

 ECONOMIC CURRENTS

MARCH 26, 2019

Clearing Hurdles:

Women in the Workplace

Diane C. Swonk, Chief Economist

It was the end of the sixth grade. My teachers had organized a mock olympics and I was competing in the high jump, which seemed an apt metaphor for my life. Everytime I cleared a bar, my father raised it even higher as he pushed me to achieve excellence.

Initially, the competition was separated by gender but as the olympics came to a close, some teachers decided it was time for the girls to compete directly with the boys. Other teachers pushed back but eventually relented. Maybe they decided that failure would teach a lesson about our inherent limits to those of us brave enough to try to compete against the boys. In the final round, I was matched against a bully who was the tallest in our class. The outcome was a foregone conclusion. He would easily clear the highest bar and win.

The last round of jumping left me with one of my most valued childhood memories. I remember staring at the bar, imagining what it would be like to clear it. It seemed an eternity from the time I launched until I finally landed. I overshot the foam mats, skidding across the grass. I was covered in mud. I didn't realize how bruised I was until later that night. Importantly, the bar was untouched. I had made it.

My opponent stepped up, confident and joking. This wouldn't take long. It didn't. He knocked the bar from its stand before finishing his jump, landing in the middle of the mats. I don't remember much of a reaction by the gym teacher. He just handed me my blue ribbon. I never told my parents; it was a small victory that I wanted to own. For the rest of my life, I saw hurdles as bars to be cleared instead of obstacles to my achievements.

Growth Slows Abruptly

Fourth quarter real GDP rose a solid 2.6%. Consumer spending remained strong but slowed as 2018 came to an end. For the fourth consecutive quarter, housing activity contracted while business investment picked up. Inventories remained bloated, dampening first quarter growth, while the drag from trade issues dissipated. Gains in federal government spending were tempered by weakness at the state and local levels.

Preliminary data on the first quarter is scarce because of delays created by the government shutdown. So far, what little information we have received has been a surprise on the downside. Add effects from the shutdown itself and the direct blow it dealt government spending, and we may be lucky if first quarter growth crosses the 1% threshold. The need to liquidate a large overhang in inventories is another weak spot for the quarter.

We still have a recession in the forecast for 2020. A cessation of trade tensions with China, including a rollback of existing tariffs, has shifted the recession from the start to the middle of the year. Any deal we achieve with China is expected to be transitory, given the difficulty in enforcing our demands.

FED STUCK IN NEUTRAL. Federal Reserve Chairman Jay Powell is expected to keep the Fed in neutral at its March meeting. We could also see an announcement to curb the runoff in the Fed's balance sheet. No rate hikes are expected for 2019.

“Millennials are the largest and most diverse generation that the U.S. has ever seen. They are also among the most educated, with women now achieving a higher level of education than men.”

I still have that ribbon in a jewelry box stored in the basement. It wasn't until recently that I realized how much that event changed my life. New **research** on how women compete in the workplace shows that women who were treated as equals to men, even for a limited period of time, competed more effectively against their male counterparts than those who were taught to live within more traditional societal norms. A handful of teachers who believed that we were equal in our talents to boys gave us an incredible gift.

This edition of Economic Currents takes a closer look at the hurdles women still face in the workplace, the critical role diversity plays in decision making and how young women are reshaping the labor force. Their increased participation is driving the rebound in labor force growth. Foreign born women, largely Hispanic, have played a key role in fueling those gains.

Rising labor force participation boosts overall growth, which is a key component of achieving and sustaining a stronger economy. The potential for growth is comprised of a simple formula: labor force growth plus productivity growth. A slowdown in both factors has limited growth in recent years. The challenge going forward will be to reverse those trends if we want to avoid the slow or no growth trap of economies such as Japan. Embracing diversity across a spectrum of measures is a major step in overcoming those challenges.

Increased Participation

One of the sad realities of the 2000s has been a fall in labor force participation by prime-age individuals (25-54 years olds). Men were hit harder than women but both groups lost ground over much of the decade. Rising disabilities, opioid addiction, video games and a loss of manufacturing jobs have been blamed.

In 2015, those trends started to reverse, as prime age participation began to rebound. Those gains were driven by a return of prime age women to the labor force; the surge in young women (25-35 years old) was particularly large.

