2009

Women, the Recession, and the Impending Economic Recovery

Jennifer W. Keil
Hamline University, jkeil@hamline.edu

-
- Women, the Recession, and the Impending Economic Recovery
- J.W. Keil
- *Graziadio Business Review*, Volume 12, Issue 4, 2009
- https://gbr.pepperdine.edu/2010/08/women-the-recession-and-the-impending-economic-recovery/

Graziadio Business Report
A Journal of Relevant Information and Analysis

2009, Volume 12, Issue 4

Women, the Recession, and the Impending Economic Recovery

An Exploration of Women's Attitudes Toward Debt, Risk, and Consumption

By Jennifer Keil, PhD

Would female investment bankers, mortgage lenders, and chief executive officers have taken the same risks given the same expected returns? Maybe not. The purpose of this article is to explore the impact of the U.S. recession on women and to help readers gain useful knowledge about women's role in the economy.

"Recession 101: Interesting fact about recessions...they end."[1]

Photo: YinYang

Over 2,000 "Recession 101" billboards were posted in 30 states during the summer of 2009. Designed to encourage people to think optimistically during the recession, the billboards offered short, hope-filled phrases that no doubt started conversations during many summer road trips. By mid-August, several economic indicators began to confirm what U.S. Federal Reserve Chairman Bernanke had been saying all spring: the economy will show signs of recovery by the end of 2009.[2]

Although it is too early to claim with certainty that the worst is behind us, the time is right to step back from the most severe financial crisis since the Great Depression and reflect. The purpose of this article is to explore the impact of the U.S. recession on women and to help readers gain useful knowledge about women's role in the economy. By examining women's attitudes toward debt, risk, and consumption during the recession, practitioners will be armed with helpful information about the current business environment.

Working Women

The role that women have played in the economy has dramatically changed in the last 50 years. Having once provided what was viewed as supplementary income, today, women earn 45 percent of all household income and over seven million families rely mainly or solely on the woman's income to survive.[3]

In the 1950s, approximately 35 percent of women participated in the U.S. labor market. Today, the U.S. labor force participation rate for all women is 60 percent. In 2008, 71.4 percent of women with children under the age of 18 were in the labor market and over 50 percent of these women worked full time.[4] As the economy turned sour, more women than ever began joining the ranks of the unemployed. However, for the first time, economic reports suggested that women were actually faring better than men and set to become the majority participants in the labor market.[5]

In July 2009, the U.S. Bureau of Labor Statistics reported an overall unemployment rate of 9.4 percent. Among the major worker groups, unemployment for adult men was 9.8 percent, adult women was 7.5 percent, and teenagers, a whopping 23.8 percent.[6] The 6.5 million jobs lost since the beginning of this recession seems to have wiped out the last nine years of job growth.[7] Data suggest that men have lost four out of every five jobs shed since the recession began in December 2007, prompting one author to label this a "very male recession."[8]

To look more closely at how women have been impacted by the recession, three key factors that led to the crisis must be examined: easy money, risky behavior, and debt-fueled consumption.

Women and Easy Money

A climate of low-interest rates in the early and mid-2000s and the expectation that housing values would continue to rise encouraged banks to make loans and individuals to take on mortgage debt that was too large relative to their incomes. By mid-2006, many Americans were characterized as being "house poor."[9]

The most direct way to measure the impact of this easy credit on women is to dive into the market for sub-prime mortgages, where there is ample evidence that women are overrepresented. Sub-prime mortgages put homeowners at a disadvantage because they have to make higher payments at higher interest rates, yet build less equity in their homes. Although women and men have roughly the same credit scores, the Consumer Federation of America found that women were 32 percent more likely to receive subprime loans than men.[10] Women of color are particularly disadvantaged by sub-prime lending practices: African-American and Latina women are the most likely to receive sub-prime loans at *every* income level.[11]

But subprime mortgages are not the only cause of the recent spike in home foreclosures. Many consumers—men and women—are locked in to complicated mortgages for homes that have substantially decreased in value. The “plain vanilla” or basic mortgage option currently being proposed and vigorously debated[12] would likely benefit many homeowners, particularly women who in the past had no option other than a subprime loan.

Women and Risky Behavior

There is considerable evidence that an atmosphere of excessive risk-taking contributed to the recession. At the same time, we know with certainty from studies in behavioral economics, finance, psychology, and biology that the average woman takes fewer risks—in all areas of her life—than the average man.

One of the most simple, yet profound, questions about the recession appeared in Nicholas Kristof's *New York Times* editorial: Would we be in the same mess today if Lehman Brothers had been Lehman Sisters?[13]

Would female investment bankers, mortgage lenders, and chief executive officers have taken the same risks given the same expected returns? Maybe not. As Kristof explains, men "are particularly likely to make high-risk bets when under financial pressure and surrounded by other males of similar status."

