



“Summary of article by Francine D. Blau: The Gender Pay Gap” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 270-273

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## “Summary of article by Francine D. Blau: The Gender Pay Gap”

The gap in wages between men and women has been the subject of intense scrutiny in recent years, accompanying the increase in women's labor force participation. Understanding what determines this difference is no easy matter since wages themselves are the outcome of a number of factors, each of which may differ for men and women. Most analyses of the gender gap focus on gender-specific issues such as differences in human capital or labor market discrimination. The article summarized here adds another dimension: wage structure - the prices offered by the labor market and the institutions which influence them. Wage structure contributes to our understanding of the wage gap, while bringing gender (and race) into the equation increases our understanding of the wage structure itself.

### **GENDER-SPECIFIC DETERMINANTS OF THE WAGE GAP**

Human capital and discrimination dominate the discussion of gender wage differentials. "Human capital explanations ... explain gender differences in economic outcomes on the basis of productivity differences between the sexes." [16] These productivity differences arose from the division of labor in the family. Women traditionally took most responsibility for the home and family, so women acquired less education than men, particularly in fields valued by the market. Women's experience in market-based work was episodic, interrupted by marriage and child raising. Lower experience and less market-oriented education led to lower earnings for women, and also led women to choose occupations which required less investment in human capital. Employers preferred not to hire women for jobs which involved lengthy development of firm-specific skills because they might not remain with the firm long enough to warrant the training. Career-oriented women, who would, in fact, make a long-term commitment to a job, often suffered "statistical discrimination" from employers unwilling to risk hiring any women. To the extent that human capital differences do explain the gender gap, the gap should diminish as women gain more and more consistent labor market experience and more market-oriented education.

To the extent that human capital differences do not explain the gender gap, discrimination is a likely cause. Discrimination may reflect outright prejudice against a group of people or take the statistical form described above in which individuals are excluded based on employers' perception of typical characteristics of the group. When women are excluded from male-dominated jobs they are "crowded" into female jobs, creating an oversupply of labor which lowers wages in those jobs. In both the human capital and discrimination models, occupational segregation potentially plays a role.

Human capital differences between men and women and discrimination may coexist and can be difficult to distinguish empirically. In statistical analysis discrimination is not directly observed, but is inferred from the residual unexplained by measured characteristics. (It could also be the case that the residual, in whole or in part, captures the effect of unmeasured productivity-related characteristics.) On the other hand, employer discrimination may discourage women from making human capital investments, reinforcing their choices to stay at home. "Even small initial discriminatory differences in wages may cumulate to large ones as men and women make human capital investment and time allocations on the basis of them." [18]

## **WAGE STRUCTURE AND THE WAGE GAP**

Over the last two decades labor markets in industrialized countries have undergone many changes, including a rise in wage inequality, especially in the U.S. This turmoil focused attention on the determinants of wages, particularly changes in skills and the rewards to skills. The precise causes of increasing inequality are matters of debate among economists, but technological change, international trade, and institutional factors are likely candidates.

In other work the author, with Lawrence Kahn, investigated wage-setting institutions like unions and minimum wage laws. The findings indicate "that systems of centrally determined pay are likely to entail less wage inequality and smaller gender wage differentials...." [20] In the decentralized system in the U.S., where wages are generally set on a firm by firm basis, "a significant portion of the male-female pay gap has been found to be associated with inter-industry or inter-firm differentials." [20] In many other industrialized countries union wage scales have a strong influence (in some cases legally enforceable) on wages of all workers. Such centralized systems tend to reduce variation across industries and firms and thus lower the gender gap. In addition, since the distribution of women's wages lies below that of men, minimum wage laws will also reduce the gender gap by raising the relative position of those at the bottom of the scale.

