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“A Better Mouse Trap”

Have you heard that, if you were in the wish-granting business, then you would not have to worry about 75 percent of the population? Why? Because 75 percent of the world has never contemplated the most preferred and favorable outcome. Simply put, they don't know what they really want.

Then there is the 25 percent. They are emphatic about what they want. The problem is that they want what is not favorable for them in the long run.

Take Professors Hamilton and Darity (H&D) for example.¹ They have developed an elaborate scheme to help reduce the Black-White wealth gap. It is based on “Baby-bonds,” which entails the US Government setting aside \$20K at birth for poor Blacks (and presumably poor Whites), and seeing that investment grow to \$60K by adulthood. According to H&D, this tidy sum will enable poor young Black adults to make a significant investment in their future by expending the funds on education, purchasing a home, initiating a commercial enterprise, etc.

While this all sounds like a sound strategy, sound-thinking economists may find flaws with it. For example:

- Nobel Prize winner James Heckman has proven *ad nauseum* that early childhood investment produces the most meaningful improvements in life outcomes. Jesse Jackson's mantra is, “let's make an investment on the front side of life, so that we don't have to build jails on the back side of life.” How can one expect a poorly equipped young adult to make a favorable decision to invest \$60K? We have seen too many poor, young Black adult athletes watch millions evaporate before their very eyes after they win the professional football or basketball lottery.
- What is the guarantee that the \$20K will grow to \$60K? In this new era of low investment returns, it is ridiculous to think that the investment will grow 200 percent over 20 years. Do you know the rule of 72? Think about it! The US government through the Federal Reserve Board is managing interest rates; holding interest rates down to constrain debt service payments on a \$19 trillion national debt, which continues to rise. Be clear, if the US Government would ever agree to such a “Baby Bond” proposition, then it would most certainly require that the funds be placed in a “risk-free” (low-yield) investment—i.e., U.S. Government bonds (similar to the Social Security Fund arrangement).
- The evidence is that real returns, especially for risk-free investments” are small. That is, nominal interest rates will glide along with the inflation rate. In other words, the \$20K investment is likely to be worth no more than \$20K in real purchasing power terms after 20 years—and potentially less. What will one be able to purchase, in real terms, with \$20K in 20 years? One year of education at a public university? It will not likely serve as a down payment on a home. How many months' rent will it account for if a young Black entrepreneur needs a facility in which to conduct business?

¹Darrick Hamilton and William A. Darity, Jr. (2017). “The Political Economy of Education, Financial Literacy, and the Racial Wealth Gap.” *Federal Reserve Bank of St. Louis Review*. Vol. 99, No. 1; pp. 59-76. Retrieved from the Internet on May 7, 2017; <https://research.stlouisfed.org/publications/review/2017/02/15/the-political-economy-of-education-financial-literacy-and-the-racial-wealth-gap/>.

- If the Affordable Care Act legislation is not durable, then to what extent do we expect the US Congress to produce durable “Baby-Bond” legislation that will not be undone at some point over the 20 years? We hear all the time about plans to unwind Social Security because it is not sustainable—and the primary source of funds for Social Security is taxpayers’ contributions, not a government gift.

However, the biggest flaw in the H&D “Baby-bond” strategy is that it fails to account for our changing world. We have already noted that the “tidy sum” may not be so tidy. But also consider that answers to the following questions might make the scheme nearly, if not absolutely, “null and void:”

- What will the concept of education mean in 20 years? Educational opportunities may come in the form of a “free good” at that time.
- What about the old Chinese paradigm of employers providing housing so that commute times and wasted energy can be diminished by “living where one works?” On the other hand, is it possible that the state will provide housing for the poor as is done so often today?
- The world may be nearing, or under, a new regime of a “universal basic wage” in 20 years. Robotization and artificial intelligence may make entrepreneurship a completely new game with parameters that are not so tightly linked to the need for personal start-up capital. Has not crowd funding revealed that it is relatively easy to obtain start-up capital if one has a new and better mousetrap?

These are just a few reasons why the “Baby-bond” scheme may not be so practical in 20 years. Besides, it is a long shot.

So we have found holes in the H&D strategy. Do we have a better mousetrap? We think so. Instead of asking the US Government for “Baby-bonds,” why don’t we **think big** and ask for land on which to establish our own nation? What we know is that land is the origin of much wealth. If we want to minimize the Black-White wealth gap, then it seems logical to make a direct request for wealth in the form of land.

Yes, like the “Baby-bond,” it is a long-shot. However, land and a nation state will help ensure our independence and our potential for creating wealth into perpetuity. If so-called Jews deserve a nation state, then how much the more for Black Americans?

In our own nation, we can design our educational system, our process of providing housing, and our concept of entrepreneurship to benefit us. In our own nation, the wealth that we create will be ours alone; there will be no Black-White wealth gap. In our nation, we can evolve a more peaceful, and less racially discriminatory, environment. In our own nation, we can control our destiny—something that we will never be able to achieve in the US.

In our view, a scheme to acquire land for nation formation constitutes a better mouse trap than “Baby-bonds” to eliminate the Black-White wealth gap.

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