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Changing Labour Market and Gender Equality: The Role of Policy

WOMENS' PAY IN A CHANGING LABOUR MARKET

**High level Conference organised jointly by the OECD, the Ministry of Children and Family Affairs and the Ministry of Labour and Government Administration, Norway
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The attached paper has been prepared by R.G. Gregory, Research School of Social Sciences, Australian National University, Canberra, Australia. The views expressed are those of the author and do not commit either the Organisation or the national authorities concerned.

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SUMMARY

1. Labour markets in OECD countries are undergoing profound changes but with widely differing outcomes in particular for women. In the face of poor employment growth in Europe, and widening wage inequalities in some OECD member countries, many commentators are apprehensive that further government attempts to move labour markets towards greater equality of outcomes for women may be arrested. This paper provides a background against which these issues can be discussed. The focus is on women's pay.
2. The paper reviews trends in the gender pay ratio in OECD countries since the early 1970's and the range of factors explaining both the ratio and the trends. Particular attention is given to the contrast between wage outcomes for women in an unregulated economy and in more centralised wage setting systems.
3. A range of government policies will affect women's pay. The discussion of these policies has usually been directed towards specific initiatives developed with the principal purpose of increasing women's pay. This focus may prove to be increasingly inadequate. In the future, the relative pay of women may be more influenced by general macro policies directed towards job creation and unemployment rather than policies specifically directed towards increasing low pay for women. The paper discusses what should be the focus of pay equity policies in the future.
4. In most OECD countries the least skilled women seem to be the most adversely affected by recent trends either through restricted job opportunities or by falling relative wages. The whole range of government policies likely to have an impact on the low pay of women and the gender pay ratio is reviewed for their relative effectiveness in the short and longer term.

TABLE OF CONTENTS

SUMMARY.....	2
INTRODUCTION	4
DETERMINANTS OF THE GENDER PAY RATIO	5
Within country analysis	6
Across country differences in the gender pay ratio	7
THE GENDER PAY RATIO AND LOW PAY FOR WOMEN.....	8
Equal pay changes in centralised wage fixing economies during the 1970s	9
Pay changes in the 1980s: the United States experience	10
What should be the focus of pay equity?.....	11
PAY EQUITY AND EMPLOYMENT	12
LOW PAY AND POLICY.....	13
Deregulation of wage setting	13
Minimum wages	14
Comparable worth policies and occupational segregation	15
Role of unions	16
Public and private sector pay	17
Firm and industry effects	17
Industry policy	18
Part-time work	18
Policies which support women's employment	19
Immigration of low skilled women seeking work	19
Education and training	20
CONCLUDING REMARKS	20
BIBLIOGRAPHY.....	22
FIGURES.....	25

WOMENS' PAY IN A CHANGING LABOUR MARKET¹

INTRODUCTION

1. Labour markets in OECD countries are undergoing profound changes but with widely differing outcomes. In some countries, such as the United States, there has been two and a half decades of extraordinary growth in full-time employment of women and job opportunities are widespread. In others, such as Australia, the proportion of women employed full-time is approximately the same as in 1970 and all the growth in female participation, which has been substantial, has been in part-time employment. Full-time job opportunities are scarce, especially for the young.

2. There is a similar divergence in wage outcomes. In the United Kingdom, average real wages have grown strongly over the last decade. In the United States average real wages are not that different from mid 1970 levels. In the United Kingdom, Australia, Canada and the United States there is growing inequality of wage outcomes. In other countries, wage inequality has not changed significantly but employment opportunities have. In most OECD countries the least skilled seem to be the most adversely affected by recent trends either through restricted job opportunities or by falling relative wages.

3. On average, women seem to have fared better in the face of these labour market changes than men. Female employment-population levels have increased while those of males have fallen and, on average, the pay of women has increased relative to men.

4. The pace of change in the labour market is thought to have accelerated. In the face of poor employment growth in Europe, and widening wage inequalities in some OECD member countries, many commentators are apprehensive that further government attempts to move labour markets towards greater equality of outcomes for women may be arrested. Some even fear that there may be some slipping back as past gains are lost. This paper provides a background against which these issues can be discussed. The focus is on women's pay rather than hours of work or in-work benefits.

5. A range of government policies will affect women's pay. The discussion of these policies has usually been directed towards specific initiatives developed with the principal purpose of increasing women's pay. This focus may prove to be increasingly inadequate. In the future, the relative pay of women may be more influenced by general macro policies directed towards job creation and unemployment rather than policies specifically directed towards increasing low pay for women.

6. In many OECD countries there is a tendency to respond to low job growth by introducing policies that will lead to further deregulation of labour markets, in the belief that this will create more jobs, although perhaps at a cost of allowing low wages to fall. Low paid women may fare worse as a result of such policies. For this reason, particular attention is given throughout the paper to the contrast between wage outcomes for low paid women in the United States — a labour market where centralised

1. This paper has been prepared by R. G. GREGORY, Research School of Social Sciences, Australian National University, Canberra, Australia, for the Conference "Changing Labour Market and Gender Equality: The Role of Policy. Oslo, 12 and 13 October 1998.

wage fixing and direct intervention by government and unions play a minor role — and wage outcomes for women in more centralised wage setting systems such as those that prevail in Europe.

7. The other important recent macro outcome is the marked trend in some OECD countries for pay dispersion to widen and for low wages to fall relative to the median. Once again the United States receives particular attention because the widening pay gap has been most noticeable there. Many commentators are suggesting that factors leading to a wider pay dispersion in the United States have spread to other countries. In Canada, the United Kingdom and Australia the pay distribution has also widened. In countries where wage inequality has been constrained these factors have expressed themselves in more unemployment among the less skilled. Policies developed in response to these trends, especially in the area of taxation, welfare and social security payments may interact with low wages to change the economic well-being of low paid women. These interactions may be quite complex.

8. The determinants of low pay for women are discussed in Part II. Low pay is a relative concept that should be defined in the context of the earnings distribution in each country. When this is done it is useful to think of the determinants of low pay for women in terms of three broad influences.

