

Issues in Economic Policy

**The Gender Wage Gap: The Future of
Female Equity in the Workplace**

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ABSTRACT**The Gender Wage Gap: The Future of Female Equity in the Workplace**

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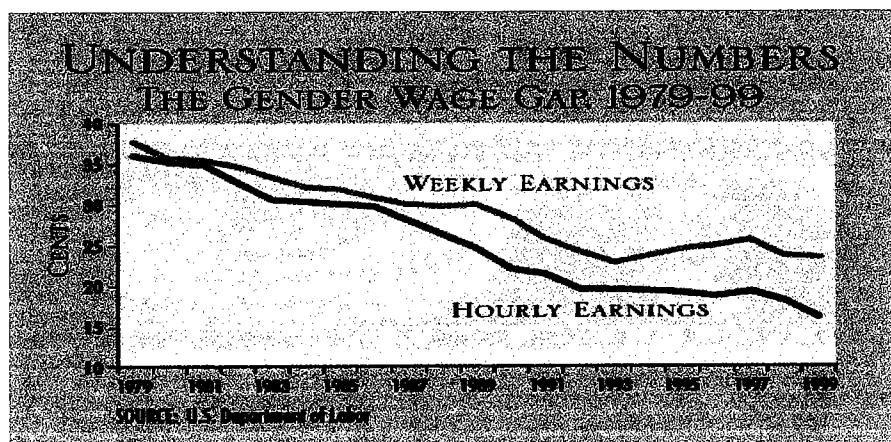
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As we enter the 21st century, women continue to strive for equality in society and in the workplace. Even though the labor force participation rate for females has increased dramatically over the past 40 years, there continues to be evidence of a gap between the wage rates of male and female workers in the United States. We contend that the observed wage gap is not the result of discriminatory practices by firms, but stems from the labor market choices made by women. The cause of the gap is important for the type of policies that could be implemented to shrink its magnitude. A review of previous research and economic concepts are used to support our hypothesis. Given that the male-female wage differential stems from the tough choices females are forced to make between responsibilities at home and work outside the home, policies to reduce the gap involve reducing the perceived costs of labor force participation. Possible policy recommendations include government subsidized child care and re-training programs, as well as, tax breaks for women re-entering the labor market.

As a result of increased labor force participation by women, the disparity between men's and women's earnings has become more evident. This discovery has led economists, politicians, and feminists to examine the underlying causes of the existing discrepancies in pay. Currently, researchers use Oaxaca's Residual Method to measure market discrimination. This method subtracts the "explainable" differences (education, training, hours, etc.) from the total difference in order to calculate the "unexplainable" differences or the residual portion of the earnings gap resulting from market discrimination. As we search for a rationale for this patriarchal phenomenon we will explore differing views on the cause of the wage gap. First, and most apparent, we will address the argument that the wage gap is a product of discrimination or residual differences within the labor market. We will then continue by discussing the policies that have been enacted in order to rectify this market bias and will comment on their effectiveness to date. Furthermore, we will present a contrasting view and rationale for the existence of the gender wage gap, which focuses on the explainable facets of women making different choices within the labor market rather than being the targets of inequity. Lastly, we will recommend policy options for the future that diminish the effects of differences in lifestyle choices between men and women.

"In 1999, women's median weekly earnings for full-time workers were 76.5 percent of men's -- a gender wage gap of 23.5 cents for every dollar earned by the median man" (Wall2001, 1). This chart further demonstrates the validity of these accusations of inequality.



Although it appears the wage gap is decreasing over time, some attribute this occurrence to other market alterations: “The gap has closed by an average of half a penny each year since 1966. But much of the narrowing can be attributed to the falling of men’s wages, rather than an increase in women’s earnings” (NOW, 1). Alyson Reed, Executive Director of the National Pay Committee on Pay Equity notes, “While women enter the full-time workforce in greater numbers, continue to improve their educational attainment, and increasingly enter high-paying non-traditional jobs, the wage gap persists” (NCPE, 1). This apparent wage discrimination is sparking the enactment of further policy. Reed also suggests stronger action against the wage gap: “We must continue our coalition’s work to strengthen the nation’s anti-discrimination laws, beef-up enforcement of federal and state fair employment laws, and pressure employers to examine their own wage-setting practices for unintentional bias” (NCPE, 1). Similarly, Barbara R. Bergmann states in her article, “Does the Market for Women’s Labor Need Fixing?”, “There is, however, considerable evidence for the alternative view that widespread, severe, ongoing discrimination by employers and fellow workers continues to hamper women. If this is true, systematic government action to interfere in the marketplace can be justified on the grounds of equity and efficiency” (Bergmann, 43). The following will address the existing policies enacted on behalf of the supposed unfair labor market conditions faced by women.

