THE AMERICAN OPPORTUNITY ACCOUNTS ACT: HOW BABY BONDS CAN TRANSFORM THE RACIAL WEALTH GAP

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Abstract

The American Opportunity Accounts Act (or "baby bonds") has the potential to substantially narrow the racial wealth gap as it stands today. Combined with a long history of institutional racism omitting and/or targeting Black individuals, traditional forms of wealth-building such as homeownership have widened the racial wealth gap. By shifting the focus of wealth-building mechanisms away from individual responsibility and towards institutional accountability, the United States can begin to tackle the racial wealth gap and its associated negative externalities. The American Opportunity Accounts Act is not faultless; for example, its focus on household income over total wealth fails to capture the full extent of the economic inequality present in today's society. Nonetheless, it is a crucial first step forward that may pave the road for similar policies down the line. Baby bonds are innovative, feasible, and above all vital for a more equitable and sustainable future.

Introduction

In February 2021, U.S. Senator Cory Booker and Representative Ayanna Pressley re-introduced the American Opportunity Accounts Act (AOAA)—also known as "baby bonds." If codified into law, this groundbreaking legislation would be the first of its kind on the federal level to address the growing racial wealth gap in the United States (U.S.). The bill would create a federally funded savings account of $1,000 for every American child at birth, with additional deposits of up to $2,000 a year depending on household income. This money would be placed in an interest-bearing account only accessible by the account holder when they reach 18 years of age (Booker, 2021). Once the account holder reaches the appropriate age, they would have access to anywhere between $1,600 and $46,000 to spend on qualified expenses (such as education) tied to wealth-building (Committee for a Responsible Federal Budget, 2019).

According to the U.S. Federal Reserve, in 2019, white households held 86.8% of the overall wealth in the country while Black and Hispanic households held only 2.9% and 2.8%, respectively. This is the case despite the fact that white households only comprise 68.1% of the U.S. population, while Hispanic and Black households comprise 15.6% and 10.9% (The Federal Reserve, 2020). This wealth gap has been exacerbated due to years of racial discrimination and inequality on both a local and national level. Policies of redlining, racial covenants, and discriminatory lending practices are just some of the historical mechanisms that have limited the opportunity for Black households to build wealth. The repercussions of such discrimination continue to affect the economic opportunities and resources of Black households to this day (Cassidy et al., 2019). As such, the U.S. government must address the lingering legacy of these inequities before they continue to exacerbate societal inequality. Baby bonds – as proposed in the AOAA – can be used as a key policy mechanism to shrink the racial wealth gap and reduce reliance on more exclusive forms of wealth-building such as homeownership, subsequently ensuring a more equitable and sustainable future for minority households throughout the country.

The Racial Wealth Gap

The Basics:

The racial wealth gap has grown substantially over the past 40 years (The Federal Reserve, 2021). In 2019, the median wealth of Black households was $24,100 compared to $189,100 for white households. Although median wealth collectively rose for all races and ethnicity groups between 2016 and 2019, the growth for Black families did not result in a change in the wealth gap. In 2016, the Black-White wealth gap was $163,700; in 2019, it was $164,100 (The Federal Reserve, 2020). Data also shows that this gap only increases with age. In 2019, young Black families had almost no wealth while young white families had approximately $25,400. Once those households surpass age 55, that gap widens to fall somewhere between $101,700 and $261,100. Thus, "at middle and older ages the median wealth of white families is four to six times greater than the median wealth of Black families" (The Federal Reserve, 2020).

Looking at the larger distribution of wealth in the U.S. also reveals some startling trends. In 2018, three men held as much wealth as the bottom 50% of all Americans. Zooming out slightly reveals that the richest 5% of Americans own two-thirds of the wealth in the U.S. Additionally, in 2019, 28% of Black households and 26% of Latinx households had zero or negative wealth (i.e., household debt exceeded assets), which was twice the rate of white households (Inequality.org, n.d.). Thus, while overall wealth inequality is a rising issue across the U.S, it is also clearly stratified by race.