- i. Low pay will be affected by general factors that impact on the average pay level of women relative to the average pay level of men. We refer to this average pay relativity as the gender pay ratio. Countries with a relatively high gender pay ratio will usually have a smaller proportion of women receiving low pay.
- ii. The extent of low pay will depend on factors which affect the dispersion of pay. Countries in which there is a wide dispersion of pay, and a high proportion of men employed at low pay, will usually exhibit a disproportionate share of women employed at low pay.
- iii. In each country there will be influences with specific impacts that are largely confined to wages of low paid women.

Most of our emphasis is placed on the first two factors.

DETERMINANTS OF THE GENDER PAY RATIO

9. Figures 1a and 1b present the history of the gender pay ratio — the average (or median) hourly pay of women divided by the average (or median) hourly pay of men — for a small number of OECD countries since the late 1960s. These data indicate a number of clear relationships:

- a) the gender pay ratio is not the same in each country. In 1990, for example, the ratio ranged from 66 per cent (Switzerland) to just over 90 per cent (Sweden).²
- b) the gender pay ratio has increased over the last two and half decades.³

² The gender pay ratio is sensitive to the way in which it is measured. The gender pay ratio increases as the definition moves from a ratio measured in terms of annual earnings, weekly earnings or hourly earnings. The change in the ratio presents two problems. First, restricted data availability often means that a comparison of the gender pay ratio across countries involves ratios calculated on a different basis. For some countries the data refer to weekly earnings and for other it refers to hourly earnings. Second, if the comparison across countries could be done on a consistent basis the country ranking may change as the ratio definition changes. I am not aware of any research which compares changes in country rankings as the definition of the gender pay ratio changes but our conjecture is that this effect is not likely to be very important.

³ This is not true of all OECD countries. The earnings ratio in Japan seems to have fallen considerably since the mid 1970s (Blau and Kahn, 1995).

- c) the largest changes in the gender pay ratio occurred during the 1970s rather than the 1980s (the United States is an exception).
- d) the countries seem to divide into three sets:
 - Australia, United Kingdom, Ireland, New Zealand, Netherlands and Denmark, which experienced large increases in the gender pay ratio over a short period of time during the 1970s. Since then the gender pay ratio for these countries has not changed significantly (in the United Kingdom and Netherlands there may have been some falling back).
 - Other countries — Norway, Finland, Sweden and Belgium — which experienced an increase in the gender pay ratio over a longer time period than the 1970s.
 - The United States which has experienced large increases in the gender pay ratio since the late 1970s.

How might these facts be explained?

Within country analysis

10. It has been well established in OECD countries that individual pay levels are affected by a range of human capital factors such as education and labour market experience that are specific to the individual. On average, more educated workers and those with more labour market experience are relatively better paid. These relationships are estimated and summarised by human capital models which seem to perform reasonably well as explanations of the individual distribution of male and female pay considered separately. The research, however, indicates that the human capital model needs to be augmented by other factors such as industry, firm and occupation of employment.

11. The human capital model that has been applied to explain individual pay has also been applied within countries to explain the gender pay ratio. Human capital factors play some role in explaining why the average pay of women is less than that of men. The general consensus, however, is that individual factors, as they are typically measured, explain about half of the gender pay gap. The other half of this gap is unexplained and is either the result of economic, social, or institutional forces that have been ignored in the analysis, or the result of inadequate measurement of the included variables. The human capital model therefore is not completely satisfactory in its ability to explain why women on average are paid less than men.

12. In some countries attempts have been made to utilise human capital variables to explain the change in the gender pay ratio through time. Over the last two decades the education level and labour market experience of women relative to men has increased in most countries and it might be expected that the gender pay ratio would increase, especially among younger cohorts. To some extent this has happened but perhaps not as much as might have been expected. Indeed, the link between changes in human capital attributes of men and women in aggregate and changes in the gender pay ratio may not be that strong.

13. In Australia, Denmark, New Zealand and the United Kingdom — where the gender pay ratio increased so much over a short period of time during the 1970s — the large changes in the gender pay ratio were not associated with shifts in the general level of human capital endowments of women relative to men. The changes were the result of decisions of pay setting tribunals or government legislation to implement equal pay for women through centralised wage setting or an extensive system of collective bargaining. Where large changes have been introduced as a result of direct intervention of government or wage setting institutions they have tended to stay in place. The market has not substantially eroded the gains.

14. An interesting aside to the relationship between the market and institutional wage setting is that the growth of labour market experience and education of women, relative to men, that has occurred in these countries since the 1970s has not had a marked impact on the gender pay ratio. Why increased education and labour experience for women has not been more effective during the 1980s and 1990s has not been explored to any significant extent.⁴ The relative stability of the gender pay ratio in the United Kingdom, Australia, New Zealand and Denmark since the 1970s is a subject of considerable interest.

15. Changes in human capital variables may be more important in countries where changes in the gender pay ratio have been slower. This may be particularly so in the United States where there is minimum labour market intervention. But even here the evidence is not straightforward. It is not clear how much of the relative increase in pay for women arises from increases in the human capital endowments, such as increased labour market experience and how much of the increase arises from the increased demand for labour in female intensive occupations and industries.⁵

16. It is also not clear how much of the increase in the gender pay ratio arises from falls in male pay in response to declines in the labour market demand for unskilled men. There have been considerable changes in the rewards for skill and education in the United States and a selection of other countries that are impacting differently on the pay of men and women.

Across country differences in the gender pay ratio

17. Can different gender pay ratios across countries be explained by different levels of education and labour market experience of women, relative to men? The experience of those countries where the gender ratio changed quickly during the 1970s would suggest that the human capital model will not provide an adequate explanation of the gender pay ratio across countries.

18. A number of studies, Gregory *et al* (1989, 1991), and more recently, Blau and Kahn (1995) have shown, especially in comparisons between the United States and other countries, that differences in relative human capital endowments of men and women do contribute to differences in the gender pay ratio across countries. The contribution, however, is not large. Labour market institutions, such as the degree

⁴ It is possible that the lack of a close association between the relative growth in the education and labour market experience of women and growth in the gender pay ratio can be explained, to some extent, by cohort effects, the changing rewards for experience and the widening of the pay distribution that is occurring in many countries.

