Comments on Montgomery County Bill 5-24, Child Investment Fund, June 18, 2024

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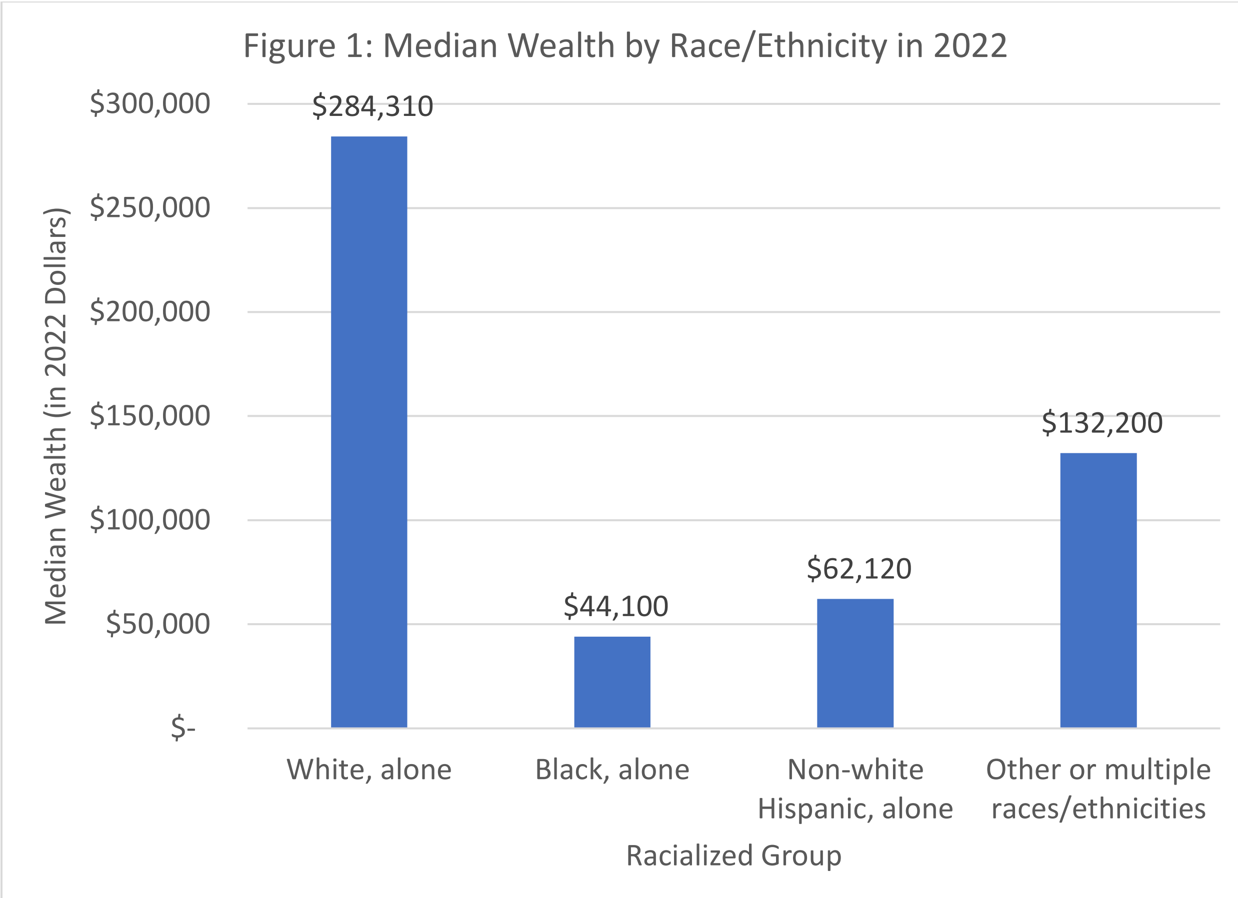
Good evening. Thank you very much for giving me the opportunity to talk to you tonight on Bill 5-24, the Child Investment Fund.

This is a much needed and well-designed bill. It would make a critical down payment in terms of more wealth inequality.