Women of all ethnicities and educational levels are going back to work. The **Atlanta Federal Reserve** breaks down participation by race, educational attainment and reasons for the changes. The jump in participation by women of Hispanic origin is particularly sizable, especially among those with the highest levels of education. This should not come as a surprise given the demographics of millennials. The 1980s produced the most substantial immigration wave - mostly from Latin America - that the U.S. has experienced since the turn of the previous century. The result is that millennials are the largest and most diverse generation that the U.S. has ever seen. They are also among the most educated, with women now achieving more education than men.

Less Time on Family Responsibilities

Prime age women are going back to work at a faster pace than men because of a drop in the amount of time they allocate to family responsibilities. That accompanies a decline in **fertility** rates among millennial women.

Birth rates for single mothers have dropped since the 2007-08 peak, with the largest declines occurring among Hispanic and black women under the age of 35. That shift is important given the disproportionate number of children living below the poverty line in single parent households.

Cohabiting women and single mothers are driving the surge in job participation by young women. The return of single mothers to the workforce is impactful since it means they can now provide for their children in ways they could not earlier in the cycle. The aging of younger children into school, lower prices at the gas pump and a jump in pay for low-wage jobs are factors that have helped some of the most disadvantaged single mothers return to work. More affordable on-site childcare would be a huge plus.

White men with less than a high school degree are still falling behind, but the reasons they aren't participating have changed dramatically in recent years. They now cite spending more time on family responsibilities and schooling instead of retirement or disability for being out of the labor force. This could allow their female partners with children to reenter the labor force. Men who

“The largest hurdles that women face are in the workforce, where progress has stalled.”

temporarily take a break from working, including to care for children, have an easier time regaining wages they have lost than their female counterparts across a broad of spectrum of jobs and sectors.

Pay Gap

The most commonly quoted figure shows that women’s median wages are **80%** of men’s. After economists adjust for differences in women’s education, work experience, field of work and preferences for more flexible and shorter work hours once they have children, that number rises above the **90%** threshold. The problem is that what is considered a preference may actually be a necessity. Meanwhile, women are often discouraged from attaining the education and skills needed for the highest paying careers, starting in elementary school.

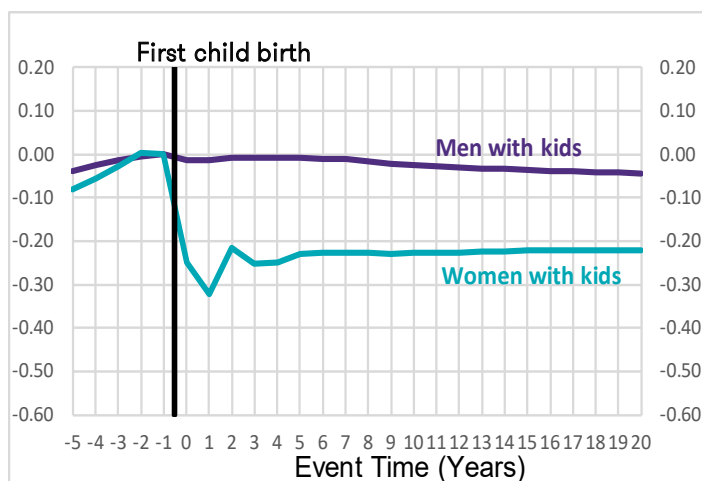
In the classroom, teachers are more encouraging to boys and call on them more often. The largest discrepancy is in math, especially in the most **affluent** school districts. The result is that women are being prevented from pursuing the most lucrative and in demand careers before they even start college.

When they do manage to attain those skills, few are actually allowed to tap them. Men with high GPAs on their resumes are called back for job interviews twice as often as women with high GPAs; that ratio jumps to 3-to-1 when the college graduate’s major is math. The **researchers** surveyed a subset of employers to find out what was causing the gender bias before the applicants entered the door. They perceived high achieving men as “competent” and “committed,” saw moderately achieving women as more sociable and outgoing, while they viewed high achieving women with “skepticism.”

Once in the door, women have a harder time than men climbing the ranks of management; the **bias** they face is well documented. Women who are nurturing with their teams are seen as weak, even when they get better, long-term results than their male counterparts. Women who are successful in negotiating raises and promotions are seen as too aggressive. You can’t win for losing in this game.

