Support for Bill 5-24, Child Investment Fund
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Submitted by:

Dr. Darrick. Hamilton, a university professor, the Henry Cohen Professor of Economics and Urban Policy, and the founding director of the Institute on Race, Power and Political Economy at The New School. He is an economist and researcher, and the leading architect and national proponent of baby bonds.

Dear Honorable Members of the Montgomery County Council:

I am an economist and the founding Director of The Institute on Race, Power and Political Economy at the New School in New York City. I initially proposed the idea of Baby Bonds in 2010 and am a co-author of a 2022 paper titled: "A Brighter Future with Baby Bonds: How States and Cities Should Invest in Baby Bonds."

I am testifying in enthusiastic support of Bill 5-24, the 'Child Investment Fund', a publicly financed child trust program seeded at birth to invest in a more just and egalitarian pathway to economic security and financial agency for children born into low income and low wealth households.

The reality across our country – and here in Montgomery County - is that many young adults come from households with limited or no wealth. Without initial seed capital to begin their adult lives, these young adults will be starting far behind, missing the critical ingredient of capital needed to build wealth over their lifetimes.

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 pandemic.

Over the last several decades wealth in the U.S. has become increasingly concentrated with levels of concentration not seen since the Gilded Age, the decade just preceding the Great Depression. The data has not yet come into full vision, but we expect that the COVID pandemic and the recession that ensued has worsened the problem.

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 alternative*s.

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 principle.

The Baby Bond idea is that money is set aside and managed by the government, 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. When the recipient-child becomes an adult, they may then access their trust and use the accrued funds towards some wealth-generating activity such as a downpayment on a home, tuition for college, or seed capital to start a business. 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 – for those that have been economically disenfranchised, the program invests in a capital foundation to build wealth and asset security. The program complements social security old-age pension, and provides a more comprehensive social security designed to provide capital finance 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.

There has been a surge in interest and legislative actions at the federal, state and municipal levels around Baby Bonds. We applaud Montgomery County's leadership in considering and fully funding the Child Investment Fund, a transformational initiative to help support a more equitable future Montgomery County babies.

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