Consequences of the Racial Wealth Gap:

The racial wealth gap has severe consequences for economic mobility and inequality. It is also "more intransigent than other forms of inequality" due to the fact that the wealth gap accumulates over time and thus has intergenerational consequences (Herring & Henderson, 2016, p. 15). Past racial discrimination in sectors such as housing, employment, and education affect young generations of African Americans to this day by limiting opportunities to accumulate wealth at the same rate as white families (The Federal Reserve, 2021). A recent study of the major individual-level sources of wealth found that even after considering cultural (e.g., family structure), behavioral (e.g., spending patterns), and social structure variables (e.g., housing ownership), structural and ownership variables are associated with a much larger portion of the wealth gap. Thus, even if "African Americans had the same characteristics on these variables as whites, there would still be a racial wealth gap of more than $155,000" (Herring & Henderson, 2016, p. 15). The structural racism that sustains this wealth gap has immense consequences for both individual and group outcomes as well.

To fully understand these differences in outcome, researchers have analyzed the racial gap changes in the U.S. across generations using data from 20 million children and parents. The study found that Black children in America have substantially lower rates of upward mobility than any other racial group besides American Indian children (Chetty et al., 2018). Black children who are born into households at the bottom income quintile have a 2.5% chance of rising to the top quintile of household income, in contrast to 10.6% of white children in a similar situation. Additionally, even Black children born into high-income families are at a much greater risk of downward mobility; the study found that Black children are almost as likely to fall to the bottom quintile as they are to remain in the top. This is in contrast to white children, who are roughly five times as likely to stay in the top quintile (Chetty et al., 2018). Thus, Black families are often "stuck in place" across generations in part because these families do not have the accumulated wealth to pass on to their children or provide a safety net if financial difficulties should arise. Disparities in wealth also increase gaps in college attendance and completion, affect early adult decisions regarding marriage and fertility, and even impact standardized test scores. These disparities cannot be explained by income alone and reveal wealth's role in mitigating the adverse effects of low incomes on child achievement (Gibson-Davis et al., 2021). If unaddressed, these disparities will persist and continue to predispose children in minority households to negative and uneven outcomes.

There are a number of negative externalities of the racial wealth gap that harm the nation's broader economic and political health. While the research is emerging in this area, there is strong evidence that inequality can hinder economic growth. In particular, studies of inequality both internationally and within the U.S. reveal that inequality is associated with lower long-term growth and lower income growth for those who do not sit within a population's top income distribution (Boushey & Price, 2014). Additionally, the racial wealth gap may contribute to racial and/or political polarization. For instance, a recent rise in white supremacy has increased polarization and is sustained by the presence of extreme inequality; in a 2020 report, the FBI reported that hate crimes had increased by 42% since 2014 (Yang, 2021). Moreover, increased concentration of wealth among top income brackets is also correlated with increased frequency of political corruption (Cassidy et al., 2019). These two externalities are vitally important to think about when considering how to address the racial wealth gap.

Traditional Forms of Wealth-Building:

In order to analyze how policies can shrink the racial wealth gap, it is first important to understand how traditional forms of wealth-building function. Wealth serves a number of purposes: it can ease the transition between jobs, provide a financial buffer for unforeseen events, support retirement, help fund a child's future education, and ensure greater independence for families beyond household income (Weller et al., 2020, p. 197). Different forms of wealth-building have grown over the years to support these goals.

The arguably most significant form of wealth-building within the U.S. is homeownership. Federal tax policy has historically subsidized and incentivized homeownership, making it an effective asset-building mechanism for many families (Adams, 2009). Yet government established programs that promoted homeownership such as the GI Bill, Homeowners' Loan Corporation, and the Federal Housing Administration were originally only open to white families. Even after the Fair Housing Act of 1968 made housing discrimination explicitly illegal, federal tax code policies like the mortgage interest tax deduction gave $71 billion in subsidies to homeowners—twice as much as the Section 8 Rental Voucher Program receives to support low-income renters (Cassidy et al., 2019). Today, five key factors contribute to the elevation of homeownership as an effective means of wealth-building: (1) the belief that it acts as forced savings, (2) homes are assumed to be appreciating assets, (3) home financing can leverage asset returns, (4) federal income tax benefits from owning a home can be substantial, and (5) homeownership provides a hedge against rent inflation over time (Herbert et al., 2013). While these beliefs do not hold true for all homeowners, it is nonetheless the dominant discourse within the U.S.

