Testimony of Harry J. Holzer before the U.S. Senate Subcommittee on Children and Families

The "Great Recession" and the Well-being of American Children

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I would like to make four main points today about the well-being of children in America and how that will be impacted by the "Great Recession."

1) *Even in the best of times, child poverty rates in the U.S. are very high, and many millions of children live with unemployed parents. Growing up in poor households or with unemployed parents has negative long-term consequences for these children, which often last for the rest of their lives.*

Even before this recession began, children had much higher rates of poverty than adults in the U.S. In 2007, the rate of child poverty was 18 percent, while for the overall population it was 12.5 percent.[i] Nearly 8 percent of children (and just over 5 percent of adults) lived in "severe poverty," with incomes no more than half the poverty line.[ii] In that same year, as many as a third of all children lived with nonworking adults for part or all of the year, and many millions lived with parents who had experienced involuntary job loss.[iii]

While we have seen some significant progress during the past few decades in raising academic achievement and in reducing exposure to violence among poor children, many serious problems remain.[iv] When they become adults, children who grew up poor still tend to have lower levels of education, lower levels of employment and earnings, higher rates of poverty and single parenthood, higher rates of participation in crime, and poorer health than their middle-class counterparts. While social scientists continue to debate whether it is low income *per se* that drives these results as opposed to the behaviors and characteristics of parents who happen to be poor, there is no doubt that children growing up in such families have less opportunity to succeed in life than those born and raised in the middle class or higher. And these negative outcomes create large economic losses for the U.S. economy as a whole, due to lower productivity of workers and high rates of crime and poor health, as well as the poor individuals themselves.[v]

Even short-term increases in poverty or parental unemployment can have negative long-term effects on children.[vi] For instance, those whose parents suffer a permanent job loss often have more difficulty progressing in school and have lower earnings themselves as adults. These effects are likely attributable to the lower resources, higher emotional stress and weaker perceptions of rewards for those who strive for success among children whose parents are poor or suffer joblessness.[vii]

2) T*his recession, the most severe since the 1930s, will substantially raise child poverty rates as well as the numbers living with parents who are involuntarily unemployed*.

The recession will also likely persist for many years, as will the elevated rates of poverty among children.

Unemployment rates have more than doubled since 2007, and now hover near 10 percent. Among the unemployed, 46 percent have been out of work for six months or longer, while rates of job loss among the unemployed are very high. Joblessness among some disadvantaged groups, like teens and adult high school dropouts, is extremely high as well.[viii]

Though we only have poverty data available through 2008 at the present time, these data already show rising rates of poverty (19 percent) and severe poverty (8.5 percent) among children as the economy began to tumble.[ix]

But these outcomes will almost certainly grow worse as data become available for 2009 and beyond. Brookings Institution researchers project that child poverty will rise to nearly 25 percent by the year 2012. In single-parent families, these rates are expected to rise to roughly 45 percent.[x]

This recession is expected to be not only severe but persistent. The President's Council of Economic Advisers (CEA) projects annual unemployment rates of 9.2, 8.2, 7.3, 6.5 and 5.9 percent over the period 2011-15.[xi] At least the first two of these rates would usually be associated with serious recessions, and the others with milder ones. Accordingly, child poverty rates will likely remain very high as well – perhaps in the range of 22-23 percent through 2015 and declining fairly mildly thereafter.[xii] Even among those not poor, the fraction of children living with unemployed parents is now very high as well, and will continue to be over the next several years.[xiii]

3) *These high and persisting rates of unemployment and poverty will likely "scar" children and youth in many ways, causing then significant long-term damage*.

As noted earlier, even short spells of poverty or parental joblessness can lead to serious negative consequences for children; and, if these effects are as persistent as current projections suggest, these consequences might be even more negative.