The largest reason for the pay gap between men and women is the “penalty,” as researchers now term it, that women suffer when they become pregnant. There is the initial blow, sometimes occurring the moment women reveal they are pregnant. Then come reduced earnings when they return to work. The **losses** that women suffer relative to men are the largest in countries where gender norms are more traditional. Denmark, which encourages women to take a full year of paid leave following the birth of a child, costs women the most over their lifetimes. (See Chart 1.) The U.S. is not much better.

Mothers Pay a Price in Lifetime Earnings



Source: “Children and gender inequality: Evidence from Denmark”

The “pregnancy penalty” is even more pronounced for women in the finance and corporate sectors. Men and women **MBAs** from the best business schools start out earning close to or about the same as each other. After ten years of work the gap is substantial and by year 15, significantly more women than men MBAs have given up.

Progress for women at the very top ranks of corporate leadership has either stopped or reversed according to a **survey** done by Fortune magazine. This means that we are seeing fewer women role models and advocates at the highest echelons of our institutions. The results ripple down to women in lower paying jobs and those in the early stages of their careers.

Prescriptions

There is a lot of effort and rethinking of school curricula and how to educate teachers to limit gender (and other biases) in grades K-12. The work has been going on for decades and the needle is moving, but not enough.

School funding, which has been systematically cut across the country, is a major problem. Real estate revenues - the primary source of school funding - were hit particularly hard by the housing bust. It shows. Teacher wages have fallen after adjusting for inflation. So has the amount of time kids spend in the classroom. Hence, the recent jump in the number of teacher strikes, despite an historically low level of unemployment. Teachers are not only striking for better wages, but also for resources to improve the learning environment for their students.

Universities are looking closely at what can be done to change gender bias. The research is particularly damning in the way the **economics** field has treated women who are entering the ranks of academia. Women are still making inroads in education and choosing majors outside of economics, which interestingly, is the highest paid of academic professorships.

In the U.S., women are now more likely to go to college than men; they account for all of the rise in educational attainment in this country since the 1950s. The natural next step is to make sure they have access to pursue the most rewarding majors, which are required to fill the jobs with the greatest scarcities such as technology.

The largest hurdles that women face are in the workforce, where progress has stalled. This is despite an overwhelming amount of research that proves diversity increases the quality of decision making and boosts profits. Women in the C-suite have an outside, positive effect on corporate performance.

Motherhood is the primary reason that women earn less than men. It has forced them to work fewer hours, work part-time instead of full-time and drop out of the labor force entirely.

Hence, the focus on the skyrocketing cost of childcare, one of the primary reasons that women's participation in the labor force **declined** as we moved into the 2000s. Conversely, subsidies for childcare at the state level, especially among low-income households have **boosted** women's ability to rejoin the labor force.

Volatile work schedules are another hurdle, especially in low-wage jobs. Employees find it difficult not only to afford childcare, but often don't have the flexibility to accommodate constant changes for when care is needed.

This is to say nothing of the mental and physical toll such arrangements take on workers and their families. They increase turnover rates and undermine **productivity growth**. Legislators in some states have moved to limit such practices, which surged in the 1990s. Some retailers have jumped on the bandwagon but we are still a long way from reversing those trends.

Even well intended policies, such as paid parental leave and flexible work schedules can be a double-edged sword. Men spend more of their parental leave and flextime managing their careers than women. They are also seen as more **competent and committed** to their careers than women who ask for flextime. In response, men are granted more flextime requests than women.

Laws requiring employers to equalize pay are also creating unintended consequences. The size of the adjustment needed to raise the pay of women to equal that of men can be substantial; a unilateral increase in the wages of all women to meet that of men can push a firm's earnings into the **red**.

In response, firms mandated to close the pay gap in the U.K. have actually cut the pay of men. This could undermine the badly needed support of men, which women need since it is often men pulling the levers at the top echelons of the institutions where they work.

A better approach is for companies to evaluate pay inequities with a clear goal on how they want to incentivize better outcomes. This includes financial rewards for managers who promote more qualified diverse candidates and facilitate more diverse teams. The jury on this is in: Diversity improves decision making and boosts profits.

