Baby Bonds Promote Economic Opportunity and Drive Broad-Based Growth

Giving children born in the United States an automatic child trust account, a "Baby Bond," would ensure that everyone is able to start adulthood with the financial stability to pursue their goals. Through Baby Bonds, a child would receive an initial specified amount of money into their own account upon their birth. Eligible children would also receive additional annual funding variable by household income level. These funds could then be withdrawn for a number of specified purposes later in life, generally as the child approaches adulthood, to provide the account holder with seed money to begin to fund their future.

Baby Bonds would allow young people to have greater economic security as they move into adulthood by giving them the financial flexibility to start a business, go to college, get vocational training or even just have a savings cushion for unexpected expenses.

At a time of rising inequality and declining social mobility, Baby Bonds would create economic opportunity and set people up on a trajectory to build wealth, improving not only their own economic outcomes but also strengthening the entire U.S. economy.

Baby Bonds create economic opportunity and stability, especially for the most vulnerable children and young adults

The transition to young adulthood can be challenging for anyone, as people move to become more independent and pursue post-secondary training, begin careers and start families of their own. The ability of families to continue to financially support their children in the transition to adulthood varies by the economic status of the family. For example, research has found that high-income families can provide as much as three times more financial support during the transition to adulthood than lower-income families.

Providing Baby Bonds to children born in the United States could help with this transition. Baby Bonds could be used for a variety of wealth-building pursuits, such as higher education or entrepreneurship. Ensuring that people start adulthood with some financial assets would help set them on a trajectory for future wealth building.

Baby Bonds could be used to pursue higher education, including vocational training

Baby Bonds could enable young adults to pursue higher education, including vocational training or a bachelor's degree. Increasing the amount of higher education young people achieve can directly increase their lifetime earnings. One study found that an associate's degree leads to a 29% annual earnings increase and a bachelor's degree leads to a 68% increase.

Women and people of color see the largest economic benefit from increased higher education. In particular, white women see the largest increase in lifetime earnings, while Black women see the largest increase in retirement income, followed by Black men. While racial and gender income gaps persist at every level of education, providing children with funds that could be used for education beyond high school would help more students afford it, ultimately increasing their long-run economic security.

Baby Bonds could be used to start a small business

Baby Bonds could be used as the seed capital to start a small business. The average cost of starting a small business is between $30,000 and $40,000. Entrepreneurs from low-income backgrounds and entrepreneurs of color have disproportionately lower access to this needed capital. Among firms with high credit scores, only about a quarter of Black- or Hispanic-owned firms and 37% of Asian-owned firms received all the financing they applied for, compared to 48% of white-owned firms. Black and Hispanic entrepreneurs are also far more likely to be shut out of financing completely. By giving children a seed account that could be used flexibly, Baby Bonds would enable entrepreneurs to start and build new businesses.

Baby Bonds could be used to help purchase a home

Baby Bond funds could be used as part of a down payment to purchase a home. In the United States, buying a home remains an essential pathway to wealth-building and long-term economic security. But over the past few decades, as housing has become increasingly unaffordable, the number of young adults who are homeowners has been declining. By providing seed money that could be used as part of a down payment, Baby Bonds would help put homeownership in reach for more people. In addition, by enabling them to buy a house earlier in life, people could realize a greater return on their initial investment as housing values increase over time.

One study found that individuals who bought a home between the ages of 25 and 34 accumulated $72,000 more in housing wealth than those who bought their house just 10 years later. Additionally, young homebuyers are generally financially better off as they reach their retirement years. By providing young adults with a nest egg that could be used as part of a down payment, Baby Bonds would help individuals take advantage of the wealth building that can come with earlier homeownership.

Baby Bonds facilitate future savings

In addition to providing children with seed money that can be used for a variety of purposes, Baby Bonds would help place children and families on a path to save more over their lifetime by connecting families to banks. There are over 7 million families in the U.S. who do not have access to a bank account, leaving them vulnerable to predatory lenders and financial instability. Baby Bonds would establish a relationship between children and financial institutions from a young age by opening an account for eligible children.

Research shows that young adults who had savings accounts as children accumulate medians of $1,900 in savings and $5,025 in total assets greater than their counterparts without savings as children. Individuals who had childhood savings accounts are also four times as likely to own stocks as young adults. Not only do Baby Bonds provide an initial nest egg, but they could lead to greater overall saving in the future.

Even small savings can have an outsized impact on future outcomes

Research has found that even seemingly small amounts of money in accounts dedicated for children can have an outsized impact on their future outcomes. Having a dedicated savings account for a child causes children and their families to become more future-oriented, increasing expectations of college attendance and completion. One study found that having a school savings account containing less than $500 tripled the likelihood of attending college and increased the likelihood of graduating by 4.5 times over those that did not have a college savings account.

The positive effects of small-dollar asset accumulation are even greater for lower-income children and families of color. Savings of less than $500 were associated with a 31 percentage point jump in college enrollment for Black students, compared to a 10 percentage point jump for white students. Similarly, the jump was 20 percentage points for all low-income students, compared to 6 percentage points for high-income students. For low- and middle-income households, a $10,000 increase in family resources—which is roughly equivalent to the potential full value of a Baby Bond account—can increase the odds of a child attending college by nearly 6 percentage points, almost 9 times the increase for children overall.

Giving young adults a nest egg would create benefits for the entire economy

Increasing access to wealth-building activities such as entrepreneurship and higher education not only benefits the individuals who get the opportunities, but also strengthens the entire economy. For example, obtaining a post-secondary degree both improves overall economic growth and increases the individual graduate's earnings. Research shows that a 1% increase in state college or university graduates increases GDP by an estimated 0.5%.

Similarly, entrepreneurship is essential for economic growth. Small businesses alone generate 44% of U.S. economic activity annually and serve as the source of two-thirds of net new jobs. Despite significant barriers, Black- and Hispanic-owned businesses contribute over $1 trillion dollars to the economy each year and employ more than 4 million workers. Baby Bonds would reduce the financial barriers to entrepreneurship, increasing business dynamism across the country, boosting local economies and creating jobs nationwide.

Baby Bonds are an opportunity to ensure that children start young adulthood with a nest egg that would allow them the freedom to pursue wealth-generating activities, increasing their own economic opportunities and security and improving economic growth and stability.