That Wall Street firms are primarily led by men is not news. Yet it may surprise some to learn that 72 percent of the workers laid off in financial services and insurance firms during this recession have been women, even though they constituted 64 percent of employment before the crash.[14]

What is important is not that women are less likely to take risks than men. What matters is how women interact with the economy in ways consistent with their own preferences for risk. For many women, that means not working for someone else, but starting their own business. As the goal of this essay is to understand the full impact of the recession on women, a brief look at women entrepreneurs is also in order.

"Recession 101: Bill Gates started Microsoft in a recession."[15]

It's true. Challenging economic times do encourage entrepreneurial activity. According to a recent study, more than half of the companies on the *Fortune* 500 list this year began during a recession.[16]

As of 2009, there are 10.1 million women-owned firms in the United States; they employ more than 13 million people and generate $1.9 trillion in sales.[17] The recession has changed the business practices of women entrepreneurs, according to an April 2009 survey of women business owners. Two-thirds of female respondents said they were watching cash flow more carefully and 42 percent said they were collecting receivables more aggressively.[18]

One researcher believes that women business owners are the key to leading us out of the recession by using "a new, more robust feminine enterprise model based on diligent risk taking and collaboration whic h take account of wider social values alongside profits."[19] While a full discussion of the differences between male and female entrepreneurs is a topic for another essay, successful female entrepreneurs will clearly be key players in this recovery. Entrepreneurial women are supporting each other, locally and virtually, and working to grow their businesses into million-dollar enterprises.[20]

Taking calculated risks will always be part of sound business practices; but, if we agree that diverse groups of people tend to make better decisions than homogenous groups of people, encouraging more women to stay on paths toward executive leadership positions in all sectors of the economy, especially financial services, is a move in the right direction.

Women and Consumption

In the United States, women make 80 percent of discretionary purchases, including 90 percent of food and 55 percent of consumer electronic purchases.[21] Women may be the primary purchasers for their households, but they are not alone in the struggle over consumption versus savings. Experts believe that the recession was intensified by the recent dramatic increase in consumer debt.[22]

In 2007, the average credit card debt was $9,900 and 49 percent of Americans had saved less than $25,000 for retirement.[23] In addition to fueling the recession, this level of debt comes at a high personal cost: Far more women than men are worried about their economic security. In 2007, 63 percent of women surveyed said they were not saving enough for retirement, 56 percent worried about social security being reduced or eliminated, and 35 percent were concerned they would not have enough money saved for retirement.[24]

If there is a positive side to the uncertainty and fear that accompany this recession it can be found in the data confirming increasing personal savings rates. For the last several months personal savings rates have been soaring—the highest in 15 years at 5.6 percent in April, 6.2 percent in May, and 4.5 percent in June.[25] And yet, while it is beneficial for each person and household to spend less and save more, economists have long warned of the paradox of thrift—the economy is strong not when we individually save, but when we are all spending money confidently. The competing tension between saving and spending is not unique to women, but because women are the primary consumers in America any signs of increasing confidence among women may signal a strengthening economy.

"Recession 101: Experience and talent are recession-proof assets."[26]

For many women, giving up two years of salary to become a full-time student makes pursuing a Master's in Business Administration (MBA) degree too costly. However, a recession may be the best time to pursue further education.[27] If you have recently been laid off, the opportunity cost of two years of graduate school has just been considerably lowered and an MBA may be the best "insurance" you can purchase to protect yourself from future periods of economic uncertainty.[28]

Photo: Adam Kaz

Have women used the recession to invest in themselves? By all accounts the answer is yes. Several schools in a number of states—from Texas to New York to California—are reporting an increase in the number of women pursuing MBA degrees. The recession has also inspired many women to enroll in undergraduate degree-completion programs, with accounting and business being among the top choices for majors.[29]

"Recession 101: It's a test, not a final."[30]

Thinking about the recession as a test is helpful, but its final impact will depend on how well women in business have prepared and how quickly they react to the changes that are occurring. A short study guide for working women follows.

1. **Be mindful of your debt load.** Many banks are offering attractive loans and debt consolidation plans to stimulate business. Refinance if rates are favorable and fees are manageable.

2. **Take reasonable risks.** Now may be the perfect time to start the new business you have been dreaming of. Weigh the costs and benefits carefully to make the most of the opportunities the recession presents.

3. **Curb your consumption.** Use the recession to take personal stock of what you would like versus what you really need. Spend money wisely and, when possible, spend money in ways that provide long-run returns rather than short-run satisfaction.

4. **Invest in yourself.** Go after the degree you have always wanted or add new skills to your resume. If the recession has slowed down your normal routine, use the extra time to increase your professional network.

Time will tell if the recession of 2008 and 2009 will have a permanent impact on business practitioners. As women continue to interact with the economy in their roles as primary bread-winners, chief consumers, and business owners, it will be interesting to observe if we continue with business as usual or if we work together to find a new model for success.