In past decades, the issue of the wage gap has led to government policies that attempt to correct the perceived disadvantage women are facing in the market. The subsequent policies have been passed and the following are key points for reference:

Paycheck Fairness Act (1963)

- Protects employees who discuss wages with co-workers from employer retaliation.
- Clarifies difference in pay based on bona fide factors, other than sex.
- Directs the Department of Labor to develop and publish voluntary guidelines that will allow employers to compare job categories based on criteria.
- Toughens the penalties for violations under the Equal Pay Act.

- Provides Training to Equal Employment Opportunity Commission and Office of Federal Contract Compliance Programs employees and others about wage discrimination.
- The EEOC is directed to collect wage data based on gender, race, and national origin, without placing undue burdens on employers.

Fair Pay Act (2001)

- Outlaws discrimination in wages paid to employees within a work place or equivalent jobs solely on the basis of a worker's sex, race, or nationality.
- Requires employers to provide equal pay for work of equivalent levels, defined as jobs that may be dissimilar, but require equivalent skill responsibility, and working conditions.
- Protects employees who discuss wages with co-workers from employer retaliation.
- The guidelines would not apply to wage differences that are the result of seniority systems, merit systems, or a pay system that relates each quantity or quality of products.
- Prohibits employers from reducing any employee's wages in order with the pay equity requirements.

Courtesy of: Business and Professional Women/USA

In considering these policies and their effectiveness, we can examine data tables in order to conclude whether or not there is a significant closing of the wage gap as a result of these policies.

Note: All figures in 2000 Dollars

Year	Women's Earnings	Men's Earnings	Difference	Dollar Percent
2000	\$27,355	\$37,339	\$9,984	73.0%
1995	\$25,260	\$35,365	\$10,105	71.4%
1990	\$25,451	\$35,538	\$10,087	71.6%
1985	\$23,978	\$37,131	\$13,153	64.6%
1980	\$22,279	\$37,033	\$14,754	60.2%
1975	\$21,297	\$36,207	\$14,910	58.8%
1970	\$20,567	\$34,642	\$14,075	59.4%
1965	\$17,852	\$29,791	\$11,939	59.9%
1960	\$16,144	\$26,608	\$10,464	60.7%

Updated September, 2001

*Note: This data reflects annual earnings which may differ from weekly or hourly wages because of part-time work.

It appears that the wage gap is slowing closing when examining the above data tables. Despite fluctuations from year to year, the data shows an improving lag between men's and women's annual earnings from 1960-2000. Therefore, there is empirical evidence to suggest that women are the object of discrimination within the workforce as supported by The National Women's

Law Center, “According to a 1998 report by the Council of Economic Advisers, even after holding constant variables such as occupation, age, experience, and education, women still do not earn equal pay for equal work” (National Women’s Law Center, 2).

Conversely, there are many who believe the wage gap does not exist as a result of market discrimination toward women, but as a result of choices made by women in the market.

According to June O’Neill, former director of Congressional Budget Office, “Among people ages 27 to 33 who have never had a child, women’s earnings approach 98 percent of men’s.

Women who hold positions and have skills and experience similar to those of men face wage disparities of less than 10 percent, and many are within a couple of points. Claims of unequal pay almost always involve comparing apples and oranges” (NCPA, 1). O’Neill’s findings