Critical mass is also important. It takes more than one person who differs from teammates for voices to be heard in a group. The research on the deliberations of **juries** is some of the most compelling I have seen on this latter point. Diverse juries spend more time examining the facts of a case than their homogeneous counterparts.

Firms can better leverage the diversity they have by including a broader spectrum of their existing workforce in decision making. Many decisions are made in an echo chamber of senior managers, bounded by groupthink.

Finally, there is a whole cottage industry that has developed to identify the unconscious biases we all hold.

The training is critical to shifting the culture and the hurdles that women and minorities face; it is too often seen as a one-off activity, which makes management feel good but does little to permanently change discriminatory cultures. Such policies need to be institutionalized to reward leaders who leverage diversity to make a real difference in a firm or institution's performance.

Bottom Line

Writing about the hurdles women still face in the labor force has been exhausting and disappointing. I had hoped by now that the discrimination and harassment I endured would have dissipated more than they have. The fact that we have stalled, and even lost ground in the top ranks of leadership, is even more discouraging.

The good news is that we now have more tools to understand and fix the problems. We are armed with basic math: Diversity improves decision making and boosts the bottom line.

In addition, demographics show that our labor force is becoming even more diverse. Firms and institutions that ignore such trends will eventually suffer; they will not have a large enough talent pool fill the jobs they have. A shortage of talent already tops the list of concerns of U.S. companies and fuels worries about the U.S. slipping farther behind the competition in attracting talent in the global marketplace.

I am not naive enough to wait for our elected leaders to recognize these facts. We need to change and enforce existing laws that enhance, instead of penalize, diversity in the workplace. We need to be thoughtful in how changes are implemented to protect against unintended consequences, like family friendly policies that penalize women for utilizing them. The time to reward those of us who clear the bar, instead of devaluing us for our differences, is well overdue. Diversity is a necessity, not a nicety.

This article is reprinted from Grant Thornton LLP's permission. No portion of this article may be reprinted without written permission from Grant Thornton LLP.

