As we discussed in the State of Working Philadelphia, inequality by race and gender has its roots in this country’s long history of discrimination. Today’s inequality is firmly rooted in the past and is perpetuated by economic and social policy that fails to seek out remedies that make the economy more inclusive.

However, even were we to correct disparities in education, employment, and income by race and ethnicity, there would remain large gaps in wealth by race and ethnicity in Pennsylvania.

In the United States, as of 2016 the average family wealth of white families was 6.6 times greater than the average wealth of black families (Figure 1).

National data indicate that those in black and Hispanic households that attend college and live in two-parent households have much less wealth than similarly situated white households. Black and Hispanic households that include a full-time worker have much less wealth than white households with a full-time worker.¹ What these data reveal is that even for those households that defy the typical gross stereotypes deployed to explain away inequality (employment, family structure and educational attainment), large and persistent gaps in wealth exist.

Given the historical roots of existing wealth inequality, economists William Darity and Darrick Hamilton have proposed baby trusts or “baby bonds” as a practical means of reducing wealth inequality. They have proposed the establishment of a trust awarded to each child born in the United States.² Under their proposal the wealthiest child would receive a $50 trust, and trusts for babies born in the poorest families would be set between $50,000 and $60,000 (they estimate an average trust amount between $20,000 and $25,000). The trust would be accessible to each child once they turn 18.
and their redemption would be conditioned on use in specific areas, expenditures for education, starting a business or purchasing a home. Pennsylvania could establish a similar program with the trusts invested and managed by the Pennsylvania state treasurer.

The ideal revenue source to finance such a program in Pennsylvania, given its constitutional prohibition on progressive taxes (aka the uniformity clause), would be a flat tax on wealth (net worth) of 0.054 percent. This modest tax would cost a taxpayer with $1 million in financial assets $540 a year. A taxpayer at the national median of net worth of $81,000 would pay $44 a year. In total, a wealth tax would raise $1.2 billion a year in Pennsylvania. With 139,409 births a year in Pennsylvania this would make available an average trust amount of $8,440.

Pennsylvania baby trusts would directly reduce wealth inequality in the commonwealth overall, and by race and ethnicity, seeding home ownership and educational achievement, and critically providing important seed capital to entrepreneurs not born into wealth.

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1 Amy Traub. 2017. The asset value of whiteness: understanding the racial wealth gap
3 This program could also be financed by a surcharge on millionaires, but such a surcharge would require a change in the Pennsylvania constitution to allow for a graduated income tax; an alternative not requiring a constitutional amendment would be a severance tax on natural gas extraction.
4 Financial assets of households and non-profit organizations equaled $78.3 trillion in the second quarter of 2017 ([https://www.federalreserve.gov/releases/z1/current/html/b101.htm](https://www.federalreserve.gov/releases/z1/current/html/b101.htm)). We assume that the Pennsylvania share of U.S. financial assets equals the Pennsylvania share (2.78%) of the net worth held by people with more than $2 million in assets in 2007 ([http://www.irs.gov/file_source/pub/irs-soi/07in06pw.xls](http://www.irs.gov/file_source/pub/irs-soi/07in06pw.xls)). (The year 2007 was the last time these personal wealth statistics by state were reported, [https://www.irs.gov/statistics/soi-tax-stats-personal-wealth-statistics#2](https://www.irs.gov/statistics/soi-tax-stats-personal-wealth-statistics#2).) Thus, Pennsylvania financial wealth equals $2,179 billion. A 0.054% tax on this amount would raise $1.18 billion.
5 This estimate assumes that all births ([https://www.cdc.gov/nchs/fastats/state-and-territorial-data.htm](https://www.cdc.gov/nchs/fastats/state-and-territorial-data.htm)) in Pennsylvania are to households with a median net worth of less than $82,000.