Investing is another common form of wealth-building. Investment strategies may involve buying stock, purchasing property, capitalizing on family inheritances, and leveraging "good debt." In what might seem like a paradoxical statement, "high personal debt is not necessarily reflective of economic hardship" (Charron-Chenier & Seamster, 2021, p. 978). In fact, having "good debt" can actually jumpstart the asset accumulation process by being able to access affordable credit to start a business, buy a house, or finance education (Charron-Chenier & Seamster, 2021). Overall, investing often leads to asset accumulation, which "has been shown to enable social mobility and educational attainment by providing a foundation from which to assume" risks (Zewde, 2020, p. 5). These tactics help accumulate wealth more quickly over a lifetime, thus creating more resources and assets to pass down to future generations.

Business ownership/entrepreneurship is another tool often cited as a key to wealth-building. A survey of affluent Americans with incomes over $100,000 found that "70% of those with at least $3 million in assets had acquired the bulk of their wealth through business ownership" (Herring & Henderson, 2016, p. 7). Entrepreneurship is highlighted as a way to improve individual financial security while also improving the collective prosperity of the community. This argument is particularly relevant in discussions about minority business ownership/entrepreneurship because of the tightly knit nature of these communities and their propensity to support workers from their own neighborhood (Rice et al., 2018). Thus, it can be a wealth-building mechanism for the individual as well as the community at large.

Consequences of Traditional Forms of Wealth-Building:

Despite the popularity of these traditional forms of wealth-building, they come with stark consequences that exacerbate the racial wealth gap. The first issue with these mechanisms is that they are often unstable. Homeownership, for example, can concentrate a family's resources in a single asset (Schuetz, 2020). This can be problematic given the volatility of the housing market—a truth illustrated in great detail during the Great Recession of 2007-2009. Black wealth was hit especially hard by the Great Recession; between 2005 and 2009, the median net worth of Black households dropped by 53% compared to only 17% for white households (Famighetti & Hamilton, 2019). The modest gains in wealth that Black households had accumulated were entirely wiped out by the housing crash and subsequent economic downturn. A report by the ACLU found that by 2030, Black household wealth will be 40% lower than if the recession had not happened versus only 31% for white households. While all households lost home equity, the decrease was 3% greater for Black households (Burd-Sharps & Rasch, 2015). Even upper-income Black households suffered from the crisis, often being subject to targeted predatory loan practices called subprime loans. In fact, "Black families living in upper-income neighborhoods were two times more likely than white households in lower-income neighborhoods to have refinanced their homes with subprime loans" (White, 2015). All of these factors illustrate the unstable dynamics of the housing market, particularly for minorities.

Additionally, traditional forms of wealth building are often exclusive. Rates of entrepreneurship are consistently lower for people of color, and the average value of their business is markedly lower than white owners in the same situation (Pantin, 2017). This is in part because being an entrepreneur and owning a business requires startup capital that many minority individuals do not have access to given overlapping layers of historical discrimination (Darity et al., 2018). Investing is also an exclusive form of wealth-building, in part because financial planning resources are often inaccessible to minority households. Financial knowledge is often passed down through families that already manage wealth, and even more generic financial planning services are often unreachable based on the price tag alone (Brown & Robinson, 2016). Lastly, these traditional forms of wealth building often ignore the structural racism present within the institutions themselves. For example, the tax code is supposedly "race neutral." Yet in reality, the tax code favors white households by ignoring the broader context of institutional racism that prevents minorities from accessing wealth, leading to disproportionate taxation (Steverman, 2021). By ignoring these nuances, traditional wealth-building mechanisms reproduce negative and uneven outcomes and contribute to growing racial and economic disparities.

