



Economic Woes = Family Stress

A Briefing Paper Prepared for the
Council on Contemporary Families

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AMERICANS CAUGHT BETWEEN A ROCK AND A HARD PLACE

The Hard Place: Our Housing Crisis

In just 10 years, between 1996 and 2006, Americans saw the value of their houses double. As housing prices outstripped the capacity of many people to engage traditional home-buying practices and financing, it encouraged recklessness in some and desperation in others. Many people became nervous that if they didn't buy soon, they would never be able to afford a home. Others decided they could afford to spend beyond their means, because the home would continue to rise in value. The rule of thumb used to be that a home should cost 2 1/2 times a person's annual salary or less, and that the purchaser should have enough cash to put down 10-20 percent of the purchase price. For instance, a person or couple making \$100,000 could buy a \$250,000 home, and put down somewhere between 25,000 and 50,000, depending on their credit. But as home prices soared, many prospective purchasers could not buy a decent home for even three times their annual salary. Many lenders and borrowers turned to "creative financing," discarding the traditional safeguards against foreclosure.

First to go was the demand for a cash down payment. In 2004, 42 percent of first-time home buyers had no down payment at all. But lenders did not stop there. Interest-only loans, adjustable rate mortgages, and a combination of the two became increasingly commonplace. With an interest-only loan, a borrower pays only the interest for a set amount of time; then the loan resets and the principal is added onto the payment as well. With an adjustable-rate mortgage, the borrower pays on both principle and interest, but at a low rate that will later jump up to market value.

These strategies make sense for borrowers whose incomes are sure to go up in the future. If a student is almost finished with school, for example, and is guaranteed to generate significantly more income in a few years, an interest-only loan is a good way to lock in a lower price. Unfortunately, many people with no hope of higher incomes were also allowed to buy into these mortgage plans. In California, for instance, 60 percent of new mortgages the first half of 2005 were interest-only, despite the improbability that this many people would see a significant jump in income.

Sooner or later, something had to give. In the first three months of 2008, there was a 112 percent increase in foreclosure filings compared to the same period in 2007. In April of this year, 243,353 homeowners received notice of foreclosure and 80,926 had their homes foreclosed -- an increase of 12 percent over the figures for March and a 65 percent increase compared to foreclosures in April of last year. There are currently 1.1 million homes, 2.5%

of all loans, in foreclosure, and more than 6 percent of the remaining mortgages are at least one payment behind. Last month was the 29th consecutive month of increases in the foreclosure rates. One in every 483 U.S. households either lost their home to foreclosure, received a default notice or was warned of a pending auction. Foreclosures will account for 30 percent of national home sales this year, driving down the sale price of all homes on the market. During the first quarter of this year, housing prices fell 14.1 percent, the sharpest downturn since the Standard & Poor's index's inception 20 years ago.

When a house goes into foreclosure, neighboring houses experience an immediate decrease in value, averaging \$3,000 each. As a house sits vacant and lawns become overgrown, the entire neighborhood gets harder to keep up. Vacant homes attract vandals, drug users, and squatters. Many middle-class homeowners in hard-hit states now find themselves plagued with problems they once thought were unique to the inner cities.

Renters suffer too. They may be up to date on their payments, but if the house is foreclosed, they must leave. In Franklin County, Ohio, approximately 70 percent of foreclosure evictions are delivered to tenants. This trend may get worse: In 2006, 42% of mortgages taken out for investment property carried adjustable rate mortgages.

The Rock: Soaring Prices

Meanwhile, oil prices have gone through the roof, causing food prices to soar. Every piece of produce that isn't grown locally is delivered to a store by a truck that runs on diesel, which now costs over \$5 a gallon.

In terms of gas costs, city dwellers may be more fortunate than rural families, despite having to bring their food in from further away. Nationwide, Americans now spend about 4 percent of their take-home income on gasoline. In rural areas of the South, New Mexico, Montana, Wyoming and North and South Dakota, where commutes to work are especially long, the percentage of family income that goes to gas is more than three times higher than that.

