education (1,000s)

Net worth by race and family structure
Race, and its historical legacy, is more influential than behavior

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Wealth provides stability, growth, power

Acts like insurance
  - Risk-averse consumers derive utility from knowing they have protection, even without using it

Enables educational advancement and social mobility

Confers social standing, community influence, political access
Wealth provides stability, growth, power

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Hard to Save While Poor, Despite Existing Programs

529s depend on parental participation, regressive tax breaks

Individual Development Accounts are difficult to stick to
Hard to Save While Poor, Despite Existing Programs

529s depend on parental participation, regressive tax breaks

Individual Development Accounts are difficult to stick to
Longitudinal wealth data from birth through Young adulthood

Young adults in 2015 PSID, ages 18-25

Household net worth at birth and in 2015
- All inflated to 2015$
Progressive Bond Design

Assign categorical bond values by quintiles of wealth

Smooth out discrete values by regressing on HIS-transformed wealth

\[ \log(birthwealth + \sqrt{birthwealth^2 + 1}) \]
IHS similar to log > $0, but allows negatives
More progressive than a linear regression
# Total Cost Benchmarks to original estimate

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<th>Age Less than 1 Year (1)</th>
<th>Age 1 Year (2)</th>
<th>Average of (1) and (2)</th>
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<td>Number of Births</td>
<td>1,734,917</td>
<td>6,301,550</td>
<td>4,018,234</td>
</tr>
<tr>
<td>Total Bond Value (Billions of 2015$)</td>
<td>$35.20</td>
<td>$128.82</td>
<td>$82.01</td>
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Universal Baby Bonds Reduce Median Racial Wealth Gap

Current Wealth

- All Young Adults: $29,000
- White: $46,000
- Black: $2,900
Universal Baby Bonds Reduce Median Racial Wealth Gap

Current Wealth

$0 $20,000 $40,000 $60,000 $80,000 $100,000

All Young Adults

White

Black

$29,000 $46,000 $2,900

White-Black Wealth Ratio at the Median
Currently: 15.9
Universal Baby Bonds Reduce Median Racial Wealth Gap

- **Current Wealth**
  - **All Young Adults**: $29,000
  - **White**: $76,992
  - **Black**: $29,000

- **With Baby Bonds**
  - **All Young Adults**: $46,000
  - **White**: $79,159
  - **Black**: $2,900

**White-Black Wealth Ratio at the Median**
- **Currently**: 15.9
- **With Bonds**: 1.4
Greater Wealth Increase at Bottom and Middle

![Bar chart showing wealth increase at different income levels, with and without Baby Bonds.]

- **25th**: $31,157
- **50th**: $76,992
- **75th**: $206,200
- **90th**: $587,987

- **Reported 2015**
- **With Baby Bonds**
Wealth ownership largely unchanged
## Bonds Reduce Top Decile’s Share of Wealth

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<td>-0.4%</td>
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Bonds Meaningfully Improve Wellbeing

Federal Reserve Indicators of Economic Wellbeing
  Can you borrow $3,000
  Do you expect to inherit money?

Raises wealth for all groups and moves towards egalitarianism

Can prevent future poverty and need
Bonds Meaningfully Improve Wellbeing

Federal Reserve Indicators of Economic Wellbeing

1. Can you borrow $3,000
2. Do you expect to inherit money?

- Raises wealth for all groups and moves towards egalitarianism
- Can prevent future poverty and need
Public policies, like Medicaid expansion, work together to prevent poverty

Medicaid Expansion reduced home evictions

Medicaid expansion reduced poverty


Federal Reserve Indicators of Economic Wellbeing

Can you borrow $3,000
Do you expect to inherit money?

Raises wealth for all groups and moves towards egalitarianism

Can prevent future poverty and need