⁵ It is difficult to quantify, with any degree of precision, the reasons for changes in the gender pay ratio in the US. O'Neill and Polachek (1993) estimate that one third of the increase in the gender pay ratio can be explained by an improvement in work related characteristics of women relative to men (their Table 8). The most important of these is the change in occupation skill level. Experience (measured inadequately as potential experience) makes no contribution and increases in education achievement of women relative to men explains 8 per cent of the change. Approximately one fifth of the change is accounted for by changes in regression coefficients of which the schooling, experience, industry and blue collar occupations make the largest contributions. Because it is not possible to measure labour market experience accurately some of the effect of the coefficient attributed to the labour market experience variable should be attributed to the change in actual experience. The remaining two fifths is explained by a time trend. Changes in the distribution of men and women across occupations and industries make no contribution. The coefficients attached to industry are important, however, and favour women.

These results differ from Blau and Kahn (1997) who estimate that changes in work force characteristics of women, relative to men, account for 80 per cent of the change in the gender pay ratio. Experience and occupational change account for about one third each. As in the O'Neill and Polachek study changes in the distribution of men and women across industries makes no contribution.

of centralisation of wage fixing, also matters. The existence of equal pay legislation that can be effected across-the-board is very important.

19. Labour market institutions matter in three ways:

- i. First, in most countries male and female pay distributions are usually linked together, especially at the lower part of the pay distribution. Consequently, labour market institutions which compress and lift low male pay closer to the median wage will usually lift women's pay. The gender earnings ratio will be higher when the wage distribution is compressed because women are concentrated among workers who are paid less than male median pay. This effect is most clearly illustrated by a comparison of the United States labour market, with a very wide dispersion of pay, with European labour markets, where pay distributions tend to be more compressed. As a general rule centralised wage fixing, higher minimum wages and extensive trade unions tend to narrow wage distributions.
- ii. Second, it is clear from the Australian, New Zealand and United Kingdom experience that centralised wage fixing institutions, or an extensive system of interlinked collective bargains have been able to deliver large increases in women's pay over a very short period of time. As a generalisation it appears, before the equal pay changes in the 1970s, that many of these countries compressed male pay distributions but did not extend these gains fully to women workers. Consequently, it was quite common to explicitly pay women less for the same job — for example in Australia during the 1960s female school teachers with identical qualifications to male teachers were paid less. Wage schedules often explicitly indicated levels of pay for each gender — male shop assistants, female shop assistants and so on. A similar set of circumstances existed in New Zealand and the United Kingdom. This open and explicit pay discrimination against women, often written down in collective agreements, made it easy for these countries to change women's pay relativities quite quickly once the decision to remove explicit pay discrimination was made. Thus, in Australia, the basic wage for a female was increased to that of a male and in the United Kingdom female minimum rates of pay were increased to the lowest level of male pay in each collective agreement.
- iii. Third, the institutional structure of labour markets with centralised wage fixing and extensive collective agreements has affected the ability of countries to deal more effectively with equal pay for work of equal value or comparable worth. All countries have found it difficult to link pay in male and female occupations with any degree of precision and effectiveness. Job evaluation techniques have been successful in particular instances but have not made a large economy wide impact on the aggregate gender ratio. Similarly, complainant based legal systems have also had little impact across-the-board. Rough rules of thumb, which are difficult to adopt in a complainant based legal system have been more useful and have been implicitly adopted more readily in centralised wage fixing systems. Australia, for example, introduced equal pay for work of equal value between 1972 and 1975 and brought about very large changes in pay for women. Most of the changes were driven by the adoption of a basic (minimum wage) for men and women and the adoption of a simple implicit rule to increase women's pay in women's occupations by about a third. This rule was not stated explicitly but analysis of the pay changes suggests that something like this rule seems to have been applied.

THE GENDER PAY RATIO AND LOW PAY FOR WOMEN

20. Much of the discussion of pay equity at the macro level has been in terms of the gender pay ratio. Increasingly, this focus alone has become inadequate, partly in response to a better understanding of the factors leading to differences in the gender pay ratio through time and across countries, and partly in

response to changes in the patterns of pay and demand for labour that seem to be occurring in OECD countries.

21. The gender pay ratio summarises the product of the female pay structure and the proportions of women employed at each pay level divided by the male pay structure and the proportions of men employed at each pay level. We define the pay structure as a list of the pay rates for different occupations and jobs, for example, the pay for a typist, a nurse, a welder and so on. In principle, therefore, the gender pay ratio can respond to four different sets of influences. It can respond to changes in the male or female pay structures — for example, a change in the wages of male or female intensive occupations or industries relative to other wages — or to changes in the employment distribution of men and women across jobs. An increase in the number of women employed at low pay can arise because the economy has been generating more jobs that have always been low paid – more sewing machine operators more domestic cleaners– or because the pay for many jobs has fallen and jobs that once delivered pay from the middle of the range have fallen into the low pay category.

Equal pay changes in centralised wage fixing economies during the 1970s

22. In Australia, New Zealand and the United Kingdom the large changes in the gender pay ratio during the 1970s were generated by changes in the pay structure facing women. The equal pay changes moved the women's pay structure upwards relative to the male pay structure. There was insufficient time for employment distributions or the relative level of education and labour market experience of women to change.

23. Australia is perhaps the best example of a change in the pay structure implemented across the board during the 1970s. There were a number of specific characteristics of pay structure changes :

- The wages of virtually all women increased as a result of the equal pay changes. Women on low pay gained as much or more than women on higher pay.
- Pay increases were larger in the private sector because women in the public sector were more likely to be employed in occupations they shared with males. In addition, various state governments had introduced equal pay for equal work provisions earlier than the national across-the-board decisions in 1969 and 1972.
- Among occupations and industries that disproportionately employed women, relative to men, the evidence points to no systematic difference between the level of the pay increases and the female intensity of the occupation or industry. All women seemed to share in the increase.⁶

24. In the United Kingdom relative pay outcomes in the 1970s were very similar to Australia if allowance is made for the difference in male pay distributions. Relative to males in female occupations, women in both countries received similar pay increases. Relative to the median male the pay increase in Australia was much less (Gregory *et al*, 1989).