I am a professor of public policy at the University of Massachusetts Boston and a senior fellow at the Center for American Progress. Part of my expertise focuses on wealth inequality, by race, ethnicity and gender.

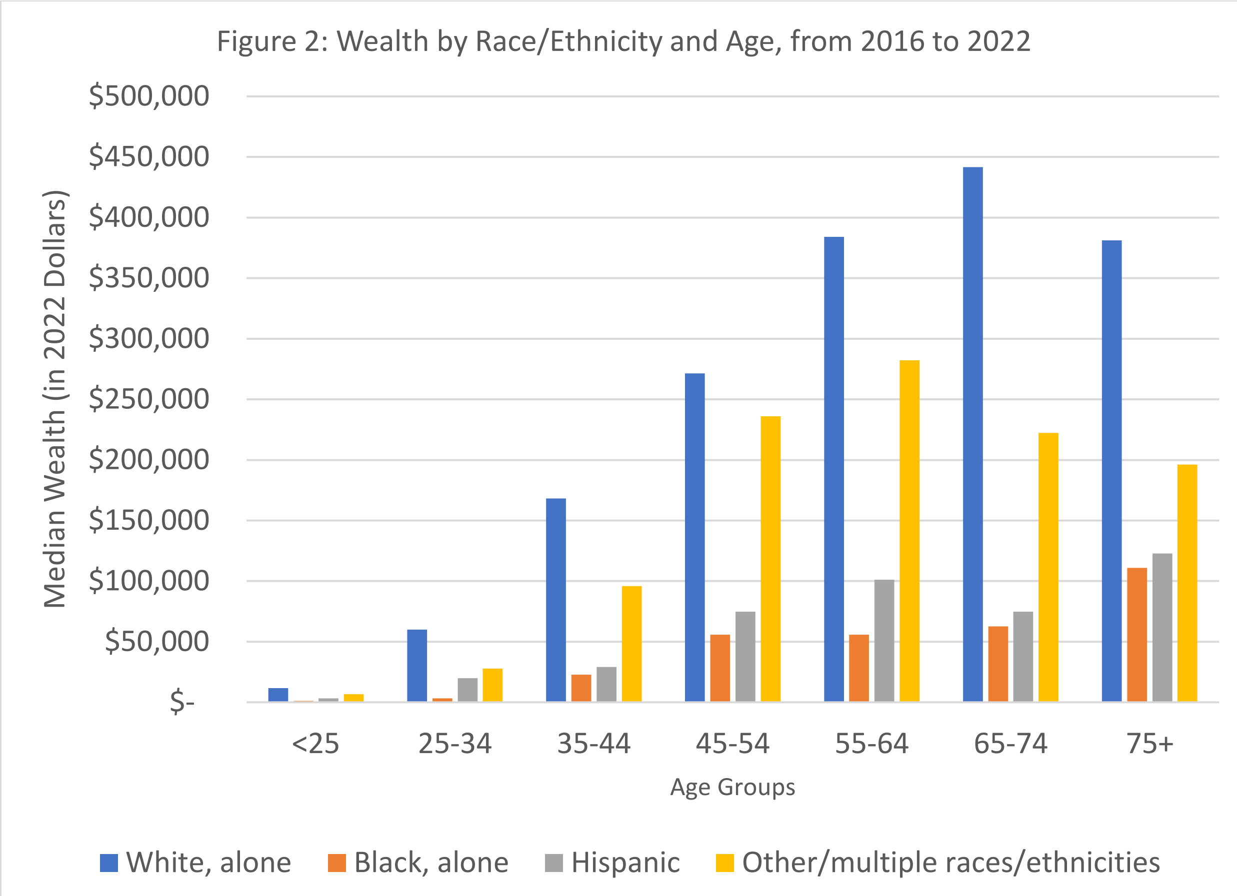
Wealth is the difference between what people own and what they owe. Wealth is crucial for economic security and economic mobility. Money in savings accounts, home equity, and retirement accounts, among other forms, can serve as a financial buffer in an emergency such as a health shock or layoff. Wealth is also critically important for people to create and take advantage of economic opportunities. People can use their wealth to support their education, start a business or for the down payment of a new house. Having wealth is also critical to giving people a choice at the end of their careers to keep working or to retire in dignity. . Having wealth feeds into many aspects that make up a secure middle-class standard of living.