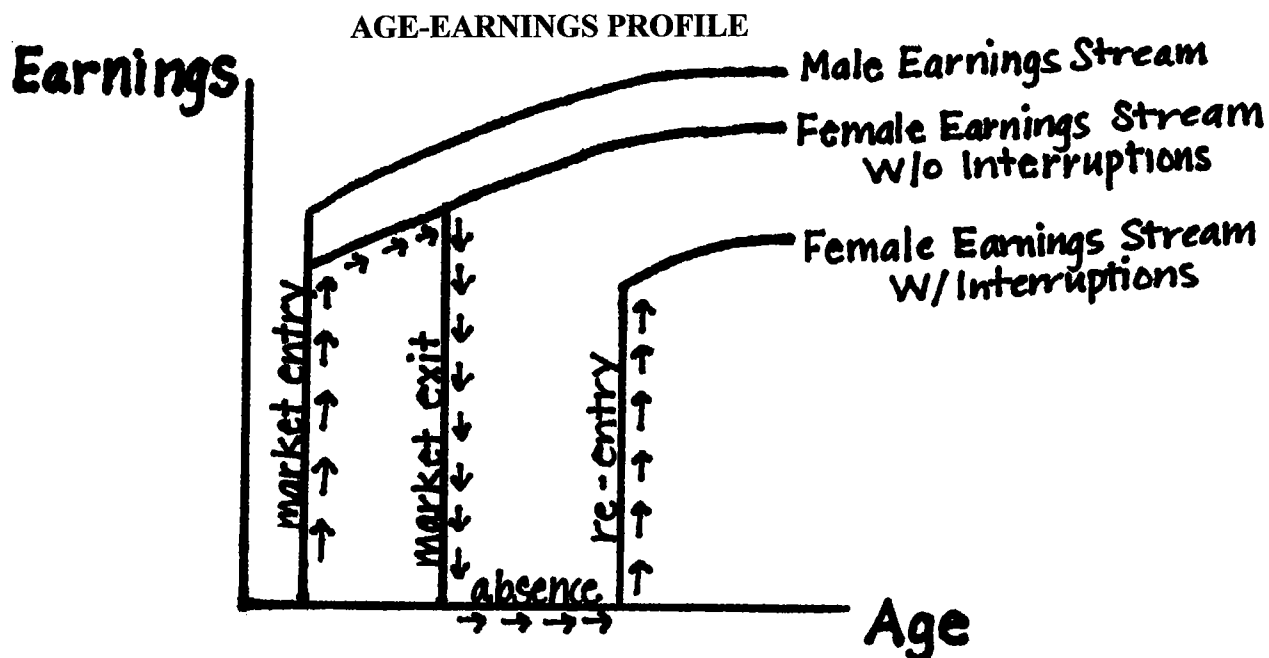
support the notion that women tend to place more emphasis on lifestyle choices other than participation in the workforce. As a result, women typically face more labor force interruptions

which include maternity leave, child care responsibilities, and other family obligations. These cause frequent entries and exits from the labor market resulting in the loss of human capital by

women and, therefore, earn less than their male counterparts. At that point, both the implicit and explicit costs of re-entering the labor force are much greater for women and prevent many

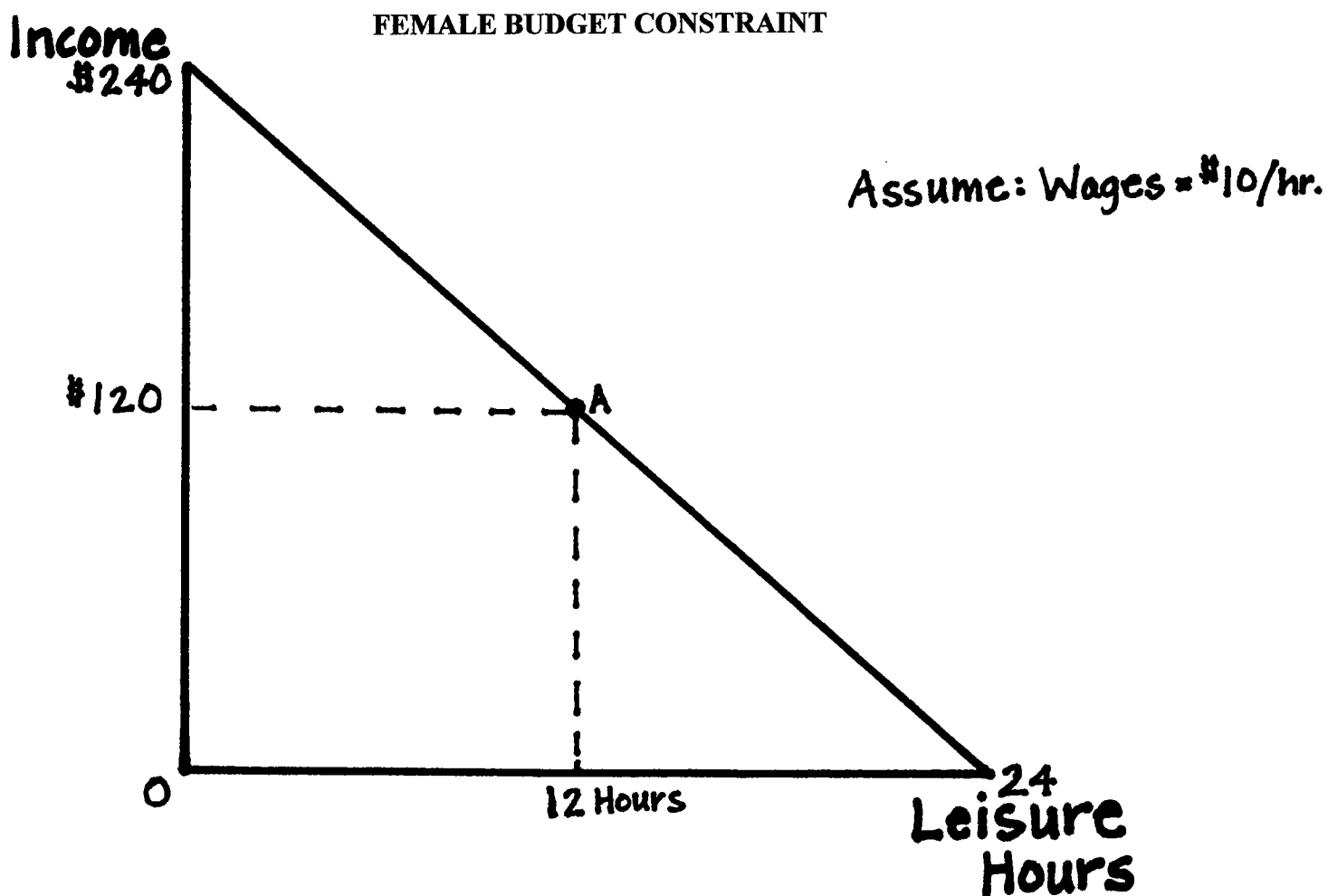
women from re-entry. The following age-earnings profile, exemplifies the aforementioned concepts.