Critiquing "The American Dream:"

The culture around homeownership in the U.S. also needs to be addressed before fully analyzing how baby bonds can more effectively build wealth. Homeownership is emphasized as the primary form of wealth building due to its centrality to the "American Dream"—the idea that individuals can build a good life for themselves in the U.S. if they work hard, regardless of background or external factors (Adams, 2009). Especially before the Great Recession, the importance of homeownership as part of the "American Dream" was rarely questioned and increased homeownership rates were a desirable goal for the country. Yet this culture of individualism and emphasis on owning property has thwarted housing policies favoring low-income and minority renters, which make up approximately a quarter of all renter households in the U.S. (Aurand, 2021; Adams, 2009).

Pursuing this ideal of the "American Dream" is also particularly problematic within the context of the COVID-19 pandemic. Wealth concentration has increased during the COVID-19 crisis, highlighting the stark reality of inequality in the U.S. A recent analysis revealed that the combined wealth of all U.S. billionaires increased 59.8% between the onset of the pandemic in March 2020 and July 2021. Of the 700 billionaires that made up that percentage, the richest 5 saw a 113% increase in their combined wealth during this same period (Inequality.org, n.d.). Additionally, unlike the Great Recession, the housing market has boomed during the pandemic. As mortgage interest rates fall dramatically, households have sought additional space amid work-from-home and social distancing requirements. Housing supply is at a historic low, sending home prices skyward. While this is good news for homeowners, it is problematic for those shut out from the housing market altogether (Demsas, 2021).

Continuing to give homeownership a privileged position in the "American Dream" does not bode well for social well-being. In light of the inequalities COVID-19 has brought to light, homeownership is predicted to be even more unstable and exclusive in the future—a trend that is sure to exacerbate the racial wealth gap. A recent Urban Institute report found that U.S. homeownership will decline by 62.1% over the next two decades, with losses particularly concentrated among Black Americans and younger households (Goodman & Zhu, 2021).

With these predictions looming, the question remains: if traditional forms of wealth-building are layered with inequities, how can the U.S. possibly begin to close the racial wealth gap? The answer to that question requires looking beyond traditional mechanisms to reimagine the nation's processes and priorities. One key policy that could transform this sector is the AOAA—a policy that will be explored in depth in the following sections.

Baby Bond History and Background

Origins:

While the concept of baby bonds has been around for many years, it was popularized by economists William Darity and Darrick Hamilton in 2010 as a key policy mechanism to narrow the racial wealth gap. While similar policies had been proposed before, none went as far as the proposal that Darity and Hamilton elevated. For example, the American Dream Demonstration used Individual Development Accounts to create match incentives for low-income individuals, and the Savings for Education, Entrepreneurship, and Down-Payment initiative established Child Development Accounts which created match incentives for children at birth (Hamilton & Darity, 2010). However, these policies have not been universal and rely on individual contributions for the accounts to have any real impact. In contrast, the idea of baby bonds is grounded in economic studies that, "demonstrate that inheritances, bequests and intrafamily transfers account for more of the racial wealth gap than any other demographic and socioeconomic indicators including education, income and household structure"

(Hamilton & Darity, 2010, p. 212). As such, private action and market forces alone are not sufficient to close the gap.

Darity and Hamilton's proposal is estimated to raise between $50,000 to $60,000 for children in the lowest wealth quartile of families, and the funds would be accessible once the child turned 18. The individual trust would be comprised of federally managed investments and have a guaranteed growth rate of 1.5-5% annually (Hamilton & Darity, 2010). Additionally, eligibility for the program would be based on the net worth of a child's family rather than the family's household income. This is a key piece of the proposal, as wealth can paint a very different picture of a family's financial status than income. In fact, nearly 10% of the wealthiest families in the U.S. have incomes that put them in the bottom 90% of the income distribution (Bricker et al., 2020). By taking wealth into account, Darity and Hamilton's proposal ensures that those at the top are not receiving benefits disproportionate to their needs.

