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Commentary: Needs of Younger Generations Argue for Further Fiscal Relief and Stimulus, Not Inaction

By Chye-Ching Huang and Katie Windham

Some congressional opponents of further fiscal stimulus to address the human and economic damage from COVID-19 have invoked the cost of the additional federal debt to children and future generations. But shortchanging the immediate substantial needs of the economy in the name of younger generations would be shortsighted and even self-defeating, for two main reasons.

First, as we’ve explained, sound fiscal stimulus can help the economy recover faster and grow more over time, and interest costs on the debt are expected to remain low. Thus, large, temporary costs to promote economic health now may add only modestly over time to the debt ratio (that is, the debt as a share of the economy) and the interest payments on that debt.

Second, young people and children face serious harm — now and in the future — if policymakers fail to act to reduce the recession’s severity and length. Here’s why:

• A higher share of young people are losing employment income than any other age group. Fifty-eight percent of workers aged 18-24 reported loss of employment income in May, a higher share than for any other reported age group, Census data show. Failing to provide further relief to those who have lost income — and further stimulus to ensure that the economy rebounds as quickly as possible — would likely harm young people disproportionately.

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• Young people, particularly those just graduating from college, face a higher risk of lifetime earnings losses due to jobless spells during a recession. People with temporary spells of unemployment during a recession lose earnings in both the short and long run, even after they are re-employed, a number of studies show. Workers’ skills can erode while they are unemployed, and a weak job market can force people to take jobs that don’t fully use their skills, putting them on a worse job trajectory. These losses are greatest for young workers and workers just entering the labor force from college in a recession, according to research.4

• Children experiencing poverty can face not only immediate hardship but also long-run harm to their health, academic achievement, and adult earnings in adulthood. Children experiencing poverty tend to be worse off in a range of ways, a growing body of research shows; they are likelier to enter school behind their peers and they score lower on achievement tests, work and earn less as adults, and have worse health outcomes.5 This pattern is clearest for the poorest and youngest children and those who remain in poverty for a long time during childhood. Further, these adverse outcomes happen “in part because they are poorer, not just because low income is correlated with other household and parental characteristics,” a recent systematic research review concludes. That is, income itself matters.6

Similarly, research focusing on parental job losses “presents compelling evidence that in addition to adverse short-run effects on children, parental job and income loss has a negative and persistent effect on children’s well-being,” including a higher likelihood of repeating a grade, lower lifetime earnings, and higher mortality later in life, an International Monetary Fund study found.7

That’s why it’s critical not only for children’s immediate welfare but also for their life trajectories to prevent a massive surge in child poverty in today’s crisis, through policies that lessen the depth and severity of the recession and shore up programs that help protect children and families from falling into (or even deeper into) poverty. The fiscal response to the Great Recession — including stronger unemployment insurance, SNAP, and refundable tax credits — kept an estimated 7 million people from falling below the poverty line in 2010, though it ended prematurely and was insufficient in size and duration to promote a robust recovery.8

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7 Dao and Loungani, op. cit.

• **States’ fiscal crises threaten cuts that would damage children’s future.** Due to the pandemic and resulting economic fallout, states face historic shortfalls of hundreds of billions of dollars over three state fiscal years.⁹ Absent further fiscal relief, states and localities will be forced to cut services, likely including services particularly important to children, such as K-12 education and possibly even the Children’s Health Insurance Program. School districts have laid off or furloughed 760,000 employees over the last three months.¹⁰

Such cuts can have lasting impacts. K-12 funding faced especially damaging cuts in the Great Recession, and school districts have never fully recovered from the layoffs imposed back then.¹¹ When COVID-19 hit, K-12 schools employed 77,000 fewer teachers and other workers than before the Great Recession even though they were teaching 2 million more children, and overall K-12 funding in many states was still below pre-recession levels. In response, many districts had to increase class sizes, employ fewer school nurses and counselors, and postpone needed investments in technology and school buildings.

These cuts harm students — especially students in low-income districts, who are disproportionately students of color.¹² One study found that high-school graduation rates fell by 2.6 percentage points for every 10 percent spending cut by school districts after the Great Recession. Cuts in state support often widen the educational divides between students in poorer districts and those in wealthier districts, which can more easily make up for the lost funding.

• **Failing to act can leave future generations with an economy and nation that are scarred.** As Federal Reserve Chairman Jerome Powell recently said, while federal policymakers have done a great deal thus far in the current crisis:¹³

> It may well be that the Fed has to do more. It may be that Congress has to do more. And the reason we’ve got to do more is to avoid longer run damage to the economy. If we let people be out of work for long periods of time, if we let businesses fail unnecessarily, waves of them, there’ll be longer term damage to the economy. The recovery will be slower. The good news is we can avoid that by providing more support now.

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¹⁰ CBPP analysis of Bureau of Labor Statistics data.