Yet, many households have little to no wealth, with few opportunities to gain it. This bill directly addresses this issue. This is particularly true for lower-income households, those without college degrees, and, most importantly, for many people of color, especially Black, Latino, Native American, and Native Alaskan households. For example, the typical Black household had $44,100 in wealth and the typical Latino household had $62,120 in wealth in 2022, while the typical white household had $284,310 in wealth at the same time (Figure 1)[i].



Notes: Total wealth is the difference between assets that people own and the debt that they owe. Source is Federal Reserve, (2023). Survey of Consumer Finances 2022, Washington, DC: Fed. Available at https://www.federalreserve.gov/econres/scfindex.htm. Last accessed October 2023

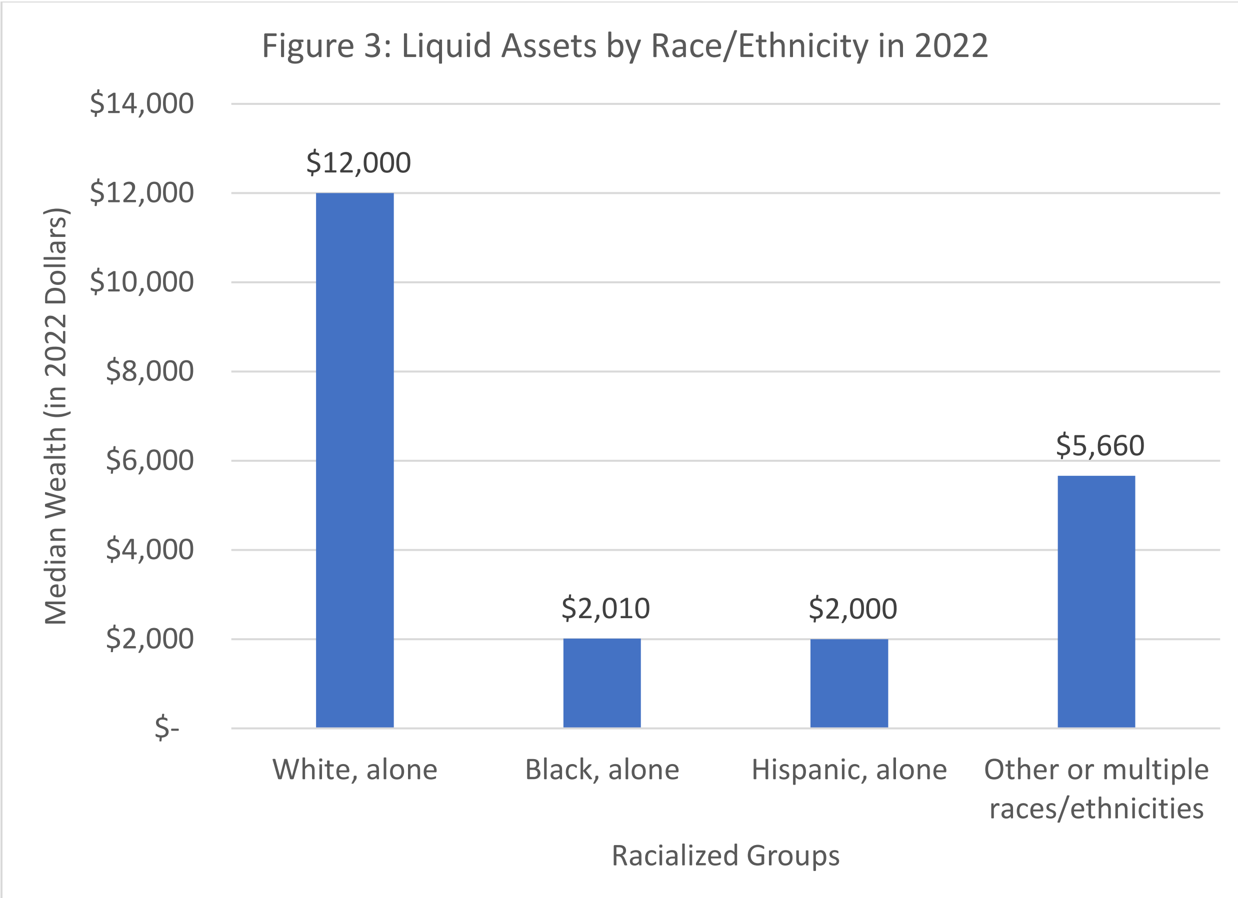
Many of these gaps persist across generations and as people get older (Figure 2). Differences in inheritances and gifts, among other forms of intergenerational wealth transfers from parents and grandparents. The proposed bill would be an important down payment towards breaking the intergenerational cycle of low wealth.