⁶ There is still some debate as to whether the 30 per cent rule-of-thumb was the right ad hoc measure. The rule-of-thumb was never officially stated. But decisions as applied to individual occupations and industries did not involve formal job evaluation studies.

Pay changes in the 1980s: the United States experience

25. The largest increase in the gender ratio during the 1980s occurred in the United States which, among OECD countries, might be thought of as a largely unregulated labour market. The lack of centralised wage setting, and lack of extensive collective bargaining across the work force, leads to an economy wide environment in which there is no explicit and legal recognition of male and female pay structures. The market process whereby women's pay increased, relative to that of men, is very different from that which occurred in the centralised wage setting systems in response to economy wide equal pay initiatives.

26. There are a number interesting points of comparison between the large increases in the gender ratio in the centralised wage fixing countries during the 1970s and the large increases in the gender ratio in the United States unregulated labour market during the 1980s. In the United States the increase in the gender pay ratio was not the result of equal pay decisions⁷. Hence there is considerable opportunity for pay increases not to be spread evenly among women. Furthermore, the United States process has taken place over a decade and a half in a labour market where the increase in the women's full-time employment population ratio was of the order of 30 per cent. Consequently, there is considerable opportunity for the gender ratio to increase because the distribution of female employment has changed across occupations and industries.

27. In the United States there has been a substantial widening of pay dispersion within the women's pay structure. To measure the change that occurred each year we use data from the March CPS (Current Population Survey). Women employed full-time are ranked by their weekly earnings. Average female earnings at various percentiles, such as the 20th and 80th, are then divided by median female weekly earnings. This calculation is performed for each year and the results are then converted to indices with the 1976 ratios set equal to 1.00.

28. The widening of the pay distribution for women seems to have begun around 1982 (Figure 2). At the 20th percentile women's full-time weekly earnings has fallen about 10 per cent relative to the female median. At the 10th percentile the fall has been nearer 20 per cent. Measured against women's median pay the circumstances of low paid women have deteriorated and women at higher pay levels have made substantial gains. At the 80th percentile women's weekly earnings, relative to the median, has increased 10 per cent and at the 90th percentile, 14 per cent. This experience is very different from that which occurred in the 1970s in Australia, New Zealand and the United Kingdom where, if anything, the equal pay decisions compressed the female wage structure.

29. Although low paid women have slipped back, relative to other women, they have shared in the improvement in women's pay relative to men. Figure 3 indicates, relative to male median pay, that women at the 10th and 20th percentile have increased their pay levels by approximately 2 and 13 per cent respectively. Women at the 80th and 90th percentile increased their pay relative to the male median by 38 and 44 per cent.

30. The change in earnings among women appears more uniform if women's pay is compared to male pay at the equivalent percentile. Figure 4 indicates that women's pay at the 20th percentile of the female pay distribution has increased almost 30 per cent relative to men's pay at the 20th percentile of the male pay distribution. Women's pay at the 80th percentile of the women's pay distribution has increased

⁷ US legislation that may impact on women's pay was introduced during the 1960s. The Equal Pay Act of 1963 and the Civil Rights Act of 1964. Blau and Kahn (1995) suggest that US policies in this area compare relatively favourably to those of other countries. Beller (1979) and Blau and Beller (1988) find some evidence of an impact of government policy on the gender pay ratio. At the economy wide level the impact though is probably not large.

20 per cent compared to men at the 80th percentile of the male pay distribution. . The contrast between Figure 4 and Figure 3 indicates that the widening dispersion of pay among women in the United States is strongly associated with the widening pay dispersion among men. On the basis of a comparison of percentile positions women at the bottom of the pay distribution, with the exception of the bottom decile, seem to have done marginally better relative to their male counterparts that women at the top of the pay distribution. Although pay improvement for low paid women, relative to low paid men, has been substantial, low paid men are still better paid than low paid women (Figure 5). At 1970 women at the 20th percentile of the female pay distribution were paid 62 per cent of the male pay at the 20th percentile. That ratio has now increased to 82 per cent.

31. Considerably more work needs to be done to isolate more carefully the degree to which all women shared in the pay increase in the United States and to present better data to compare and contrast the experience of centralised and decentralised wage setting systems under which there has been such a large change in women's pay.

What should be the focus of pay equity?

32. The above analysis suggests that to properly assess the economic progress of women, and their ability to achieve pay levels comparable to that of males, it is important to fully account for the male and female pay *structures* within a country and to fully take into consideration how pay structures are changing through time. To focus on the gender pay ratio is not sufficient. Thus in the United States, low paid women made only slight gains relative to male median pay but substantial gains relative to low paid men. Consider the following two examples taken from the work of Blau and Kahn (1995).

33. Blau and Kahn (1995) show that during the 1980s women in the United States increased their ranking in the male pay distribution by a considerable margin. But because the male pay distribution widened and because women are disproportionately located below male median earnings women lost some of their potential income gains. Blau and Kahn (1997) refer to this as "swimming up stream" and estimate that about one third of the gains made relative to the male pay structure were not translated into a change in the gender pay ratio.

34. Once account is taken of the position of women in the male pay distribution a number of interesting issues are raised. For example, it is possible that the gender pay ratio which summarised the average situation does not change but that women improve their ranking in the male distribution, and make genuine progress in pay relative to men in similar circumstances. That is, the effect of the widening of the male pay distribution on female earnings just offsets the movement of women up the male pay distribution.⁸ One measure of economic progress – the gender pay ratio – shows no progress. The other measure — the position of women in the male pay distribution — reveals considerable progress. Which measure is best depends on the question posed but it is clear that we need to undertake both calculations

35. The second example is based on cross country comparisons. Blau and Kahn (1995) rank ten OECD countries according to the gender pay ratio.⁹ The ratio varies from 61.3 (United Kingdom) to 77.2 per cent (Sweden). The authors then calculate the mean percentile position of women in the male pay distribution of each country. This statistic ranges from 21.2 (Hungary) to 32.3 per cent (United States). This statistic can be approximately interpreted to mean that in the United States the average earnings of females is the same as the average earnings of the male at the 32.3 per cent position on the male pay distribution.

