

GENDER EFFECTS OF THE ECONOMIC CRISIS

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Abstract

The world has been hit by a severe financial crisis. Economic growth is showing negative numbers, unemployment has climbed and many families struggle to pay their debt. In most recessions, the vulnerable groups are people with little education and individuals that have taken excessive risk. The current recession has somewhat different characteristics in that particular groups of people have been hit to a greater extent than experienced before. The financial crisis has led to unemployment among bankers, primarily people with higher education, and mostly men. Another group that has been hard hit by the recession are construction workers, mostly men. Thus, initially the recession is likely to have disproportionately greater employment effects on men than women. However, with governments borrowing heavily to refinance financial institutions, government debt has skyrocketed. Second round effects of the recession which are likely to include large cuts in government budgets are likely to hit women harder than men. The majority of government employees in many countries is women and more women than men are recipients of benefits. This paper examines the different effects the current recession has on men and women and the likely outcome for the economy as a whole.

Introduction

The world has been hit by a severe financial crisis. The financial crisis has led to a recession in most economies of the world. Economic growth is showing negative numbers, unemployment has climbed and many families struggle to pay their debt. In most recessions, the most vulnerable groups are those with little formal education. The current recession has somewhat

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different characteristics in that particular groups of people have been hit to a greater extent than experienced before. The financial crisis has led to unemployment among bankers, primarily people with higher education, and mostly men. Another group that has been hard hit by the recession are construction workers, a group with specific training that is primarily men.

Gender (In)Equality

Although most countries have instituted laws decades ago banning gender discrimination in the labor market there are still widespread differences between the genders in the labor market, especially in terms of gender wage differentials. There is also a difference in education attainment, although the gap has reduced significantly in recent years. Research shows that return to skill level is greater among those with higher education. With women still receiving less education than men, the gender gap remains (Altonji and Blank, 1999). The widest gender wage gaps can be found in commercial services, which include banking and marketing (ITUC report, 2009).

The Nordic Crisis in the 1990s

Although the current recession is in many ways unique, certain parallels can be drawn against the crisis affecting the Nordic countries in the early 1990s. The Nordic crisis started in the banking and construction sectors and spread from there to other sectors of the economy.

The Nordic crisis has been characterized as three 'bads': *bad luck*, *bad policies* and *bad banking*. The crisis can be seen as one consequence of a deep economic recession preceded by an exceptionally long boom period. Thus, the reasons can be found in external shock factors - *bad luck factors*. Bad luck can be specified by the recession preceded by financial market liberalisation with a large increase in bank lending volumes, asset prices and in corporate and household indebtedness. In Finland this was exacerbated by the collapse of exports to the former Soviet Union.

The *bad policy aspect* sees the crisis as a consequence of unsuitable economic, monetary or regulatory policy. While it was necessary to undergo a thorough deregulation of financial markets in the 1980s, policy makers failed in the adaptation and timing of economic and regulatory policy in the new situation. The most disastrous form of *bad banking* was excessive risk taking by banks. Heavy competition over market shares, together with a rise in asset prices and easy access to foreign funding, created a favourable atmosphere for increased demand for

borrowed funds and an increased willingness by banks to lend. Simultaneously, this fed careless lending and investment practices.