International comparisons raise a puzzling question. Women in the U.S. have high qualifications and the U.S. has a longstanding legal commitment to eliminate discrimination, yet the U.S. has one of the largest gender pay gaps. The solution comes in looking at "the fairly large penalty that the US wage structure imposes on groups that have below average skills (measured or unmeasured) or are located in less favored sectors." [21] Sweden and the U.S. provide a useful comparison because Sweden has one of the highest female to male wage ratios and the U.S. has one of the lowest. (However, the U.S. gap has been narrowing and the Swedish gap widening since the data used here was collected in 1984).

In 1984 the unadjusted female-to-male wage ratio for the U.S. was 66.9 and for Sweden 82.7. (All ratios are expressed as percentages.) Adjusted for human capital and industry and occupation variables, the U.S. ratio was 82.2 and the Swedish ratio 90.9. One could infer that Swedish women suffer less discrimination or have better unmeasured characteristics than women in the U.S., but this conclusion would be wrong. "Differences in women's qualifications or labor market treatment are not responsible for the larger US gender gap, rather it is differences in overall labor market prices in the two countries." [23]

The analysis assigns each woman the percentile ranking she would hold in the male wage distribution. Qualifications and discrimination determine the position of women on this scale, while the male wage structure assigns a particular reward or penalty to each position. The mean percentile rank for women is at the 29.6 percentile level in the U.S. and 29.9 in Sweden - almost exactly the same, the 30th percentile in round numbers. In other words, 70 percent of the men in each country earn more than the average woman. The average female-to-male wage ratio in each country is equal to the ratio of the 30th to 50th percentile male wage - which is a much larger gap in the U.S. than in Sweden.

Repeating the analysis with controls for job-related characteristics - education, experience, occupation, and industry - finds that the average woman would be at the 36.6 percentile of the male wage distribution in the U.S., and the 37.4 percentile in Sweden - again, almost identical. The first comparison shows that in both countries the average woman earns more than 30 percent of men in general; the second shows that in both countries the average woman earns more than 37 percent of men with the same job-related characteristics. Even though the average woman's wage in each country falls in the low end of the male wage range, the low end is better off compared to other workers in Sweden than in the U.S.

The gender gap in job characteristics is similar in both countries. A slight difference in experience and occupation favoring Swedish women is offset by differences in the gender gaps in education and industry favoring U.S. women. However, the wage differentials for these characteristics are quite different in the two countries. For example, the wage differentials between industries are much smaller in Sweden, this is the most important, though not the only difference in wage structures.

A final analysis compares the wages of all women in each country to all men. The U.S and Swedish situations are very similar throughout the distribution and almost identical in the middle ranges. At the bottom, more women are in the lowest male decile in Sweden than in the U.S. (29% vs. 20%). Labor market institutions that bring up the bottom of the wage distribution are therefore of particular importance in reducing the gender gap in Sweden.

## **SWIMMING AGAINST THE TIDE**

With inequality growing in the U.S., and the wage structure shaped by rising returns to skills, "women's relative skills and treatment have to improve merely for the pay gap to remain constant. Still larger gains are necessary for it to be reduced. Yet the gender gap has actually been falling in the USA since the late 1970s." [28] Women's qualifications improved in the 1970s and 1980s, particularly through improvements in experience and reduction of occupational segregation. Declines in unionization hit men harder than women. The unexplained portion of the gender gap fell, reflecting reduction in discrimination or gaps in unmeasured characteristics. As women increased labor market attachment, statistical discrimination may have declined. Although enforcement of anti-discrimination statutes fell in the 1980s from initial levels, earlier enforcement may have encouraged women to undertake greater levels of human capital investment. It may also be the case that shifts in prices for skills have affected men and women differently, favoring women over men among low and medium-skilled workers.

On an international basis, wage structure explains why the U.S. gender gap is high relative to other countries; gender-specific factors do not appear to play a role. In contrast, within the U.S., gender-specific factors such as improvement in women's qualifications and declines in discrimination are very important causes of the narrowing of the gender gap over time. As a practical matter it seems easier to attack gender or other differentials directly. Without such differentials, men and women would be similarly affected by the wage structure and changes in it.