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Needs of Younger Generations Argue for Further Fiscal Relief and Stimulus

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President Biden has called for a substantial package of additional fiscal relief and economic stimulus to address the human and economic damage from COVID-19. Such a package is needed to ensure a strong and equitable recovery. High levels of unemployment and hardship persist and the package that policymakers enacted at the end of last year, while badly needed, excluded some important assistance and many of its key provisions expire in just a few months.[1] Some may claim that the additional federal debt resulting from further relief would be too costly for children and future generations, but shortchanging the immediate, substantial needs of the economy in the name of these 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 for some time.[2] In addition, direct investments in low-income children's health and education can boost their earnings in adulthood, yielding higher revenues that can recoup investment costs, a recent study of well over a hundred U.S. policy changes in the last half-century suggests.[3] Thus, large, temporary costs to promote economic health now may add only modestly to the future debt ratio (that is, the debt as a share of the economy) and the interest payments on that debt.

Second, young adults and children face serious harm — now and in the future — if policymakers fail to take action that will foster a robust economic recovery. Here's why:

- **The share of young people who have lost jobs and income is larger than that of older age groups.** According to Census data, 59 percent of workers aged 18-24 have lost employment income since mid-March, either through job loss or a cut in hours — a higher

[1] Chad Stone, "Jobs Recovery Stalled in December, Highlighting Importance of Further Relief and Stimulus Measures," CBPP, updated January 12, 2021, https://www.cbpp.org/research/economy/jobs-recovery-stalled-in-december-highlighting-importance-of-further-relief-and.

[2] Paul N. Van de Water, "Federal Interest Payments — the Cost of Debt — Are Low," CBPP, January 15, 2021, https://www.cbpp.org/blog/federal-interest-payments-the-cost-of-debt-are-low.

[3] Nathaniel Hendren and Ben Sprung-Keyser, "A United Welfare Analysis of Government Policies," Opportunity Insights, February 2020, https://opportunityinsights.org/wp-content/uploads/2019/07/Welfare_paper.pdf.

share than for any other age group.[4] Despite some improvement since the worst of the recession in April, the Bureau of Labor Statistics shows that employment for 16-24 year olds in December was still down 7.5 percent since February, compared with 5.0 percent for workers aged 25-54.[5] Young people are disproportionately employed in industries hardest hit by the recession, such as retail and leisure and hospitality.[6] 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 harm young people disproportionately.

- **Young people — particularly young workers of color — face a higher risk of lower lifetime earnings due to jobless spells during a recession.** People with temporary unemployment spells during a recession lose earnings in both the short and long run, even after they are re-employed, a number of studies of past recessions show. Workers' skills can erode while they are unemployed, or they can face discrimination in hiring because employers perceive or assume such erosion. A weak job market can force people to take jobs that don't fully use their skills, putting them on a worse job trajectory. This especially affects young workers who are just entering the labor force. Workers of color and those without high school diplomas face the largest lifetime earnings loss when they enter the workforce during a recession.[7]
- **Families with children are disproportionately experiencing hardship in this recession.** As of early December, an estimated 47 percent of children live in households that have trouble covering usual expenses, based on CBPP analysis of Census data. This includes 61 percent of children in Black households and 58 percent of children in Latino households. In total, between 8 and 12 million children live in a household where children didn't eat enough because the household couldn't afford it. In general, households with children are facing more financial hardship than households without. For example, over a quarter of households with children report that they are not caught up on rent, compared to 15 percent of childless adults.[8]
- **Children experiencing poverty face long-term harm to their health, academic achievement, and earnings.** Considerable research shows that children experiencing poverty tend to be worse off in many ways: they are likelier to enter school behind their peers and score lower on achievement tests, work and earn less as adults, and have worse health outcomes.[9] This pattern is clearest for the poorest and youngest children and those who

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[4] Census Bureau, "Household Pulse Survey Table 1. Experienced and Expected Loss of Employment Income by Select Characteristics," January 6, 2021, https://www.census.gov/programs-surveys/household-pulse-survey/data.html.

[5] CBPP analysis of Bureau of Labor Statistics data.

[6] Elise Gould and Melat Kassa, "Young workers hit hard by the COVID-19 economy," Economic Policy Institute, October 14, 2020, https://www.epi.org/publication/young-workers-covid-recession/.

[7] Till von Wachter and Hannes Schwandt, "Unlucky Cohorts: Estimating the Long-term Effects of Entering the Labor Market in a Recession in Large Cross-sectional Data Sets," *Journal of Labor Economics*, Vo. 37, No. S1, January 2019, https://www.journals.uchicago.edu/doi/abs/10.1086/701046; and Philip Oreopoulos, Till von Wachter, and Andrew Heisz, "The Short- and Long-Term Career Effects of Graduating in a Recession," *American Economic Journal: Applied Economics*, Vol. 4, No. 1, January 2012, https://www.aeaweb.org/articles?id=10.1257/app.4.1.1.

[8] CBPP, "Tracking the COVID-19 Recession's Effects on Food, Housing, and Employment Hardships," updated January 21, 2021, https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-recessions-effects-on-food-housing-and.