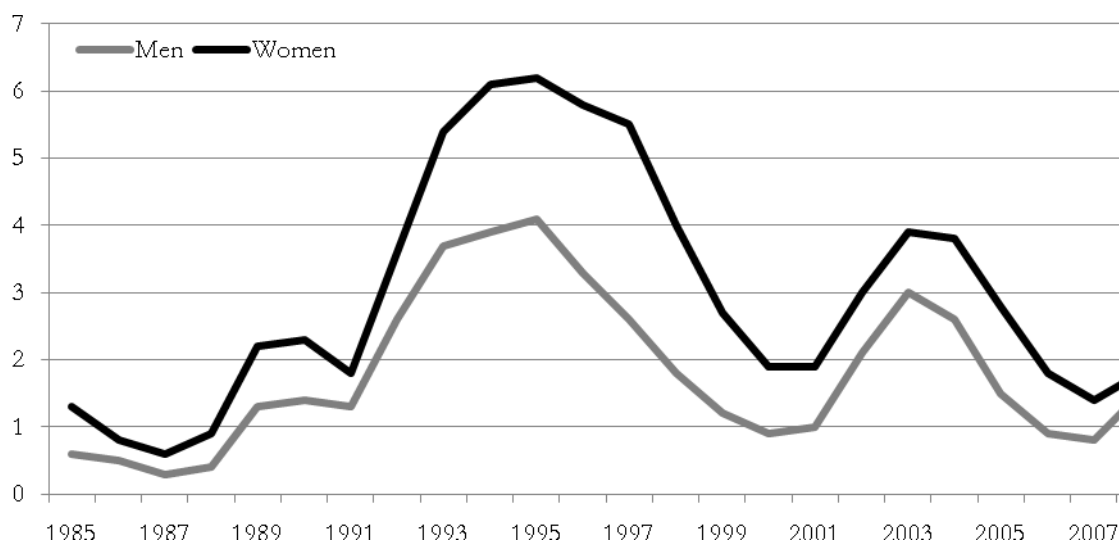
During the recovery after 1994, employment increased rapidly, with the largest increase in business services and manufacturing of equipment, especially electronic equipment. The service sector, education and social services, grew rapidly. This constituted a structural change in the labor market creating a mismatch problem. Skill requirements were often higher than the education level of the unemployed thus, slowing down the recovery in the unemployment rate (Koskela and Uusitalo, 2004).

Recession in the labor market

In a recession, the effects in the labor market show up primarily in rising unemployment accompanied by a fall in labor market participation rates as well as early retirement. A typical recession hits individuals at the lower end of the earnings distribution the hardest. As women tend to be overrepresented in low paying jobs and underrepresented in high paying jobs (Ehrenberg and Smith) the conclusion can be drawn that in a recession, when it comes to wages, women are likely to be harder hit than men.

In terms of employment it is widely accepted that the negative consequences of recessions in developed countries impact overall more strongly on male than on female employment levels, while in developing countries women workers are more prone to be made redundant than male workers (ITUC). Research shows that in advanced countries men are often employed in cyclically unstable industries or industries in long-term decline, while women tend to be employed in more stable service industries (Singh and Zammit, 2000). In the UK research on the recession between 1990 and 1993 shows that it was mainly the male-dominated professions such as manufacturing and construction that were affected by the economic decline (ITUC). The reverse is true in Iceland as in the last recession in the middle of the 1990s, the unemployment rate among women was higher than that of men as seen in Figure 1.