Notes: Racial and ethnic categories are mutually exclusive. Data for years are combined to ensure sufficient sample sizes. Total wealth is the difference between assets that people own and the debt that they owe. Source is Federal Reserve, (2017, 2020, 2023). Survey of Consumer Finances 2016, 2019, and 2022, Washington, DC: Fed. Available at https://www.federalreserve.gov/econres/scfindex.htm. Last accessed October 2023

I would like to highlight a few important aspects of this bill.

It is a meaningful amount since wealth would grow over time. Assuming average rates of return of 5 percent per year, a baby born today would end up with $4,125 at age 18. To put this in context, the typical amount of liquid savings – checking accounts, savings accounts, CDs and money market mutual funds – amounted to $2,010 for Black households and to $2,000 for Latino households in 2022 (Figure 3). In other words, this bill would mean that Black and Latino babies would start out where people in their mid-careers are right now. This is a substantial improvement and a meaningful down payment on real economic security and economic opportunity.

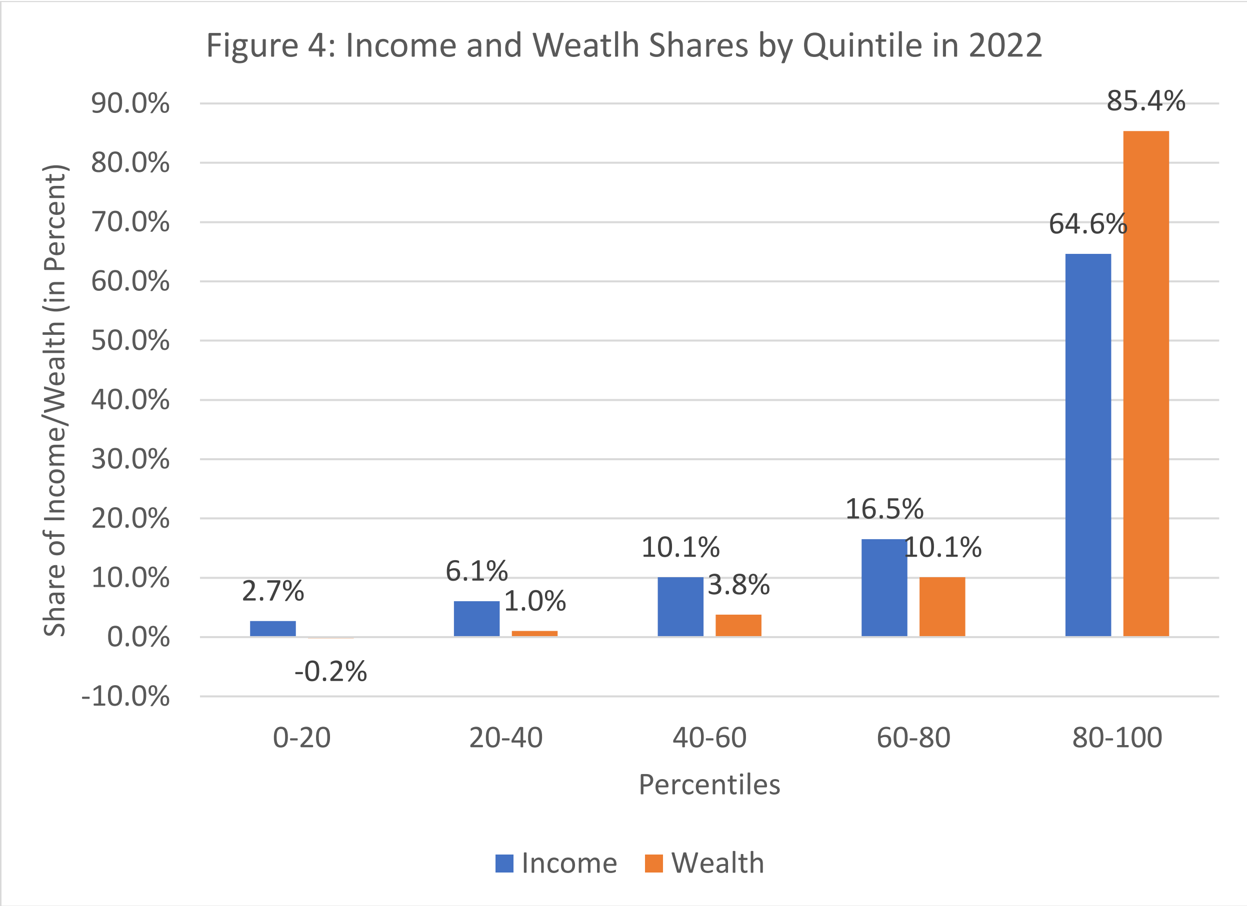


Notes: Racial and ethnic categories are mutually exclusive. Liquid assets are the sum of funds held in checking accounts, savings accounts, call accounts at brokerages, money market accounts and prepaid cards. Source is Federal Reserve, (2023). Survey of Consumer Finances 2022, Washington, DC: Fed. Available at https://www.federalreserve.gov/econres/scfindex.htm. Last accessed October 2023.

Furthermore, the bill allows the money to be used for a wide range of purposes. It recognizes that people are fully capable of making their own financial choices. This is critical. The evidence on retirement savings, for instance, shows that people will save more if they can access their retirement savings through loans on their 401(k) accounts. Extending these insights to this bill, this means that having the choice to use the money for a wide range of purposes will likely result in people letting the money grow beyond age 18, where possible. People will also likely make additional efforts to grow the money, for example, through additional savings in retirement and other financial accounts.