In the fall, Americans will experience yet another effect of high oil prices. The current price for home heating oil in Maine, is \$4.60 gallon, a 70 percent increase over last year. This winter, middle-class American may experience the "heat or eat" dilemma that physicians report already afflicts many poorer Americans.

The Crunch

All these factors have contributed to a fall in real wages, as rising living costs cut into salaries, and have also caused a rise in unemployment and underemployment. In the past 5 months, 324,000 jobs have been lost, and in May, unemployment took its biggest leap in more than 20 years. Especially hard hit has been the construction industry, a trend that has a disproportionate impact on Hispanic families, since construction is a prime source of work for blue-collar Hispanic men. But the transportation and manufacturing industries, traditionally a source of "family wage" jobs for men without a college degree, in all racial-ethnic groups, have also suffered.

The unemployment rate does not count people who are not looking for work, even if they would like to have a job. In March the Labor Department reported that the jobless rate had topped 13 percent for men in the prime age group of 25-54. Only once before since World War II has the rate gotten that high. Some of these men may be in school or have taken early retirement, but many are "discouraged" workers, who have given up actively looking for work.

Blue collar workers who are not laid off are less likely to earn middle-class incomes than in the past: Analyses of family budgets suggest that a wage of \$20 an hour, or \$41,600 per year, is the minimum necessary to put a family into the middle class. According to calculations by the Bureau of Labor Statistics, the number of hourly workers in manufacturing who earn that much is down nearly 60 percent since 1979, and it is sliding month by month, as airlines and automotive industries create two-tier hiring structures and exact wage concessions from employees.

Workers whose hourly pay has not been cut are often forced to take a reduction in hours. There has been a tremendous spike in workers who have a job but cannot get enough hours to earn a living wage. They are often expected to be on call, which doesn't leave them time for a second job.

Employees who rely on commissions and tips are also feeling the pinch. At least 1 out of every five American workers earns variable pay, and many of them have seen their incomes shrink substantially. Meanwhile the 20 million small business owners and 5 million "micro" business owners and their employees are experiencing declines in spending and patronage by customers.

Even before the current crisis, income instability was on the rise: Nearly 10 percent of workers in the early 2000s suffered from a loss of income of 50 percent or more, compared to only 4 percent in the early 1970s.

What Does the Crunch Mean for Families?

Both job loss and sharp fluctuations in income are highly correlated with marital instability. And the inability of many families to sell their homes has also led to a growing number of couples deciding that one must follow the job while the other holds down the house. One organization that tracks job mobility reports a 50 percent increase over the past four years in the number of commuter marriages, where spouses live in different cities. Such separations, whether temporary or permanent, are hard on both adults and children. But children face many other risks in this economy, even when their parents manage to stay together.

Effects of the Housing Crisis on Children and Teens

According to the Washington D.C. policy group, First Focus, 2 million children are directly affected by the sub-prime mortgage crisis. This number does not include the children who live in rentals and will receive eviction notices as their homeowners fail to pay the mortgage. Nor does it include children whose parents have conventional mortgages and are

facing foreclosure. More than 130,000 children in Florida and 312,000 in California will be evicted in 2008 and 2009.

Eviction often means that children must change schools, in many cases more than once, as families use interim housing before finding a more permanent place. When children change schools frequently, their work and behavior can suffer. According to the National Assessment of Educational Progress, children who change schools two or more times in a school year are twice as likely to perform below grade level in reading and math as students who remain in the same school. Frequent moves also contribute to higher drop out rates.

School relocation is particularly detrimental for teens, who rely more on their peer groups and have a tougher time joining new ones, than younger children. In fact, school relocation during mid-year is more highly associated with teen delinquency than is divorce. Teens who move frequently are 77 percent more likely to have four or more behavior issues and 20 percent more likely to exhibit violent behavior in high school than their more residentially-stable peers.

Even when children don't switch schools, the housing crisis can hurt their education, because school funding depends largely upon property taxes, which fall when home values drop. Schools are also one of the few tax projects on which voters can directly say yea or nay. With less money in their bank accounts and more money in their gas tanks, voters are less likely to approve tax increases for schools.