It is therefore likely that this recession will damage educational attainment and earnings as adults for the children who grew up in families with high poverty or unemployment.[xiv] Given that so many young people will themselves suffer periods of unemployment, their future rates of employment and earnings will also be reduced, as the lost periods of work experience during their formative years of career-building are lost and not replaced.[xv]

And, in this recession, large numbers of children have already or will soon suffer homelessness as well, due to the high rates of home foreclosure among the unemployed. Homelessness is particularly harmful to children and can have lasting negative effects on them.[xvi]

4) *To limit the damage to children, policy responses should focus on bolstering employment and income support among parents and on providing direct ameliorative services to children, over both the short- and longer-terms.*

For a severe recession that will likely persist as long as this one, it is important to directly address the income and employment deficits experienced by parents as well as the associated need for enhanced services among children and youth.

Among parents, we first need to ensure access to an adequate income safety net during periods of poverty and/or unemployment. The American Recovery and Reconstruction Act (ARRA) generated important extensions and improvements in the Supplemental Nutrition Assistance Program (SNAP), Unemployment Insurance (UI), Medicaid and Temporary Assistance to Needy Families (TANF) programs that raised both their coverage and generosity. Unfortunately, most of these efforts will expire at the end of 2010. It is important that these programmatic changes be extended for at least the next three years or more, if unemployment rates remain as high as currently projected.

Congress and the Obama Administration should also do more to stimulate job creation in both the private and public sectors. The payroll tax cuts designed to spur private job creation that have so far been enacted are too small to have much real effect; and public sector job creation efforts, including public service employment jobs for the poor, are not widely planned. These efforts would help reduce the enormous unemployment rates for these populations.[xvii]

But children need direct assistance too. Programs that provide important services, such as preschool and aftercare programs, should receive extra funding during this of high unemployment. Given the terrible long-term effects of homelessness on children, direct efforts to prevent homelessness among families with children need attention as well.[xviii] And, where we have good evidence of successful and cost-effective interventions for low-income children and youth, these increases in funding should be permanent, and not limited to the period of recession.[xix]

Of course, we all understand the terrible long-term fiscal outlook that the U.S. current faces, and our need to address these problems very soon (through both enhanced revenues and reduced entitlement spending, in my view). But *important short-term investments to relieve the serious negative effects of poverty and unemployment on children should not be sacrificed* for the sake of fiscal balance. Such sensible investments would add only miniscule amounts to the national debt (and its ratio to Gross Domestic Product) and would at least partially pay for themselves over time through higher output and tax revenues.[xx]

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[i] In this discussion, we will use the traditional definition and measure of the poverty rate in the U.S., rather than a variety of alternative measures that are currently under discussion. While these alternatives are, in many ways, preferable and more informative than the traditional measure, previous research mostly uses the traditional measures when calculating the effects of poverty on children. The use of one or the other would likely not dramatically change our overall findings here.

[ii] See *Income, Poverty and Health Insurance Coverage in the United States: 2007*. U.S. Census Bureau, 2008.

[iii] See “Increasing the Number of Children Whose Parents Have Stable Employment.” KIDS COUNT Indicator Brief, Annie E. Casey Foundation, 2009. Regarding rates of involuntary unemployment, we find 3-year involuntary job termination rates (excluding discharges for cause) of about 7 percent for all adults and about 10 percent for high school dropouts in the period 2005-07. See Henry Farber, “Job Loss and the Decline in Job Security in the United States,” Working Paper, Industrial Relations Section, Princeton University, 2009. Since younger workers tend to have both more children and higher rates of job loss than other workers, the fractions of children living with involuntarily unemployed parents in each group is no doubt higher.

[iv] For evidence on improving test scores over time among different categories of children see Thomas Dee and Brian Jacob, “The Impact of No Child Left Behind on Student Achievement,” National Bureau of Economic Research Working Paper, 2009. The evidence on declining violent crime rates in the U.S. appears in Steven Levitt, “Understanding Why Crime Fell in the 1990s: Four Facts that Explain the Decline and Six That Do Not.” *Journal of Economic Perspectives*, 18(1), 2004.

[v] See Harry Holzer, Diane Schanzenbach, Greg J. Duncan and Jens Ludwig. “The Economic Costs of Poverty: Subsequent Effects of Children Growing Up Poor.” Center for American Progress, 2007.