concepts.



In this figure, women's earnings rise as expected but then fall to zero as they leave the market. When they choose to return after a period of time their wages are lower than when they left and they miss out on pay increases that they would have received otherwise as a result of fading human capital. Therefore, the result of women making different choices in the labor market determines their wages upon future entry in the market.

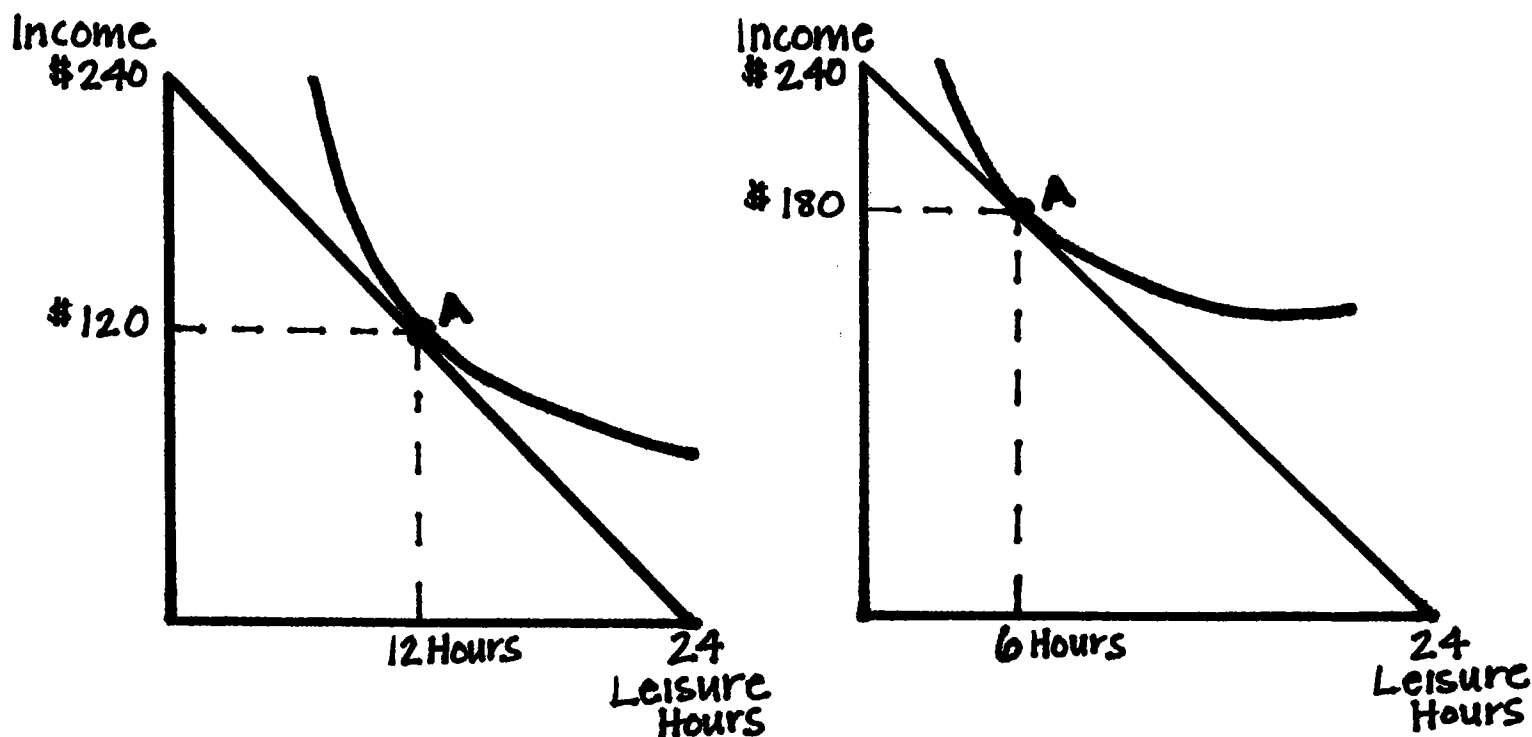
In order to lessen the effects of women making different lifestyle choices than men with regard to the labor market, policymakers should shift their focus when enacting future policy. Their policies should focus less on outright wage discrimination and place more emphasis on the fact that wage discrepancies may be a result of deteriorating human capital. Another factor that may influence women to exit the labor market more frequently than men is a higher opportunity cost of working. Their opportunity costs become higher as family obligations consume more of their time. This economic concept can be shown diagrammatically through the budget constraint graph shown below.