[9] Arloc Sherman and Tazra Mitchell, "Economic Security Programs Help Low-Income Children Succeed Over Long Term, Many Studies Find," CBPP, July 17, 2017, https://www.cbpp.org/research/poverty-and-inequality/economic-security-programs-help-low-income-children-succeed-over.

remain in poverty for a long time during childhood. Further, these adverse outcomes happen because "income poverty itself causes negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of a child's life. Many programs that alleviate poverty … have been shown to improve child well-being." That is, income itself matters.[10]

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.[11]

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. Policies can lessen the depth and severity of the recession by restoring jobs and income and shoring up programs that help protect children and families from falling into (or even deeper into) poverty. The Coronavirus Aid, Relief, and Economic Security (CARES) Act's emergency unemployment insurance, stimulus checks, and other measures kept an estimated 18 million people from falling below a monthly poverty line in April, according to a Columbia University study. However, poverty rose sharply from May to September after key CARES provisions ended: the number of people with monthly resources below the poverty line was 5 million higher than pre-crisis levels, the authors' projections suggest.[12] Similarly, the anti-poverty effects of December's stimulus package will likely be temporary if policymakers let its relief measures expire or fail to enact new ones before the economy recovers.

- **States' fiscal crises threaten cuts that would damage children's future**. Due to the pandemic and resulting economic fallout, states face substantial shortfalls of about $300 billion through fiscal year 2022 after subtracting federal aid provided to date, we estimate.[13] Absent further fiscal relief, states and localities will likely cut important services, including services particularly important to children, such as K-12 education and possibly even the Children's Health Insurance Program. Local school districts had 679,000 fewer jobs on their payrolls in December 2020 than they had in February.[14]

  Such cuts can have lasting impacts. K-12 funding faced especially damaging cuts in the Great Recession, and some school districts have never fully recovered from the layoffs imposed

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[10] National Academies of Sciences, Engineering, and Medicine, "A Roadmap to Reducing Child Poverty," National Academies Press, 2019, https://www.nap.edu/read/25246; and Kerris Cooper and Kitty Stewart, "Does money affect children's outcomes?" Joseph Rowntree Foundation, October 22, 2013, https://www.jrf.org.uk/report/does-money-affect-children%E2%80%99s-outcomes.

[11] Mai Dao and Prakash Loungani, "The Human Cost of Recessions: Assessing It, Reducing It," International Monetary Fund, November 11, 2010, https://www.imf.org/en/Publications/IMF-Staff-Position-Notes/Issues/2016/12/31/The-Human-Cost-of-Recessions-Assessing-It-Reducing-It-24221.

[12] Poverty is measured using the Supplemental Poverty Measure. Zachary Parolin *et al.*, "Monthly Poverty Rates in the United States during the COVID-19 Pandemic," Columbia University, October 15, 2020, https://www.povertycenter.columbia.edu/news-internal/2020/covid-projecting-monthly-poverty; and Jason DeParle, "8 Million Have Slipped Into Poverty Since May as Federal Aid Has Dried Up," *New York Times*, October 15, 2020, https://www.nytimes.com/2020/10/15/us/politics/federal-aid-poverty-levels.html.

[13] Michael Leachman, "States, Localities, Tribal Nations, Territories Need More Federal Aid," CBPP, January 22, 2021, https://www.cbpp.org/research/state-budget-and-tax/states-localities-tribal-nations-territories-need-more-federal-aid.

[14] CBPP analysis of Bureau of Labor Statistics data released January 8, 2021.

back then.[15] When COVID-19 hit, K-12 schools overall 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 several 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.[16] 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. Nationally, school districts serving the most Black, Latino, and Native American students receive roughly $1,800 less per student in state and local funding than the districts serving the fewest.[17]

- **Failing to act means a slower economic recovery and lasting scars on future generations' well-being.** Federal Reserve Chairman Jerome Powell has repeatedly emphasized the economic risks of not providing enough relief. In May he credited federal policymakers with doing a great deal to address the crisis, but warned:

> 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.[18]

Similarly, as Former Federal Reserve Chair Janet Yellen said at her January 19 confirmation hearing to become Treasury Secretary:

> Economists don't always agree, but I think there is a consensus now: Without further action, we risk a longer, more painful recession now — and long-term scarring of the economy later.[19]

Such longer-term damage to the economy from recession "scarring" would be more damaging to the future well-being of today's children and young people than any likely economic effects of a modestly higher future debt ratio.

[15] Nicholas Johnson, "The Great Recession Badly Hurt Kids' Schooling; Today's Recession Could Do Much Worse," CBPP, May 27, 2020, https://www.cbpp.org/blog/the-great-recession-badly-hurt-kids-schooling-todays-recession-could-do-much-worse.

[16] Cortney Sanders, "Protecting Against Separate and Unequal K-12 Funding Amid COVID-19," CBPP, May 15, 2020, https://www.cbpp.org/blog/protecting-against-separate-and-unequal-k-12-funding-amid-covid-19.

[17] *Ibid.*

[18] CBS News, "Full Transcript: Fed Chair Jerome Powell's 60 Minutes interview on economic recovery from the coronavirus pandemic," May 17, 2020, https://www.cbsnews.com/news/full-transcript-fed-chair-jerome-powell-60-minutes-interview-economic-recovery-from-coronavirus-pandemic/.

[19] Senate Finance Committee, "Hearing to Consider the Anticipated Nomination of the Honorable Janet L. Yellen to Secretary of the Treasury," January 19, 2021, https://www.finance.senate.gov/hearings/hearing-to-consider-the-anticipated-nomination-of-to-be-the-honorable-janet-l-yellen-to-secretary-of-the-treasury.