Figure 1. Unemployment in Iceland 1985-2008

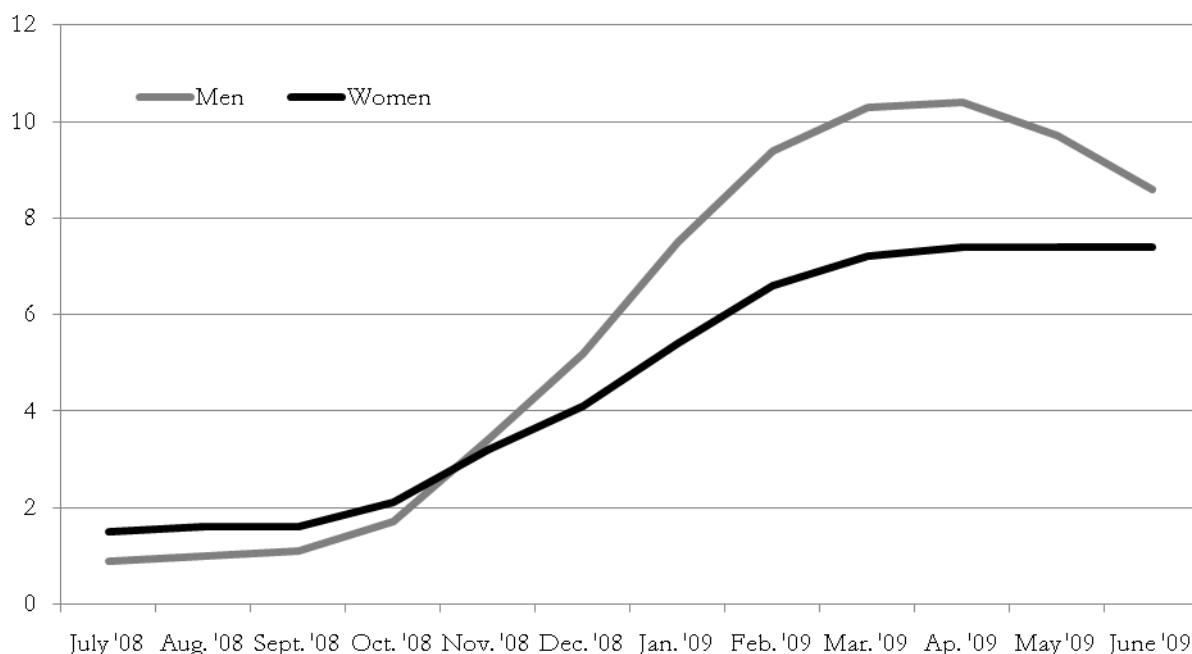


In the recession of the 1980s and 1990s in Norway, male-dominated industries like manufacturing and construction were hit the hardest. Women more often work in teaching and health services in the public sector which are usually less affected by recessions. In Finland and Denmark income inequality hardly changed at all in the recession in the early 1990s, but in Norway and Sweden inequality rose with rising unemployment (Aaberge et al, 2000).

The Current Crisis

The current crisis bears a resemblance to the Nordic crisis, although on a much wider scale. The economic crisis has affected developed and emerging economies alike. Before the crisis there was a strong upswing in most countries. Real house prices shot up in most OECD countries. Coupled with good economic conditions, housing construction expanded rapidly to reach historical highs. Financial deregulation, low interest rates with rapid development in financial innovation led to bank credit growing at rates in excess of GDP. The banking sector went through several mini crises in the last couple of decades, such as the East Asia crisis, Y2K, dot-com, the Nordic crisis discussed above and 9/11. After going through these crises and recovering rapidly, the lower perceived and observed risk is likely to have increased the appetite for leverage and risky investment in financial and other asset markets (Elmeskov, 2009).

Figure 2. Unemployment in Iceland 2008-2009



Thus the current crisis was brought about due to people taking excessive risk in the financial sector. As a consequence, unlike previous recessions where unskilled workers have been hit the hardest, specific sectors are hit hard, especially in the banking sector and in construction. Thus, the first round effects are not a universal hit across the economy, but increased unemployment among bankers and construction workers. These two sectors are both male dominated sectors and therefore, the initial effects are increased unemployment among men rather than women.

The increase in the unemployment rate in Iceland from July 2008 to June 2009 can be seen in Figure 2. The overall unemployment rate has increased significantly, but the unemployment rate for men has risen higher than that for women. From November 2007 to November 2008, the U.S. economy lost 2.400 million jobs according to a report from the Bureau of Labor Statistics (BLS). Four out of five of those jobs (82%) were jobs held by men, while only 18% of jobs losses were jobs held by females.

As the main driver of the onset of the crises was the unwinding of asset price hikes, financial leverage and risk appetite built up prior to the crisis, it is interesting to see whether there is a gender effect going on here.

Men, Women and Risk

In research on differences in risk taking among men and women, the results usually show significant gender differences. Men are found to be more willing to compete than women (Gneezy et al, 2003). Although both men and women show overconfidence, men are generally found to be more overconfident than women (Lundeberg et al, 1994). Niederle and Vesterlund (2007) find that after controlling for gender differences in performance, twice as many men as women select a tournament over piece rates.

Vandegrift and Yavas(2008) find that in a winner-take-all tournament, men showed a significantly higher performance than women. Initially men produce more accurate forecasts than women, while later there was no gender difference in forecast errors. When the winnings were distributed among the participants there was no difference in the performance of men and women.

Research on people working in the financial sector finds that overconfident investors trade more frequently than rational investors (Odean, 1998) and Barber and Odean (2001) find that men trade stocks more frequently than women. Kneober and Thurman (1994) find that less able participants select high-variance strategies. Brown et al (1996) study mutual-fund managers who face tournament incentives. In that case they increase the risk in their portfolios if their mid-year performance is below average. Niessen and Ruenzi (2007) found that women managers tend to take less extreme risks and adopt more measured investment styles than their male peers and trade less than their male colleagues.

With the financial markets offering new products and low interest rates, the men working in the sector more willing to take risks, with the added incentive of the payment structure which was intended to increase the risk appetite of those working in the sector, the atmosphere was ripe for risk taking.

The Current Recession

In the current recession, banking and construction, relatively high paying sectors, have so far been harder hit and earlier than other sectors. Currently, the largest group among the unemployed are professionals, service and sales workers, construction workers and unskilled workers. In Iceland in 2008 over 40% of those laid off in mass layoffs were employed in construction, while 14% were employed in the banking sector.