The above budget constraint shows the combinations of income and leisure an individual can consume. When we refer to leisure this would include all activities outside of the labor market, which include child care, housework, and any other commitments.

Introducing indifference curves to the above budget constraint figure enable us to understand the individual's feelings about leisure and income. Indifference curves that are more vertical indicate a higher value is placed upon leisure. On the other hand, indifference curves that are more horizontal imply the individual would place more worth on income. The following budget constraint samples with indifference curves represent the abovementioned concepts.

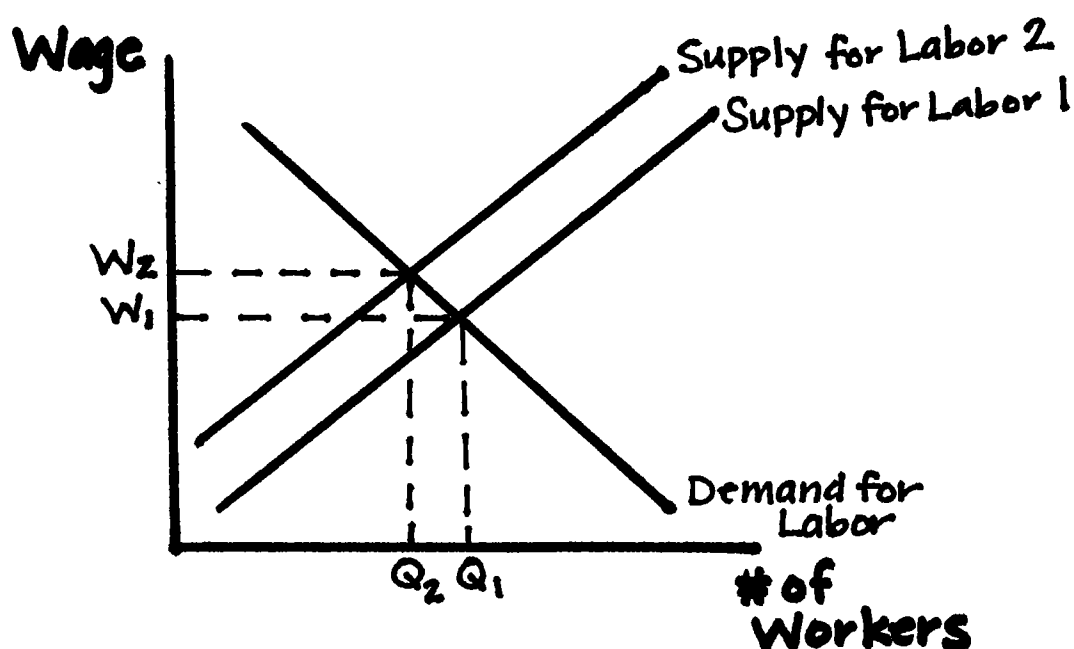
FEMALE BUDGET CONSTRAINTS WITH INDIFFERENCE CURVES
HIGHER LEISURE VALUE **HIGHER INCOME VALUE**