The American Opportunity Accounts Act:

When Senator Cory Booker and Representative Ayana Pressley reintroduced the "American Opportunity Accounts Act" in February 2021, they did so at a time when issues of racism and inequality were at the forefront of the political agenda. The proposed legislation would transfer $1,000 to an American Opportunity Account for every individual born after December 31, 2021. Each year thereafter until the individual turns 18, the Treasury Secretary would transfer an annual contribution amount to the individual account based on a sliding scale of household income. Households who make up to 100% of the federal poverty line would have $2,000 deposited every single year, with the number decreasing in amount until the household exceeds 500% or more of the federal poverty line and the additional payments stop altogether. These annual allocations are based on tax returns, and any taxpayer not required to file a tax return would be treated as a household that makes less than 100% of the federal poverty line (H.R.835, 2021).

The account holder would be able to use the funds for any "qualified expense" upon turning 18, which includes higher education, career or technical school, homeownership, or any other investments in financial assets or personal capital determined by the Treasury. The legislation also requires the Comptroller General to submit a report – no more than two years after enactment of the legislation – that looks at the feasibility and distributive impacts of a new measure that determines annual contributions based on family wealth, assets, and total net worth. (H.R.835, 2021). Thus, Booker and Pressley's Baby Bond proposal differs from Darity and Hamilton's in their use of household income over wealth. Nonetheless, this provision to develop a new measure for wealth would be a significant step towards implementing the policy based on total wealth in the future.

Example Programs:

While there have been several local initiatives piloted that are tangential to the AOAA, none of them quite model what the legislation would look like on a national scale. However, these existing initiatives and programs can offer some insight on how models already in place function. In 2017, the City of Oakland, California launched the "Brilliant Baby Program" which provides $500 in a child savings account for Oakland babies. To be eligible, a household must have an income that is 200% of the federal poverty level or lower. Families in this program are also eligible for a personal savings match program that includes financial coaching. As of 2019, the program had enrolled over 300 babies and had a total budget of $33 million. While it is too early to determine long-term outcomes of this program, qualitative data suggests the program has been a success in providing critical services to low-income residents and bolstering the financial position of low-income families (Cassidy et al., 2019).

A more recent program was approved by the D.C. Council in October 2021. The council moved to pass a bill that will put up to $1,000 a year into trust funds for low-income children until they turn 18. Any child born after October 1, 2021, in D.C. that is part of a family enrolled in Medicaid and making less than 300% of the federal poverty line will be enrolled. Families who live at or below the federal poverty line will receive an initial deposit of $500 and have subsequent annual deposits capped at $1,000. Families who are between 100%-300% of the federal poverty line will get an initial deposit of $500 and receive subsequent annual deposits of $600 thereafter. The money may be used for the same sort of qualified expenses presented in Booker and Pressley's legislation and is estimated to help over 1,800 children born every year in the District (Austermuhle, 2021). While there are some differences in eligibility, the D.C. program is most in line with what Booker and Pressley's legislation proposes.

Potential Impact of Baby Bonds:

Naomi Zewde, a postdoctoral research scientist at Columbia's Center on Poverty and Social Policy, recently put Booker and Pressley's Baby Bond proposal to the test using longitudinal data from the Panel Study of Income Dynamics. The study simulated a policy environment where the U.S. had distributed baby bonds to every newborn and those bonds had remained in place until young adulthood. Zewde found that if baby bonds were implemented, "the share of total wealth held by the top decile of households would decline from its current share of 72% to a new share near 65%" (Zewde, 2020, p. 15). While racial disparities would still exist, "the relative differential would be substantially diminished. The median White young adult household would hold approximately $79,000 versus the median Black American's $58,000. Thus, the program would reduce the Black-White wealth disparity from a factor of 15.9 to 1.4 at the median" (Zewde, 2020, p. 11). Zewde concludes that the Baby Bond program would not only reduce generational wealth disadvantages in the short term, but also successfully improve the asset position of young Black Americans in the long run.