⁸ Alternatively, it is possible to imagine the gender pay ratio falling, although every women's pay increased relative to her male counterpart on the male pay distribution.

⁹ The authors expressed considerable doubts as to the Italian data and that has been excluded.

36. A correlation analysis indicates that there is no association between these two rankings. Consequently, across countries, labour market institutions impact differently on the gender earnings ratio and the percentile ranking of women in the male distribution. Or to put the point another way the differences in the male and female pay distributions within each country matter.

37. Once the importance of the pay distributions is understood it is obvious that it is no longer a straightforward matter to measure the economic progress of women. There are at least two possibilities which may give very different impressions: (i) changes in the gender pay ratio and (ii) changes in women's ranking in the male pay distribution.

PAY EQUITY AND EMPLOYMENT

38. Imposed wage increases on a labour market involve some employment loss and this is one of the principal reasons that policies to intervene in the labour market and directly increase the wages of women, relative to men, are often opposed. If employment effects are a consideration it is important to have some idea of their potential importance.

39. There have been various attempts to estimate the employment loss associated with comparable worth wage changes and the prevailing view is that employment losses are probably not large. Ehrenberg and Smith (1987) estimated that the widespread adoption of comparable worth in the United States public service would lead to a 20 per cent increase in wages of females and an employment reduction of 2 to 3 per cent. Consistent with a small effect, Kahn (1992) finds no adverse employment effect of comparable worth in the city of San Jose California. Aldrich and Buchele (1986), in a study encompassing the whole United States economy, estimate that the adoption of comparable worth in the United States may increase women's wages 10 to 15 per cent and that this would lead to an employment reduction of about 3 per cent. Gregory and Duncan (1981) find small relative employment effects for the total employment of women in Australia even though the pay relativity between men and women changed by as much as 30 per cent. The United Kingdom experience in the 1970s also suggests that the employment effects associated with equal pay changes were small (Zabalda and Tsannatos 1985). The evidence to date therefore suggests that the employment response is very much less than the wage increase (both measured in percentage terms) and consequently the income of women increases substantially in response to a wage increase and women as a group are better off.

40. Obviously the extent of the employment loss depends on the industry. Employment losses are likely to be fewer in the public sector and greater in an import competing sector in which there is little product differentiation by source. In practice employment responses accompanying a pay change will also depend on other factors which are affecting the demand for female labour at the time and it can be quite difficult to separate the effects of these influences from those of the pay change. During the 1970s in the United Kingdom and Australia there were large shifts in demand towards female labour and although the researchers attempted to allow for these shifts there is always some doubt as to the adequacy of the corrections to the data. The importance of demand shifts can be seen in the United States during the 1980s when both employment and wages for full-time women workers increased very strongly.

41. There is some evidence that if the pay change is large and widespread, such as in the United Kingdom and Australia, it may affect hours worked by employed females rather than the employment level. Both the United Kingdom and Australia have experienced marked increases in the proportion of women employed part-time. Indeed, in Australia today, the proportion of females aged 15 to 64 years employed full-time is only marginally greater than it was in 1970. Virtually all the female employment growth, corrected for population change, over the last quarter of a century has been for women who work part-time. It is particularly interesting therefore that the large increase in women's pay in the United States has not led to an increase in part-time work. Why part-time work has increased so much in some countries but not in others despite similar pay increases is not well understood.

LOW PAY AND POLICY

Deregulation of wage setting

42. The evidence of the last 25 years demonstrates that average gender pay ratios and low pay for women can be increased substantially and quickly in countries with centralised wage fixing systems or extensive networks of collective agreements. Increases in low pay, especially for women employed in female intensive occupations or industries, could be achieved if countries with centralised wage fixing institutions chose to increase women's pay at the bottom of the pay distribution and particularly for those employees in female intensive occupations.

43. There are three important and interesting topics to be noted when considering this possible policy response.

44. First, concern about high unemployment levels and lack of job growth is leading policy makers in many countries away from attempts to substantially increase low pay and away from attempts to compress the pay distribution further. In the United States, which has been so successful at job creation over the last two and half decades, pay dispersion has been widening. Consequently, to increase low pay relative to the average may be going against the "market trend" in a number of countries. Indeed, as part of employment creation strategies, the OECD has recommended a wider pay distribution for Germany,¹⁰ Italy, Austria, Belgium, Greece, Luxembourg, Norway and Sweden. In making these recommendations the emphasis has been placed on job creation and no special recognition has been given to the possibility that although more jobs may be created this policy is likely to depress women's income and is likely to reduce the gender pay ratio. There is obviously a conflict of objectives here.

45. Second, the low rates of job creation in regulated labour markets over the last two decades, and the strong employment growth in the United States, has led some countries with centralised wage setting systems and strong unions, such as the United Kingdom, Australia and New Zealand to adopt policies which will weaken trade unions and decentralise the wage setting system. Policy has been directed towards creating a more deregulated labour market environment. The OECD has recommended decentralisation of the wage determination for Germany, Italy, Australia, Greece, Ireland, Mexico and Spain (OECD, 1997). Potential reform of labour market institutions and its effect on low paid women is perhaps the most important issue facing advocates of further pay equity initiatives. It is important therefore to make some judgements as to the following:

- a) Will deregulating the labour market further reduce low pay, as might be expected, and, because women are disproportionately employed in low paid jobs, lead to declining gender pay ratios?
- b) If deregulating the labour market causes female low pay to fall, will it lead to a sufficient increase in employment of women to compensate them for lower pay?
- c) Is it possible to lift the pay of low paid women, in response to additional initiatives to achieve pay equity and, at the same time, deregulate the labour market and adopt policies that put downward pressure on low pay.