[vi] See Greg J. Duncan. “Income and the Well-being of Children.” Geary Lecture, Economic and Social Research Institute, Dublin Ireland, 2005. For a more skeptical view on the role of money per se in the lives of children and families see Susan Mayer, *What Money Can’t Buy*, Harvard University Press, 1997.

[vii] See Ariel Kalil, “Unemployment and Job Displacement: The Impact on Families and Children,” Ivey Business Journal, July/August 2005; Philip Oreopoulos, Marianne Page, and Ann Huff Stevens, "The Intergenerational Effects of Worker Displacement,” *Journal of Labor Economics*, vol. 26(3), 2008;and Marianne Page, Ann Huff Stevens, and Michael Lindo, “Parental Income Shocks and the Outcomes of Disadvantaged Youth in the United States,” in J. Gruber ed. *The Economics of Disadvantaged Youth*. University of Chicago Press, 2008.

[viii] See “The Employment Situation – April 2010,” Bureau of Labor Statistics, U.S. Department of Labor. Among teens, the unemployment rate in April was 25.4 percent while the rate of employment in the population was 26.8 percent. Among high school dropouts, unemployment was 14.7 percent but employment in the population was just 39.5 percent. High rates of job loss in this recession, and the tendency for the long-term unemployed to have high rates of poverty, appear in Wayne Vroman, “The Great Recession, Unemployment Insurance, and Poverty.” The Urban Institute, 2010.

[ix] See *Income, Poverty and Health Insurance Coverage in the United States: 2008*. U.S. Census Bureau, 2009.

[x] See Emily Monea and Isabel Sawhill. “Simulating the Effects of the “Great Recession” on Poverty,” Brookings Institution, September 2009.

[xi] See Council of Economic Advisers, *Economic Report of the President*, 2010.

[xii] See Monea and Sawhill, *op. cit.*

[xiii] See Julia Isaacs, “Families of the Recession: Unemployed Parents and their Children.” Brookings Institution, 2010. She reports that 10.5 million children, or 14 percent of the total, are now living with unemployed parents at any moment in time. This implies that much larger fractions will experience some time with an unemployed parent over the next five years, and some of these spells will be quite lengthy.

[xiv] See Oreopoulos et al., 2008; and Page et al., 2008. Some strong suggestive evidence on how children may suffer permanent education and earnings losses when their families are pushed into poverty during a serious recession also appears in Michael Linden, “Turning Point: The Long-Term Effects of Recession-Induced Poverty,” First Focus, 2008.

[xv] The terribly high rates of joblessness among all youth, and especially minority or less-educated youth, are best documented by Andrew Sum et al., “Dire Straits for Many American Workers: The Case for New Job-Creation Strategies in 2010 for Teens and Young Adults,” Center for Labor Market Studies, Northeastern University, 2009. The long-term effects of such unemployment on the later earnings of these workers are documented for young college graduates by Lisa Kahn, “The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy,” Yale University, 2009; and, for young workers more broadly, in Rosella Gardecki and David Neumark, “Order from Chaos? The Effects of Early Labor Market Experience on Adult Labor Market Outcomes.” *Industrial and Labor Relations Review*, Vol. 51 (2), 1998.

[xvi] See Julia Isaacs, op. cit.

[xvii] See Timothy Bartik, Not All Job Creation Tax Credits are Created Equal," Economic Policy Institute, 2010; and Harry Holzer and Robert Lerman, "Time for a Federal Jobs Program," *Cleveland Plain Dealer*, November 23 2009.

[xviii] See Julia Isaacs, op. cit.

[xix] See Lawrence Aber and Ajay Chaudry, "Low-Income Children, Their Families and the Great Recession: What's Next in Policy." Urban Institute, 2010.

[xx] For instance, additional federal expenditures of $150B would add just one percentage point to already high ratios of debt to GDP that are forecast for this decade, but would largely or fully offset over the longer term by higher earnings and income among the poor and by the higher tax revenues these generate.