The enactment of future policies that address the issue of opportunity cost for women entering the labor force is crucial to diminishing the wage gap. Future policy may consist of subsidized training, child care vouchers, and perhaps even a price floor for wages. In all, if the policy allows for a lesser opportunity cost of re-entering the work force, women will be more likely to do so sooner and the result will be an effective reduction of the wage gap.

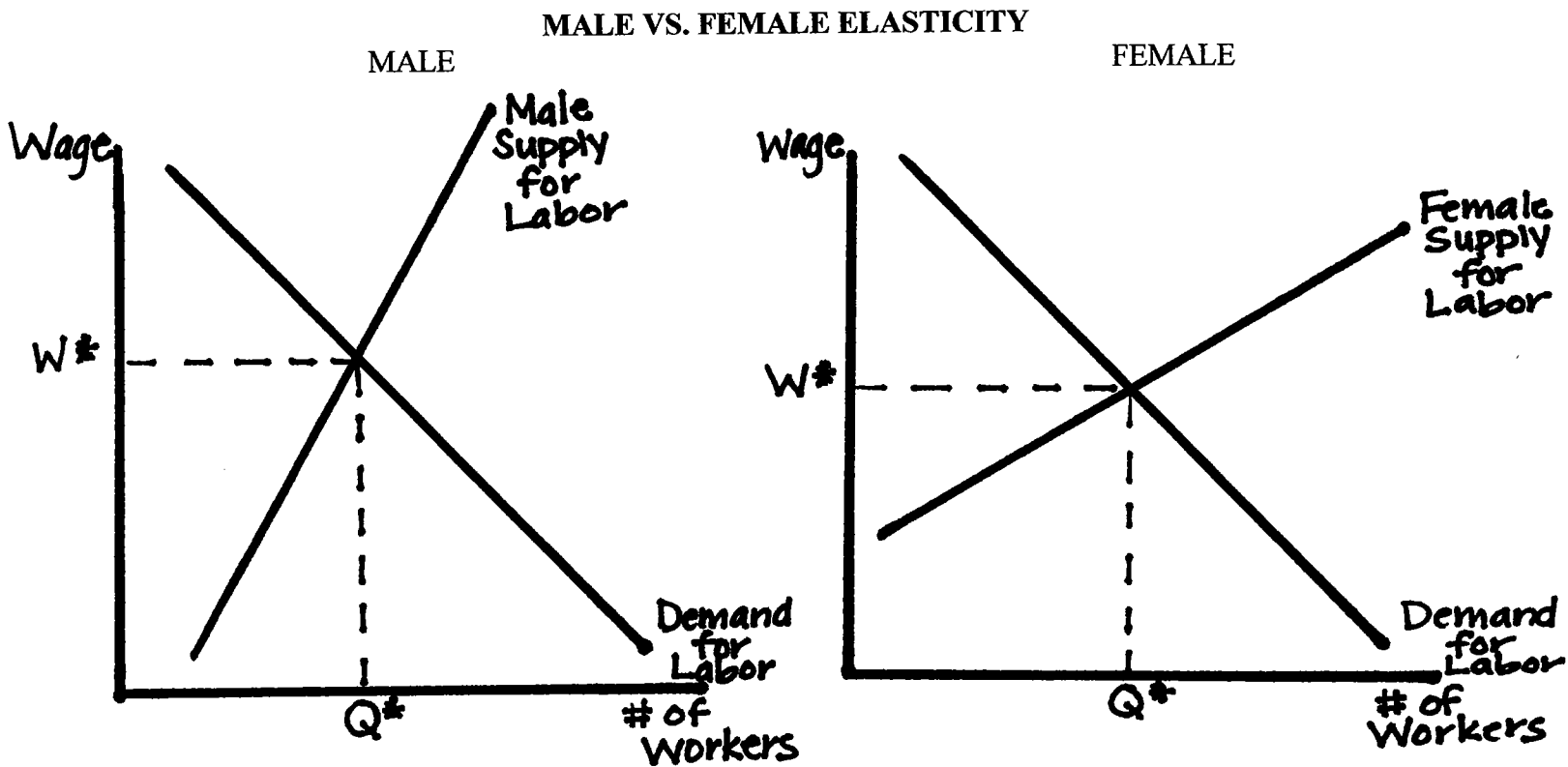
An economic theory that will potentially lower the opportunity cost of women re-entering the labor market is the Efficiency Wage Theory. This theory shows that firms will pay employee wages higher than the equilibrium as an incentive not to shirk. This higher rate of pay encourages workers not to shirk because if they are fired they will only be hired elsewhere for the market clearing wage, thus foregoing their higher wage. This concept is shown below in the following figure.