46. It remains to be seen whether deregulating labour markets and widening pay dispersion leads to a substantial erosion of the gains that low paid women have made under the more regulated labour markets and whether the relative pay of women begins to move down towards United States levels. There

¹⁰ The extension of the western Germany high union wages and compressed pay distributions reduced the gender pay gap in eastern Germany by approximately 10 percentage points (Hunt, 1997)

is some evidence to suggest that in those countries where labour markets have become less regulated pay dispersion has widened. The importance of this point is illustrated by Blau and Kahn (forthcoming). They show that the gender pay ratio is 16 percentage points higher in Sweden than in the United States. Half of this gap can be explained by differences in education, experience, industry and occupational mix. The other half arises from the compressed wage structure of Sweden. However, if the wage distribution of Sweden were to change to that of the United States the gender pay ratio would fall by at least 10 per cent and the wages of low pay women would fall even further.

47. Third, the large increase in women's pay during the 1970s occurred in labour markets with a significant degree of centralised wage fixing. In the 1980s the largest increase in the gender ratio occurred in the United States, the most deregulated of labour markets. It is important to understand more fully what is happening in the United States and to assess whether labour market outcomes there will spread to the more centralised wage setting systems. It is important to note that while the gender pay ratio has increased in the United States low paid women there are still at a considerable disadvantage relative to their counterparts in other countries.

Minimum wages

48. The minimum wage acts as a floor for low pay and increases in minimum wages not only affect the pay of those employed at minimum wages but there is some spillover to low pay levels above the minimum. Putting aside employment effects, increases in minimum pay increases the income of low paid workers who are disproportionately women and young adults. Significant reductions in legal minimum wages have recently occurred in the Netherlands and New Zealand. Minimum wages have been increased in the United States. There is a close correlation between the incidence of low pay, however measured, and the minimum wage. Thus countries with a high incidence of low pay, eg, Canada, the United States, Spain and Korea also have low minimum wages.

49. Increases in minimum wages can have a significant effect on women's pay. A substantial part of the increase in the gender pay ratio in the United Kingdom and Australia during the 1970s, for example, flowed from minimum pay increases for women. In Australia the 30 per cent increase in the minimum wage for females increased wages by a similar amount throughout most of the pay distribution. In Sweden during the key 1968 to 1974 period collective bargaining agreements compressed the wage distribution below the median and substantially increased the gender pay ratio (Edin, 1993).

50. It is probable that in an environment of job shortages and widening pay distributions that minimum wage policy will be increasingly linked to other policy areas. Thus, with regard to employment demand, minimum wage changes may be combined with changes in government job subsidies or variations in non-wage labour costs for low paid workers. France, Ireland, Belgium and the Netherlands have significantly reduced non-wage labour costs for low wage workers. However, to the extent that minimum wage changes do not have significant employment effects various job subsidies might also be expected to have small employment effects. With regard to income maintenance minimum wages may be combined with in-work benefits paid for by government. Thus, increases in government expenditure may accompany reductions in minimum wages or increases in in-work benefits may act as a substitute for wage increases. In-work benefits can place a significant demand on the public purse and are likely to be tightly targeted. The targeting of in-work benefits may have a gender bias. In particular in-work benefits may be used to increase the income of women with children and do little for women without children. Assessing the benefits of minimum wage changes, in-work benefits and job subsidies involves difficult judgments as to the employment effects.

51. Recent research suggests that the employment effects of minimum pay increases are moderate but there is not a widespread agreement in this judgement, which is now the focus of academic debate. Similar divergences in judgment can be seen across governments and official agencies. Thus, at the time of the OECD Jobs Strategy the implicit judgement seemed to be that there might be significant employment responses to minimum wage falls. In the June 1998 OECD *Employment Outlook* the judgment tends to favour small employment effects. Thus,

“While sometimes conflicting, the weight of evidence suggests that young workers may be most vulnerable to job losses at high levels of the minimum wage. There is less evidence available on the employment effects, if any, for other groups such as women and part-time workers, who represent a large and growing proportion of the workforce”. (p. 31)

and

“For prime age adults the most plausible specifications suggest that minimum wages have no impact on their employment outcomes”. (p. 48)

52. Obviously, if minimum pay increases are substantial and directly affect a large number of employees the increase is more likely to have detectable employment effects. It has also been suggested that marginal effects of the minimum wage changes also depend on the base level from which the change occurs. Thus there is some evidence that the minimum wage has a larger employment effect in France where the wage is 70 per cent of the average hourly wage in manufacturing.

Comparable worth policies and occupational segregation

53. There is considerable occupational segregation in the labour market and despite the rapid growth of female employment in most countries the segregation of labour markets has been slow to change. In most OECD countries women who work in female dominated occupations are paid less than might be expected from consideration of their human capital endowments alone. The extent of the wage mark-down varies across countries (Grimshaw and Rubery, 1997). In the United States the effect on pay of female dominance of an occupation seems to be very large (Sorensen, 1989). In Australia, it is quite small (Wooden, 1998).

54. Most countries have adopted some version of “comparable worth policies” but the success of these is limited to a significant degree.¹¹ Where the policy is based on a legal process the effect on the gender ratio is often quite limited. The focus of legislation tends to be on the individual and experience to date has suggested that the number of cases *per annum* is usually low and the legal requirements for establishing a comparator are often quite difficult. For example, in a 12 month period during 1986–87, 517 applications were referred to tribunals under the British Equal Pay Act but only 44 were successful, 71 were conciliated settlements and the rest were either unsuccessful or withdrawn. One of the major difficulties is the specification of comparators. In Great Britain tribunals at various times have found that comparisons cannot be made between employees of the same employer who work different hours, or who receive different remuneration packages or between an employee and her predecessor. It seems clear that

¹¹ For a survey of the application of comparable worth to public sector jurisdiction in the US and Canada see Gunderson (1995).

complainant based procedures are relatively ineffective.¹² A survey of comparable worth experience in industrialised countries can be found in (OECD 1991). The most successful approaches have involved across-the-board mechanisms with collective agreements or centralised wage fixing. These approaches may adopt a rule of thumb that may or may not be explicit.

55. Given earlier comments that the wage dispersion may increase and countries may pursue policies to reduce the centralisation of wage setting the question arises as to whether it might be possible to allow the general wage structure to widen but at the same time to effectively insulate most women from this trend by changing the pay of female dominated occupations relative to the pay of other occupations. Apart from the across-the-board changes implemented in centralised wage setting economies during the 1970s not a great deal is known about the ability of countries to move particular parts of the female pay structure in isolation from other changes. It would be particularly interesting to discover what has been happening to female dominated occupations in member countries, especially the United States.