Economic forecast — March 2019

	2018(E)	2019	2020	2018:4(A)	2019:1	2019:2	2019:3	2019:4	2020:1	2020:2	2020:3	2020:4
National Outlook												
Chain-Weight GDP ¹	2.9	2.3	0.6	2.6	1.2	2.6	2.1	1.8	1.4	-2.3	-1.3	2.0
Personal Consumption	2.6	2.4	1.3	2.8	1.3	2.4	2.3	1.9	2.0	-0.3	-4.9	-0.1
Business Fixed Investment	7.0	4.0	-0.7	6.2	3.2	3.9	3.0	1.2	0.4	5.3	0.3	2.6
Residential Investment	-0.2	-2.1	0.4	-3.5	-7.5	3.1	2.4	2.7	-0.7	-3.8	-4.6	2.3
Inventory Investment	38.3	58.0	-0.8	82.5	64.7	56.8	53.0	57.5	53.5	-10.8	-32.8	-13.3
Net Exports	-760.8	-808.9	-816.8	-803.9	-800.9	-804.9	-813	-816.6	-820.9	-825.6	-809.5	-811.3
Exports	3.9	3.2	3.7	1.6	4.2	4.5	6.3	5.8	5.0	0.7	0.6	1.7
Imports	4.6	4.0	3.0	2.7	2.7	3.8	5.7	4.7	4.2	1.1	-1.5	1.5
Government Expenditures	1.5	1.9	1.0	0.4	2.6	3.1	0.9	0.6	0.9	1.9	-0.1	0.2
Federal	2.6	4.0	0.6	1.6	6.2	7.8	0.7	-0.4	0.2	2.8	-2.4	-1.8
State and Local	0.9	0.7	1.2	-0.3	0.5	0.4	1.0	1.3	1.3	1.3	1.3	1.5
Final Sales	2.8	2.2	1.0	2.5	1.6	2.8	2.1	1.7	1.5	0.9	0.8	1.5
Inflation												
GDP Deflator	2.2	2.1	2.3	1.8	2.1	2.2	2.1	2.2	2.3	2.5	2.3	2.1
CPI	2.4	2.0	2.1	1.5	0.8	3.5	2.7	2.1	2.0	2.1	1.9	1.2
Core CPI	2.1	2.3	2.3	2.2	2.5	2.3	2.1	2.0	2.3	2.5	2.3	2.3
Special Indicators												
Corporate Profits**	6.0	1.3	1.6	6.0	4.1	2.9	-0.6	1.3	2.1	-3.6	-4.4	-1.6
Disposable Personal Income	2.9	2.5	1.3	4.2	2.3	1.5	2.0	2.3	2.0	0.0	-0.3	1.5
Housing Starts (mil.)	2.5	2.3	1.18	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Civilian Unemployment Rate	3.9	3.6	4.2	3.8	3.8	3.6	3.5	3.6	3.7	4.0	4.5	8.0
Total Nonfarm Payrolls (thous.)***	3603.0	2233.7	-776.0	697.0	585.5	539.0	467.8	34.1	112.5	-429.7	-732.0	-484.4
Vehicle Sales												
Automobile Sales (mil.)	5.5	5.0	4.2	5.5	5.1	5.1	4.9	4.9	3.8	3.8	3.6	4.6
Domestic	4.0	3.7	3.1	4.0	3.7	3.6	3.7	3.6	3.5	2.8	2.8	3.3
Imports	1.5	1.4	1.1	1.4	1.4	1.3	1.3	1.2	1.0	0.8	1.1	1.3
Lt. Trucks (mil.)	11.8	11.3	10.4	12.1	11.4	11.4	11.4	11.2	11.0	9.6	9.6	10.9
Domestic	9.5	9.1	8.4	9.7	9.1	9.1	9.1	9.0	8.9	8.0	7.8	8.8
Imports	2.3	2.3	1.9	2.4	2.3	2.3	2.2	2.1	1.9	1.6	1.8	2.1
Combined Auto/Lt.Truck	17.3	16.3	14.5	17.5	16.5	16.5	16.3	16.1	15.7	13.4	13.2	15.5
Heavy Truck Sales	0.5	0.5	0.4	0.5	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.4
Total Vehicles (mil.)	17.8	17.1	14.8	18.0	17.0	17.0	16.8	16.5	16.1	13.7	13.5	15.9
Interest Rate/Yields												
Federal Funds	1.8	2.4	1.1	2.2	2.4	2.4	2.4	2.4	2.0	1.5	0.6	0.1
10-Year Treasury Note	2.9	2.9	2.3	3.0	2.7	2.8	2.9	2.9	2.8	2.7	2.5	2.4
Corporate Bond BAA	4.8	5.1	5.1	5.1	5.0	5.0	5.0	5.4	5.1	5.2	5.1	4.9
Exchange Rates												
Euro/Dollar	1.18	1.2	1.2	1.14	1.14	1.13	1.12	1.13	1.13	1.10	1.09	1.11
Dollar/Yen	110.4	111.6	107.9		113.0	111.8	111.2	110.4	110.5	108.4	107.4	107.5

¹ In 2017, GDP was \$17148.8 billion in chain-weighted 2009 dollars.

² Corporate profits before tax with inventory valuation and capital consumption adjustments, quarterly data represents four-quarter percent change.

³ Total nonfarm payrolls, quarterly data represents the difference in the average from the previous period. Annual data represents 4Q to 4Q change.

Quarterly data are seasonally adjusted at an annual rate. Unless otherwise specified, \$ figures reflect adjustment for inflation. Total may not add up due to rounding.

Copyright © 2019 Diane Swonk - All rights reserved. The information provided herein is believed to be obtained from sources deemed to be accurate, timely and reliable. However, no assurance is given in that respect. The reader should not rely on this information in making economic, financial, investment or any other decisions. This communication does not constitute an offer or solicitation, or solicitation of any offer to buy or sell any security, investment or other product. Likewise, this communication serves to provide certain opinions on current market conditions, economic policy or trends and is not a recommendation to engage in, or refrain from engaging, in a particular course of action.

"Grant Thornton" refers to Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd (GTIL), and/or refers to the brand under which the GTIL member firms provide audit, tax and advisory services to their clients, as the context requires. GTIL and each of its member firms are separate legal entities and are not a worldwide partnership. GTIL does not provide services to clients. Services are delivered by the member firms in their respective countries. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. In the United States, visit grantthornton.com for details.