This only leaves the question of whether governments such as Montgomery County can afford to provide this money. The real question is whether governments such as Montgomery County can afford *not* to address wealth inequality.

I argue that addressing wealth gaps is a critical policy issue. Wealth inequality is much larger than income inequality (Figure 4). That is, there are a lot of households with decent incomes, who are living in a state of constant financial precarity and who have few if any real opportunities for economic mobility. The result is that communities do not see the level of economic growth and diversity that makes up a healthy economy. On the contrary, communities and governments face more and often unexpected demands on their finances because many households do not have the financial resources to help those that cannot handle even small economic emergencies such as a broken down car.



Notes: Total wealth is the difference between assets that people own and the debt that they owe. It can be negative if debt is larger than assets. Source is Federal Reserve, (2023). Survey of Consumer Finances 2022, Washington, DC: Fed. Available at https://www.federalreserve.gov/econres/scfindex.htm. Last accessed October 2023.

This bill addresses a crucial yet often overlooked challenge in today's economy – the lack of wealth for many households. I commend the sponsors for highlighting this pressing need and for putting forward a proposal to address this need.

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[i] These numbers differ slightly from those published by the Federal Reserve since the Federal Reserve uses unpublished data that are not available to the public. See, Aladangady, Aditya, Andrew C. Chang, and Jacob Krimmel (2023). "Greater Wealth, Greater Uncertainty: Changes in Racial Inequality in the Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, October 18, 2023, https://doi.org/10.17016/2380-7172.3405.