56. The other approach is to attempt to reduce the supply of workers to low paid occupations and in this way increase pay. Often it is argued that if job segregation can be reduced women will have better paying opportunities and this will reduce supply to low paying occupations and increase the wages of the low paid. Such policies will improve the opportunities for women and should increase the gender pay ratio but it is difficult to see how this policy could make a large impact on low pay. There is the evidence that substantial numbers of women are now moving into well paying jobs that were previously male dominated. And while this will reduce the supply of women for low paying jobs it is unlikely to be a significant enough to offset growing female participation. It is difficult to see any significant movement of men into low paid women's jobs and little prospect of using the power of male trade unions to increase pay.

57. There is evidence that in the United States there has been some reduction in segregation, especially among the more educated women (Blau, 1995). Women have upgraded their occupations over the period of substantial pay gains for women and Blau (1995) estimates that the change in the occupational distribution of women accounts for just over one quarter of the increase in the gender ratio. It is marginally less important than the acquisition of labour market experience which is identified as the most important factor. The importance of the United States experience is that it seems to suggest that strong demand for female labour has increased all women's pay, although the largest increases have gone to women in the better paying jobs.

Role of unions

58. Unions have always had an important influence on the gender pay ratio. At various times unions have acted to narrow the gender pay gap and at other times they have actively discriminated against women. In general, unions compress wage structures and this helps to lift women's pay.

59. Of course, male dominated and female dominated unions may have a different attitude towards increasing the pay of low paid women when there are clearly wage trade offs between various parties to an agreement. Thus Martikainen (1997), comments in the context of the Equality Awards in Finland that:

¹² The OECD has remarked that: "The results of grievance procedures are somewhat disappointing. In many countries the number of complaints lodged is small and shows no sign of increasing, the time lapse between lodging a complaint and settlement is long and getting longer; in addition, many complaints are never dealt with or, if they are, do not result in compensatory adjustment" (OECD, 1991, 172).

“The size of the equality award presents a dilemma: it is not possible to get the support of the male sectors for a really significant award, while, on the other hand, a small one will hardly affect wage ratios”. (p. 6).

Public and private sector pay

60. Low pay for women is essentially a private sector phenomenon. Public sector pay and employment conditions have been important in increasing women’s pay and very important historically for increasing pay levels of educated women. In the United States, where pay inequality has been increasing substantially there is emerging a significant pay premium for low paid workers in the public sector. However, the number of low paid female workers involved is small and the effect on the overall gender pay ratio is not large.

61. The gender pay ratio is higher in the public sector. There are many reasons for this. The public sector employs a disproportionate share of educated women and equal opportunity and anti-discrimination policies have been more effectively implemented. In some countries men in the public sector are paid less than their private sector counterparts.

62. Where rates of pay in the public sector are set by direct comparison with the private sector the gender pay ratio tends to be lower. Thus, public sector pay policies can affect the aggregate gender pay ratio but are unlikely to impact on low pay and pay for the low skilled. During the 70s there may have been more willingness to use the public sector as a pay leader. Today public sector pay may be more determined by budget and efficiency considerations and is less likely to be used to achieve equity goals such as increasing the pay of low paid women.

Firm and industry effects

63. In many countries equal pay legislation, and especially the early initiatives, required equal pay for work of equal value within the same job and within the same establishment. These legislative frameworks have encountered a number of difficulties. Within firms it is usual for males and females to be employed in different job classifications. In addition the legislation is unable to address pay discrepancies across firms and industries.

64. There is now considerable evidence that industry and firm of employment affects wages over and above the measured skill of the worker (Krueger and Summers 1988, Groshen 1991). Thus, on average, less educated women in the finance industry may well be paid more than women with a similar level of education in the clothing industry.

65. Although there is considerable analysis of firm and industry effects on individual wages their effect on the gender pay ratio is largely unexplored. There are two issues of particular importance:

- First, do industry and firm wage effects generate more inequality in the wage structure in a deregulated labour market than in a centralised wage setting system?
- Second, if women are disproportionately concentrated in low paying firms or low paying industries would a reallocation of women across firms and industries in the same proportion as men increase the gender pay ratio?

There is no substantial body of research on either of these issues but there is some work which suggests that centralised wage setting institutions provide a framework for addressing across firm and industry wage effects that is not available in less regulated wage setting markets. Thus, Kidd and Shannon (1996), in their comparison of the gender pay ratio in Australia and Canada, suggest that the Canadian gender ratio may not reach Australian levels because Canada does not have Australian wage setting institutions which tend to equalise wages across firms and industries.

66. Meng and Meurs (1998) have recently compared gender ratios in France and Australia. The labour markets of the two countries lie towards the regulated end of the spectrum. The gender pay ratios are similar. After taking account of the relative education and labour market experience of men and women and the occupational distribution of each gender they estimate the residual gender pay gap to be 12.3 per cent for Australia and 12.9 per cent for France. Of special interest is their focus on within firm effects. They find that approximately 20 per cent of the residual gender pay gap in France can be explained by differences in pay across firms. In France therefore the gender pay gap is primarily explained by differences within firms. In Australia approximately 40 per cent of the residual gender pay gap is accounted for across firms. There is more homogeneity of gender pay ratios within firms in Australia.

67. Meng and Meurs (1998) also focus on the relationship between the gender pay ratio and the proportion of males employed in firms. In both countries male intensive firms pay higher wages for both men and women. In France firms with a higher proportion of male employees pay both genders more but there is a larger effect on female pay. In Australia, firms with a higher proportion of male employees also pay both gender more but the largest effect is on male earnings.

68. The full implications of the relative contribution of within and across firm pay effects on the gender pay ratio are yet to be developed but the research clearly has implications for whether policy should be aimed at within or across firms effects.

