

April 9, 2024

Subject: Support for 2024-H 7851, 'Baby Bonds'

Chair Marvin Abney and Members of the House Committee on Finance:

At the request of General Treasurer James A. Diossa, Representative Joshua Giraldo introduced a 'Baby Bonds' initiative, a program that would invest \$3,000 in every low-income Rhode Island baby born to families receiving public health care, such as Medicaid. Those investments would grow along with the child, and would become available at the time of young adulthood for wealth-building purposes. As an economist, I helped design the concept of Baby Bonds in Connecticut as a means of generating wealth and granting financial independence — a tool for individuals to escape the iterative confines of systemic asset poverty.

Here's how the Baby Bonds proposal works: Between the age of 18 and 30, participants would be able to access the realized returns of the Baby Bonds investment (estimated to be between \$10,000 to \$20,000 using a conservative rate of return and depending on the age of withdrawal) for at least one of four wealth-building activities: to help buy a home in Rhode Island, start a business in the state, pay for college or other post-secondary education or training in the state, or purchase a vehicle from a state dealer. The program will be complemented with a financial education program, which will provide young people with the knowledge and support — often reserved for only the most affluent amongst us — that they'll need to make the best use of these resources.

Wealth is as much the beginning as it is the end of an economically secure life. We often think of wealth as an outcome, but its true essence is functional — that is, what wealth can do for you. Wealthier families are better positioned to finance elite education, access capital to start a business, reside in higher amenity neighborhoods, exert political influence, purchase better counsel if confronted with an expensive legal system, leave a bequest, and withstand financial hardship resulting from any number of emergencies, including, as we so poignantly witnessed, with the COVID-19 pandemic.

The source of wealth inequality is structural, not behavioral — intra-family transfers position some young adults with capital to purchase a wealth-generating asset like a home, a new business or a debt-free college education that will passively appreciate over a lifetime.

Households with few assets and low incomes are compelled to turn to high-cost unconventional alternative financial products. They generally are aware that these products are predatory, but they have no alternatives. These "last resort," debt traps render a sad irony in which those that can least afford finance in times of dire need end up paying the most for finance, having to pay higher and higher interest and fees until, ultimately, they default on the original principal.

The Baby Bond idea is that money is set aside before or shortly after a newborn's birth, and placed in trust as an investment for that child's future. The accounts are substantial and based on the familial financial position in which the child is born and grows. Baby Bonds guarantees a birthright to capital, a nest egg so to speak, for every child, especially those born into poverty.

With Baby Bonds the privilege of wealth would no longer be an exclusive domain of the wealthy. The program provides finance at the critical age of young adulthood in order for the recipient to build a lifetime of economic security. It complements our existing social security pension program by providing a more comprehensive social security from cradle to grave.

Public provision of "Baby Trusts" could go a long way towards eliminating the transmission of economic advantage or disadvantage across generations, and establishing a more moral and decent economy that facilitates assets, economic security and social mobility regardless of the race and family economic position in which an individual is born.

Importantly, Rhode Island Baby Bonds would provide another incentive for young Rhode Islanders to remain in the state. Additionally, Baby Bonds would support economic development by deploying resources to areas of the state that have concentrations of poverty – creating an automatic stabilizing effect.

Baby bonds would also decrease pressure on state budget and social programs over time, as many social programs aim to sustain families, but often lack a fundamental focus on transitioning individuals away from ongoing public support and helping them thrive.

There has been a surge in interest and legislative actions (and bipartisan support!) at the federal, state, and municipal levels around Baby Bonds. We applaud Rhode Island's leadership in considering Baby Bonds, a transformational investment for a more inclusive, equitable, and productive future to help all of your state's neighbors pursue and afford the American Dream.

Sincerely,

Darrick Hamilton

Dr. Darrick Hamilton