The response of employers is to lay off workers, reduce working hours or to cut nominal wages. The outlook in the Icelandic labor market is that many people, both men and women, face lower nominal wages. Payments for overtime work are also falling, especially in industry and construction. These groups are also more likely than other groups to be moving to part time work. As these sectors employ predominantly men, this effect is more pronounced among men than women (Directorate of Labour; 2008). Working hours have shrunk so far in 2009 in Iceland. In the first half of 2008 weekly working hours were 41.8 on average, while in 2009, the average weekly working hours were down to 39.4. The average weekly working hours for women were 1.2 hours shorter in the first half of 2009 compared to 2008, while the average weekly working hours for men had gone down by 2.9 hours (Statistics Iceland).

The experience in Sweden is that only 1.1 percent of workers took a cut in regular nominal pay and 3.2 percent of all unions experienced a regular wage cut in the recession in the early 1990s. Some had done so only for a small group of employees. The wage cuts took place in firms that were lowly unionized. The incidence of wage cuts was significantly higher in the skilled service sector, where collective bargaining agreements play a lesser role (Agell and Benmarker, 2002). Real wages however were much more flexible (Calmfors and Forslund, 1990).

With men losing their jobs in high paying sectors, as banking is a high paying sector among those with tertiary education and construction is a high paying job in the semi-skilled sector, the wage distribution could narrow in the nearest future. It is known that men are overrepresented in the higher levels of the wage distribution and thus men's wages are cut while women's wages remain intact. Women tend to be closer to the bottom of the distribution and could become the sole breadwinner for the family. Therefore, many families could have to alter their lifestyle significantly in the wake of the banking crisis. Financial crises thus, may alter gender relations through intrahousehold adjustments.

With men losing their jobs more often than women, it is possible that there will be more women than men in the labor market, a situation not seen before. Still, women tend to bear the brunt of household responsibilities.

With governments taking large loans to restore or restructure financial institutions, the public sector debt in many countries is skyrocketing. For instance, Iceland's public sector debt amounted to 28% of GDP in 2007, but is estimated to reach 110% of GDP at the end of this year. Thus the second round effects of the recession are likely to be cuts in government services. Governments will be forced to restructure government services to be able to service

their debt. With women overrepresented in the services sector, it is likely that women in the lower paid services sector will enter the ranks of the unemployed in the next 1-2 years. Women also usually receive more benefits from the government than men and thus any budget cuts affecting benefits would adversely affect women.

Thus, questions rise as to how this effects the economy as a whole and individual families. The effects of the recession on the wage distribution could be in the direction of reducing the span from the lowest to the highest wages, thus reducing the wage effect of education and experience. This change could also reduce the gender wage gap. The recession could also lead to a dramatic change in the functioning of individual families as the higher paid half of a couple is now without income and the lower paid half is now the breadwinner and the family income is cut by more than half.

If anything can be learned from previous recessions, it is that unemployment will continue to climb and will not start to fall until economic growth is well under way. In the average crisis the duration of downturn of unemployment is almost 5 years (Reinhart and Rogoff, 2009). We also have to be prepared for current skills to become obsolete and that new skills are required in the growing economy. The fall in the unemployment rate will hinge on how quickly economies adopt to a changing situation in the labor market.

Conclusion

The roots of current recession may be found in the financial sector where bubbles formed and risk taking turned excessive and real estate price rises led to overconstruction. Thus, the first round effects are likely to hit men harder than women as the two sectors, the financial sector and the construction sector, readjust.

Although the effects on the wage distribution are not obvious, it could be in the direction of reducing the wage dispersion. Higher paid men are facing wage cuts, reduced working hours or even the loss of jobs. Their lower paid spouses working in the services sector could react by increasing their labor supply.

With governments refinancing a large part of the financial sector and thereby increasing government debt, the second round effects are likely to be increased unemployment among women in the services sector as governments cut services to finance the debt.

Whether the recovery will take hold quickly or not remains to be seen. It is quite possible that with the necessary restructuring in the economy, many economies will face a mismatch of skills as current skills become obsolete and new skills are required.

There is also a lesson to be learned from the crisis. As the main culprit is excessive risk taking, research shows that women are more risk averse than men and therefore it is imperative that in the future, risky decisions are taken by a group that consists of both genders as opposed to men only.

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