NON-SHIRKING MODEL/EFFICIENCY WAGE THEORY



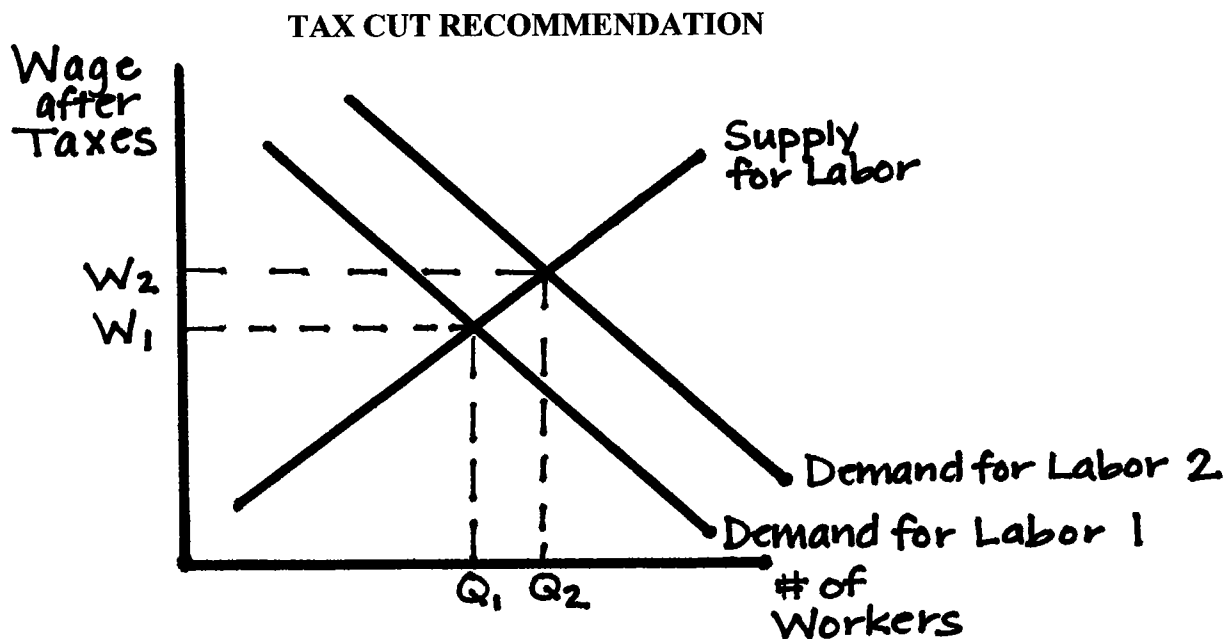
The above model shows that firms will offer a wage higher than the equilibrium wage in order to increase productivity even though the quantity of labor decreases. If these workers, more specifically women, are paid higher wages their opportunity cost of working is lowered. In order to increase the wage rate above the equilibrium wage, perhaps policymakers can reduce shirking costs by offering child care alternatives and other benefit programs that in total exceed the market-clearing wage rate. Therefore, these incentive programs decrease the opportunity cost of working for the female employee while increasing the employee's productivity. As a result, both the firm and worker benefit.

Consequently, if women are offered efficiency wages their opportunity cost will be lower and they will be more responsive to an increase because of a higher elasticity of supply than men. This states, that when there is an increase in wages, the quantity of workers will increase more for females than males. Below is a graph that demonstrates this difference in elasticity.