Job Loss and Financial Strain Increase the Risk of Impaired Parenting

One of the main ways that children are hurt by unemployment and income loss, even at levels well above the poverty line, is through the increase in stress and depression that their parents experience. Parents with steady incomes, secure housing, and access to community support networks are those least likely to use punitive methods of childrearing. Conversely, economically-distressed parents tend to use harsh or inconsistent discipline even when they recognize and feel guilty about its effects. Parenting practices also become harsher and less consistent when parents are experiencing marital conflict, which is also heightened by job loss and housing insecurity.

Most of the effect of economic loss on children is channeled through deterioration in parenting practices, but there's a direct impact too. Economic loss has been found to increase kids' vulnerability to peer pressure. Children who experience economic loss often become depressed and less motivated, and their lowered aspirations may have long-range consequences in their lives.

In extreme cases, economic stress can trigger outright child abuse. In Florida, for example, The Exchange Club CASTLE, a child abuse prevention organization in Fort Pierce, reports that its May referral list for abuse and neglect was twice the normal size. The Department of Children and Families' hotline of Palm Beach County Florida now receives 900-plus more calls per month than a year ago.

Food and Nutrition Issues

Even when parents continue to parent effectively, food insecurity is a real threat to children in these difficult times. March 2008 saw a 1.5 million (5.7 percent) increase in the food stamp rolls from the previous year. March's enrollment of 27.88 million people represents a 219,000 person increase from February.

Twenty-five percent of American households with children are food insecure, which means people in those homes cut back on portions or skip meals in order to stretch the food out to last all day. America's Second Harvest - The Nation's Food Bank Network - surveyed 180 food banks nationwide in April, and found that 99% have seen a substantial increase in the number of people seeking help, while donations have fallen off. Food Bank for New York City, the number one food pantry for the city, has experienced a 47 percent drop in food donations this year. Congress' farm bill will provide some relief to the food insecure by giving money to food programs, including food pantries, but help will not arrive until October. Sometimes families have to choose between feeding themselves and feeding their pets, a problem that may seem trivial until you have to tell your 6-year-old that the family dog must be given away. The SPCA in Santa Cruz, CA, which runs a food bank for pets, has seen a 20 percent spike in demand over the past six months.

The need to economize in hard times also affects children's (and adults') nutrition in other ways. One ironic consequence of economic stress tends to be obesity, as consumers substitute cheaper food that can fill them up. Junk food costs an average of \$1.76 per 1,000 calories, while unprocessed foods run \$18.16 per 1,000 calories. A recent marketing poll found that a third of all households had begun to substitute boxed or frozen goods for fresh ones.

College Educations at Risk

One of the unanticipated consequences of the debt crisis has been that lenders have begun to deny student loans, not on the basis of a student's financial profile, but on the school the student attends. Some of the country's largest banks are turning down loan applications for students planning to attend community colleges and second- or third-tier universities. Forty percent of America's undergraduates attend community college, and for many lower-income students these are the only option.

Different Effects of the Economic Crisis by Age, Race and Gender

Thirty million Americans are over age 65, and with the average social security payment set at \$1,079, there is not much of a margin to cover rising medical, prescription, food, and gas bills. Since more than a third of retired Americans help their children financially, according to a recent AARP poll, their financial troubles may trickle down to their children and grandchildren as well.

The AARP reports that the majority of baby boomers (aged 44-62) say they are struggling to make ends meet. Sixty percent have cut back on extras and 25 percent report having trouble paying their mortgage. Young adults aged 25-35 have their own issues. Many are still paying off student loans, and 35 percent are not saving for retirement at all.