Additional research supports the conclusion that the AOAA will have a significant impact on the racial wealth gap. A 2020 study on the effectiveness of the AOAA estimated that if the bill had been in place over the past 25 years, the racial wealth gap would have been narrowed by one fourth (Mitchell & Szapiro, 2020). Another study recently evaluated the impact of five policies on helping to close the racial wealth gap: debt-free college, civil rights enforcement in housing markets, credit market regulations enforcement, a national retirement savings plan, and baby bonds. While the authors conclude that all policies would reduce the Black-White wealth gap to some degree, baby bonds itself has the largest singular effect (Weller et al, 2020).

There is still much more research to be done to analyze the impact of the AOAA on individual and generational wealth. Still, the limited research that is available clearly illustrates the positive externalities of such a proposal. For example, "even independent of the effect of income, evidence suggests that young people from wealthier families are more likely to complete 2 or 4 years of higher education and to move up in the socioeconomic distribution" (Zewde, 2020, 5). Education has a net benefit for society by creating more employment opportunities, increasing earnings, and generating more charitable contributions (Association of Public & Land-Grant Universities, n.d.). Additionally, it is important to note that "wealth is not only a question of financial savings; it provides access to the political process and, therefore, exerts political influence" (Weller & Roberts, 2021). Thus, a more equal distribution of wealth can ensure that there is not just one voice dominating the political landscape.

The Political Landscape of Baby Bonds

Baby Bond Proponents:

Proponents of the AOAA emphasize the policy's universality as a net good for all children in the U.S. Since the policy is universal, it addresses the needs of all low-income children—not just minorities. Thus, supporters of baby bonds emphasize class over race as a way to tackle both and still maintain that it is not a race-specific intervention, which is often more controversial (Lowrey, 2020). Another argument wielded by proponents focuses on the data that shows investments in children provide the greatest return on investment (ROI). For example, the National Forum on Early Childhood Policy and Programs found that high quality childhood programs yielded a $4-9 dollar return per every $1 invested (Center for High Impact Philanthropy, 2015). Even though baby bonds would not be available to recipients until adulthood, investing in children throughout the course of their lifetime based on their households' resources would be a sound public investment based on ROI alone. Lastly, proponents echo the positive externalities of baby bonds discussed earlier such as increased education rates and more equal political participation (Zewde, 2020). Ultimately, advocates highlight the AOAA as a sound investment that will produce better economic outcomes for the country at large.

Baby Bond Critics:

The criticism levied against the AOAA focuses more on the role of government and the social safety net. Critics argue that social programs such as baby bonds are an inefficient allocation of resources that drive up U.S.

government spending unnecessarily. A conservative view of this policy posits that the redistribution of wealth acts as a "backdoor subsidy" while also diminishing personal incentives to save (Bourne, 2018). Another criticism of the AOAA centers around its role in closing the racial wealth gap. In this case, some critics view the racial wealth gap as a product of other circumstances. These individuals often counter baby bond proposals by focusing on policies that are supposedly "race neutral"—for example, increasing educational attainment. There is a common view that education is the "great equalizer;" thus, by increasing educational attainment across groups the racial wealth gap will even out over time (Darity et al., 2018). Other "race neutral" policies proposed by Baby Bond critics focus on greater financial literacy programs and incentives to save. Advocates of this view claim that the proper resources for navigating the financial system exist—minority households just need to be exposed to them. Entrepreneurship is often praised in a similar way, as advocates claim it can eliminate the racial wealth gap while also strengthening the economy and diversifying capital (Darity et al., 2018). Whether deemed inefficient or unnecessary, the AOAA does experience major pushback from certain parts of the political spectrum.

Critique of the Critic:

The critiques listed above can and should be addressed by the AOAA's advocates. To tackle the first argument about the inefficient allocation of resources, there is robust data that illustrates how universal programs can advance economic mobility for all (Huang et al., 2021). By tying baby bonds to overall economic mobility and growth, one can argue that it is an efficient allocation of resources in the long run. While some opponents will always consider social safety net programs to be unnecessary, those who are in the middle may be swayed to support it. To address the second criticism about better "race-neutral" policies, no policy is ever truly "race-neutral." As the previous section about the consequences of traditional forms of wealth-building illustrates, there is systemic racism within many sectors of society that have historically prevented minorities from accumulating wealth at the same rate as their white counterparts (Steverman, 2021; Pantin, 2017).