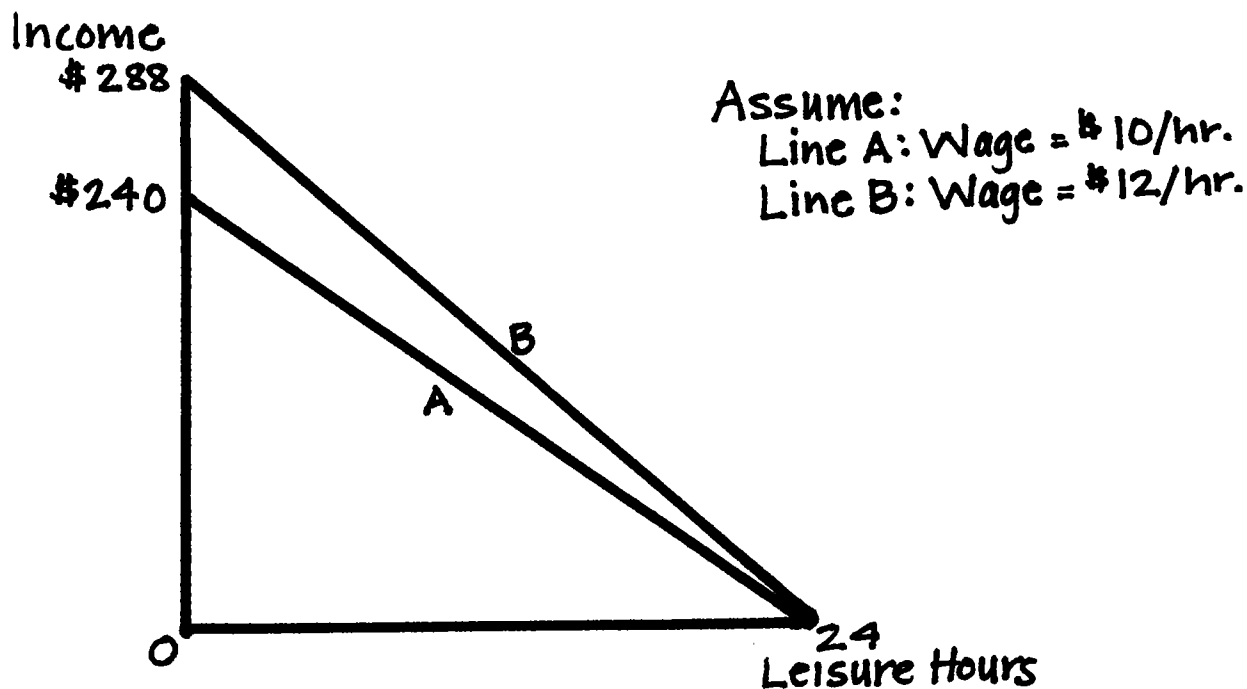
The understanding of the Efficiency Wage Theory and the Elasticity of Supply is critical to the closing of the wage gap. Both directly exemplify the idea of decreasing a female's opportunity cost of exit or re-entry by increasing their real wage and benefits or by decreasing their costs of participation.

Policymakers can potentially target this discrepancy in opportunity cost among men and women with a tax-break for females re-entering the labor market, which will in turn increase their wage rate and shift the demand out. This shift will cause wage rates to increase, as well as, inspire a higher re-entry by women to the labor market because their opportunity cost of returning is less. This theory is projected in the following diagram.



In summary, the main objective of policy should aim to reduce the opportunity cost of re-entering the workforce after an absence. If the proposed policies are enacted, female's budget constraints will become more vertical and re-entry will come at less of a cost to females and their families. This shift is shown below:

THE EFFECT OF PROPOSED POLICY ON FEMALE BUDGET CONSTRAINTS



Combined, an understanding of the aforementioned economic concepts will enable policymakers to enact more effective policy in the future. These policies will target the notion

that women make different lifestyle choices that limit their re-entry to the labor market after an absence. The policies will work in conjunction with existing legislation in order to further close the wage gap. The proposed policies of subsidizing child care costs, re-education and training costs, a potential wage floor for females, and also a tax-break for women re-entering the market after a long-term absence. Policymakers can also create incentive programs to keep human capital intact or to initiate human capital growth during their absence. If these policies are affective in closing the wage gap, females won't be the only ones who benefit. Rosa DeLauro emphasized "The wage gap affects a woman's livelihood and her ability to support a family. Two out of five women in the paid workforce are the sole providers for their families" (NOW, 1). NOW President Patricia Ireland also commented, "When women win equal pay, their families and communities benefit. If we can gain economic justice for all, it will mean the difference between poverty and survival for many, especially women and children" (NOW, 1). Therefore, it is essential for policymakers to address the wage gap from this alternative view, further advancing pay equity in the labor market.