Will we slip back into our old patterns of excessively risky behavior and debt-driven consumption? Or will women lead by example to change the business environment for the better? Without a doubt the recession will end and we will have passed the test if our collective behavior changes in permanent, positive ways.

Jennifer Keil, PhD,*is a faculty member at the School of Business at Hamline University in Saint Paul, Minnesota. She holds a PhD and an MBA degree from the University of Kansas and a BBA degree from the University of Michigan. The common theme in Dr. Keil's research is how women interact with and are impacted by the economy. In particular, she focuses on labor market issues such as individual/household work decisions, work/family balance issues and the impact of variable pay on the gender pay differential. She is a member of the Graziadio Business Report Editorial Review Board, and is often asked to present on women, the economy, and pay. Dr. Keil's first book, Earn More, Move Up: A New Look at the Gender Pay Differential, was published by the Center for Economic Progress in November 2006.*

[1] Outdoor Advertising Association of America, "Recession 101," http://www.oaaa.org/recession101.aspx.

[2] Ylan Q. Mui and Neil Irwin, "Recovery Underway, Bernanke Suggests," *The Washington Post*, September 16, 2009.

[3] Heidi Hartmann, "The Impact of the Current Economic Downturn on Women: Testimony to Joint Economic Committee," testimony, *Institute for Women's Policy Research*, at the hearing: "The Employment Situation: May 2008," June 6, 2008.

[4] U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey, Table 4," *U.S. Department of Labor*, http://www.bls.gov/cps/tables.htm.

[5] Casey B. Mulligan, "When Will Women Become a Work-Force Majority?" *Economix Blog, NYTimes.com*, May 6, 2009.

[6] U.S. Bureau of Labor Statistics, "Employment Situation Summary – September 2009," *U.S. Department of Labor*, October 2, 2009, http://www.bls.gov/news.release/empsit.nr0.htm.

[7] Peter S. Goodman, "Joblessness Hits 9.5%, Deflating Recovery Hopes," *The New York Times*, July 2, 2009.

[8] Heather Boushey, "Encouraging Family Friendly Workplace Policies," *Center for American Progress Action Fund*, March 3, 2009.

[9] Associated Press, "Americans Becoming Increasingly House Poor," *MSNBC.com*, October 3, 2006.

[10] John Leland, "Baltimore Finds Subprime Crisis Snags Women," *The New York Times*, January 15, 2008.

[11] The National Council for Research on Women, "NCRW Big Five: Women, Homeownership, and Sub-Prime Mortgages—A Need for Fair Lending Practices," fact sheet, *The National Council for Research on Women*, (2008).

[12] Mark Thoma, "Plain Vanilla Mortgages," *Economist's View Blog*, August 1, 2009.

[13] Nicholas D. Kristof, "Mistresses of the Universe," op-ed, *The New York Times*, February 7, 2009.

[14] Anita Raghavan, "Terminated: Why the Women of Wall Street Are Disappearing," *Forbes Magazine*, February 25, 2009.

[15] Outdoor Advertising Association of America.

[16] Jessica Dickler, "Stay-at-Home Mom, Six-Figure Salary," *CNNMoney.com*, June 23, 2009.

[17] Center for Women's Business Research, *Key Facts about Women-Owned Businesses*, http://www.womensbusinessresearchcenter.org/research/keyfacts/.

[18] Center for Women's Business Research, "*90 Percent of Respondents in the Key4Women Confidence Survey Believe the Economy Will Remain the Same or Improve Over the Next Six Months*," press release, October 6, 2009.

[19] Alice Dale, "Can Women Entrepreneurs Lead Us Out of Recession?" *Alice Dale Blog*, March 3, 2009.

[20] Make Mine a Million, http://www.makemineamillion.org/.

[21] "Hello, Girls: Recession-Hit Companies Target Female Customers," *The Economist,* March 14, 2009 [subscription required].

[22] Shula Neuman, "Recession's Root Cause is Consumer Debt, Expert Says," *News and Information at Washington University in St. Louis*, March 31, 2008.

[23] Marsha A. Goetting, "What is the Financial Status of American Women and Their Families? Perception vs. Reality," paper, *National Conference of State Legislatures, New Orleans*, July 24, 2008.

[24] Vicky Lovell, Heidi Hartmann, and Claudia Williams, "Why Americans Worry About Retirement Security, and Why Women Worry More Than Men," *Institute for Women's Policy Research*.

[25] Ben Rooney, "Personal Income Tumbles, Spending Up," *CNNMoney.com*, August 4, 2009.

[26] Outdoor Advertising Association of America.

[27] Eileen Zimmerman, "A Recession May Be a Time to Go Back to School," *The New York Times*, January 3, 2009.

[28] Kim Covert, "MBA a Degree of Recession Insurance," *Times Colonist*, August 19, 2009.

[29] accountingWEB, "Recession Inspires Mothers to Return to School; Business, Accounting Popular Options," accountingWEB.com, May 21, 2009.

[30] Outdoor Advertising Association of America.