The idea of "race-neutral" policy continues to circulate in political circles, yet the available data highlight its inaccuracies. Regarding education, many clear-cut racial disparities exist. In fact, "at every level of educational attainment, Black families' median wealth is substantially lower than their white counterparts" (Darity et al., 2018, p. 6). Even more drastically, the average Black household with a college-educated head has less wealth than a white household whose head does not have a high school diploma (Darity et al., 2018). Thus, we can see that with education held equal, there are still drastic, unaddressed inequalities resulting from years of systemic racism and discrimination. In regard to financial management, the data indicates that Black families often have higher savings rates than white families. Yet since white families have more resources and financial assets from the outset, they can navigate the system more easily while Black families are more vulnerable to predatory financial institutions (Darity et al., 2018). Lastly, encouraging increased levels of entrepreneurship for minorities can have a detrimental effect on income inequality by driving up the cost of living and draining public institution resources (Isenberg, 2014). Overall, the critics of the AOAA do not have solid data or research to support their critiques, instead relying on outdated and inaccurate depictions of the U.S. social safety net that ignore the historical context of systemic racism.

Feasibility:

Beyond the AOAA policy proponents and critics, there is also the question of feasibility to consider. It remains to be seen if Congress can approve this bill in its current state of extreme partisanship. While key social programs have gained some ground in recent years (such as the expansion of the Child Tax Credit), many of those proposals either have time limits or run the risk of being defunded if the party composition of Congress changes during its mid-term elections. Nonetheless, there is some evidence that baby bonds can attract support from people who would normally oppose policies focused on race and redistribution. Polling by Data for Progress found that baby bonds have an approximately 27% net approval rating among those under 25 compared to only 2% for reparations (Data for Progress, n.d.). The COVID-19 pandemic also exacerbated many racial and economic inequities in a way that was difficult for politicians to ignore. Thus, the legislation is perfectly situated for this particular policy window if Congress can find a way to push it through.

In terms of financial feasibility, Senator Booker's office estimates that the AOAA would cost $60 billion annually, totaling approximately $650 billion over a decade (Kijakazi & Carther, 2020). While this appears to be a large sum of money, Senator Booker has also proposed a set of tax increases that aim to target the wealthiest households. The legislation would increase the top tax rate on capital gains and dividends to 28%, increase the estate tax, and eliminate the step-up in basis of capital gains at death. Under the current law, gains from assets that are passed through inheritance are exempt from taxation. Under Booker's proposal, they would generally tax them at the time of death. The plan would also restore 2009 estate tax parameters and increase the "tax rate to 45% above $3.5 million of assets for a deceased individual, 55% above $10 million, [and] 65% above $50 million" (Committee for a Responsible Federal Budget, 2019). The Committee for a Responsible Federal Budget estimates that these tax increases "would more than offset the cost of [the AOAA]" and bring in about $700 billion over a decade (2019). This robust tax plan ensures the financial feasibility of the AOAA is intact—the political feasibility, however, remains to be seen.

Conclusion

The American Opportunity Accounts Act would represent a substantial expansion of the current U.S. social safety net. This expansion is not only necessary to shrink the racial wealth gap; but it is also fundamental in addressing underlying racial inequities and accounting for past transgressions. The racial wealth gap is expansive, and the AOAA could be just one tactic in a broader, more comprehensive political strategy. Traditional forms of wealth-building such as homeownership have deepened the racial wealth gap over the years alongside institutional racism that leaves out and/or targets Black individuals. By shifting the focus of wealth-building mechanisms away from individual responsibility and towards institutional accountability, the United States can begin to tackle the gross inequities that currently dominate its economic, political, and social landscape. The AOAA is not perfect; its focus on household income over total wealth fails to address the full extent of wealth inequality. Nonetheless, it is a crucial first step forward that will pave the road for similar policies in the future. Baby bonds are innovative, feasible, and above all vital for a more equitable and sustainable future.

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