As is so often the case, African Americans and Hispanics are at higher risk both for job loss and foreclosure than are whites. Studies consistently show that even where black and white families earn the same yearly income, African-Americans have much lower levels of accumulated wealth, largely because their mobility has been more recent and they did not inherit homes or assets from earlier generations. More than half of all mortgages granted to African Americans in 2006 were sub-prime. In fact, a family living in an upper-middle class African American neighborhood is twice as likely to have a sub-prime mortgage as a lower-middle class white family. Hispanics were also over-represented in the sub-prime housing market. Given the continuing residential segregation in America, foreclosures on such homes will disproportionately affect African-American and Hispanic neighborhoods.

In the recession of 2001-2004, women lost jobs at a higher rate than men. In the first 6 months of this recession, the reverse was true. From November 2007 through April 2008, men lost 700,000 jobs, especially in traditional "family-wage" occupations such as manufacturing and construction. Women, by contrast, gained almost 300,000 jobs, since female-dominated fields such as health care have remained strong.

No one is "winning" any gender battles here, though. The pay gap between men and women had been narrowing for several years, but has recently begun to increase again. Women's real wages, which rose throughout the 1980s and 1990s, dropped between 2007 and 2004.

And a disturbing Congressional study release in July 2008 suggests that the short-term gains for women in the early phases of this recession may not last. Long-term trends in the economy, which encouraged and rewarded women's employment from the 1960s through the 1990s, seem now to be discouraging women from staying in the workforce. The percentage of women holding paid jobs in the prime work years, 25-54, peaked in 2000 and has since declined, despite the increase in jobs between November and April. When economists first noticed that women were dropping out of the workforce, many commentators assumed that they were doing so to stay home with their children. But economist Heather Boushey, a senior economist at the Joint Economic Committee of Congress, has found that the trend is not concentrated among mothers, but affects all women - married and unmarried, non-mothers, mothers with small children, and mothers with teens. Men's workforce participation has been declining for some years; now women's is declining too, and probably for the same reasons - stagnating wages and a difficult job market, causing many women to become discouraged and encouraging some to drop out of the labor market. Since women bring home, on average, a third of family income -- and often much more when their husbands face job difficulties -- this trend is far more worrisome for family well-being than it seemed when we thought women might be dropping out because the family could afford to have one person stay home with the children.

Further Information

For information on the impact of economic stress on marriage and divorce, contact Pamela J. Smock, Professor of Sociology and Research Professor, Population Studies Center, University of Michigan-Ann Arbor: pjsmock@umich.edu, 734.761.8196. Dr. Smock is currently engaged in a project interviewing over 300 young adults from the working and lower-middle classes. Her findings suggest that economic stresses of many kinds shape young adults' perceptions and decisions about living together and marriage, and takes a toll on relationship quality.

On the pressures low- and middle-income parents feel to consume for their children, particularly in circumstances of increasing inequality, contact Allison Pugh, Assistant Professor of Sociology, University of Virginia: apugh@virginia.edu, 434.962.2824.

For information on how the physical and mental health of low-income parents and their children are further compromised by the current economic crisis and on the impact of the housing crisis on families, contact Linda Burton, James B. Duke Professor of Sociology, Duke University: lburton@soc.duke.edu.

For the social-psychological effects of income loss, unemployment, and housing insecurity on marriage and children, contact Dr. Joshua Coleman, psychologist and author of *When Parents Hurt* and *The Lazy Husband*: joshuacoleman@earthlink.net, 510.547.6500; or Dr. Lillian Rubin, author of *Families on the Fault Line* and *60 On Up: The Truth about Aging in the 21st Century*: lbrubin@lillianrubin.com, 415.377.7061.

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About CCF

The Council on Contemporary Families is a non-profit, non-partisan organization dedicated to providing the press and public with the latest research and best-practice findings about American families. Our members include demographers, economists, family therapists, historians, political scientists, psychologists, social workers, sociologists, as well as other family social scientists and practitioners.

Founded in 1996 and now based in the School of Education and Human Development at the University of Miami, the Council's mission is to enhance the national understanding of how and why contemporary families are changing, what needs and challenges they face, and how these needs can best be met. To fulfill that mission, the Council holds annual conferences, open to the public, and issues periodic briefing papers and fact sheets.

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