Industry policy

69. The proportion of low paid women is influenced by industry structure. Many parts of the service sector — domestic service, restaurants — are large employers of low paid women as are sectors which are sensitive to competition from imports — footwear, clothing and textiles. Where imports have been an important source of downward pressure on low wages, countries have used tariffs and international trade interventions to protect employment at low wages or to enable domestic industries to pay higher wages than otherwise.

70. In many sectors which employ low paid women it is not always easy to effectively enforce minimum wages and in the clothing industry in particular there are substantial numbers of outworkers. Trade interventions can be used to protect wages in some of these industries but at the cost of higher prices of imports and domestic production.

Part-time work

71. Women are a large proportion of part-time workers and their wages relative to full-time workers vary considerably across OECD member countries. In Australia the award pay structure by and large extends to most part-time workers on a *pro rata* basis the same wages and conditions as full-time workers. Part-time workers therefore tend not to be too dissimilar to full-time workers in terms of education and

socio-economic status. In other countries part-time workers are not so well paid and there are noticeable differences in their terms and conditions. Part-time workers tend to be low paid.

72. It is widely assumed that if labour markets become less regulated the conditions facing part time workers will deteriorate although not a great deal is known as to how pay structures change as labour markets become deregulated. It would be particularly interesting to see whether part-time workers in the United States have shared in the relative pay increases that have occurred there.

Policies which support women's employment

73. There are a range of policies that may encourage women to enter and stay longer in the labour force. The provision of child care is one such policy.

74. In the short run these policies may well have two contrary effects on women's wages. Continuous labour market involvement for many women is often associated with increased employment opportunities at higher wages and therefore assistance to stay in the labour market will be associated with higher returns. In the United States gender wage literature it is taken for granted that increases in labour market experience will increase women's pay. Whether this effect operates for the typical adult female employed at low pay in low paying occupations is not clear.

75. An alternative view is to argue that wages are determined to a large extent by supply and demand and that segregation of the workforce leads to a large number of women working in a different labour market than men. In this interpretation any increase in the supply of women seeking employment will put further pressure on the pay level. Hence policies to increase the supply of women seeking employment may retard the process of increasing the pay level of low paying occupations and industries. It is this segregated view of the labour market that is used to explain why the wages and/or employment of low skilled men has fallen in most OECD countries at the same time that wages and/or employment of low skilled women have increased.

76. In the long run, if labour market opportunities for women are to move towards equality with those of men adjustments must be made to the work environment so that it becomes easier to combine home and labour market work. These adjustments must be shared by men and women and, more controversially in some countries, perhaps with help from government by tax treatment and subsidy of child care. In some countries, such as Australia, recent policy changes, driven in part by the desire to lower taxes, have made childcare more expensive and although the links have not been established, there is evidence that the growth of employment of women with young children has slowed considerably.

Immigration of low skilled women seeking work

77. Immigrant women are often an important source of low paid labour. The issue often arises as to whether they also depress wages for others. There may be significant effects on wage structures, especially in the short run. For example the large scale importation of women to act as domestic servants, might be expected to reduce the wages paid for domestic service. The effect of this on the wage levels of nationals is not necessarily obvious. It depends on the degree of substitution between the two groups. Surprisingly, perhaps, a considerable amount of the United States literature focussed on this issues suggests that large scale Hispanic immigration has not acted to depress employment opportunities or wage levels for United States blacks.

Education and training

78. In most OECD countries the level of education measured in years of schooling is very similar for men and women and the schooling gap does not seem to play a significant role in the difference in gender pay ratio outcomes. There is United States evidence that differences in the field of study of young men and women at college affects the gender earnings ratio marginally but the nature of the courses studied at high school do not seem to have a differential impact on men and women (Brown and Corcoran 1997).

79. Access to on-the-job training and apprenticeships seem to be more important. Women on average receive much less on-the-job training than men and there may be some scope for some policy initiatives here. The direct impact of more training on low pay, however, may well be small because neither adult men nor women receive significant training in low paid employment. Some United States evidence suggests that job training schemes and job subsidies for disadvantaged workers seem to be more effective for women than men.

80. It is sometimes argued that a wider pay dispersion encourages investment in education and training and this is one of the advantages of less regulated labour markets. It is doubtful whether there is any evidence to show that, relative to men, women invest less in education in regulated labour markets where women's pay is relatively high because of compression of the wage structure.

CONCLUDING REMARKS

81. There is considerable scope to use centralised wage fixing and collective agreements to increase the pay of low paid women. There is also considerable scope to develop further policies that have been specifically developed to help low paid women.

82. However, the trends of the last two decades suggest it is probable that the pay of low paid women will be influenced more by macro policies than policies specifically directed towards women. The most important of these, in the first instance, is the degree to which changes in labour market institutions within countries encourage a wider pay dispersion. Putting aside employment effects, a wider pay dispersion must disadvantage low paid women. It is quite likely, if the poor employment record of many OECD countries were to continue, that greater wage dispersion may occur — as has been recommended for a number of countries by the OECD — and in terms of pay, low paid women must be adversely affected.

83. The recent United States experience shows that despite a deregulated labour market with widening wage dispersion, low paid women have nevertheless improved their position marginally relative to male median pay levels and substantially relative to low paid men. Consequently, it may be that in response to allowing pay dispersion to widen, low paid men will have more to lose in terms of pay than low paid women. In such circumstances, strong employment growth in response to greater wage dispersion is vital if the low skilled are not to lose too much.

84. Another important macro policy initiative is likely to be the further development of in-work benefits. In-work benefits have the potential to place a considerable wedge between low pay and income. From an income perspective there are three issues that may be important.

- First, the level of in-work benefits will be limited by budget constraints and the ability of in-work benefits to offset wage falls may be restricted.
- Second, in-work benefits are likely to be targeted and therefore the wedge between low pay and income could vary across different workers. Thus, in-work benefits may be directed only towards those with dependent children. In these circumstance women without children could be severely disadvantaged.
- Third, the strength of demand and supply in the labour market will influence whether, in the long run, some of the additional income from in-work benefits will be eroded by further falls in low wages in response to the in-work benefits.

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Figure 1a. Female/Male Hourly Earnings, Non-Agricultural Workers, 1967-1990

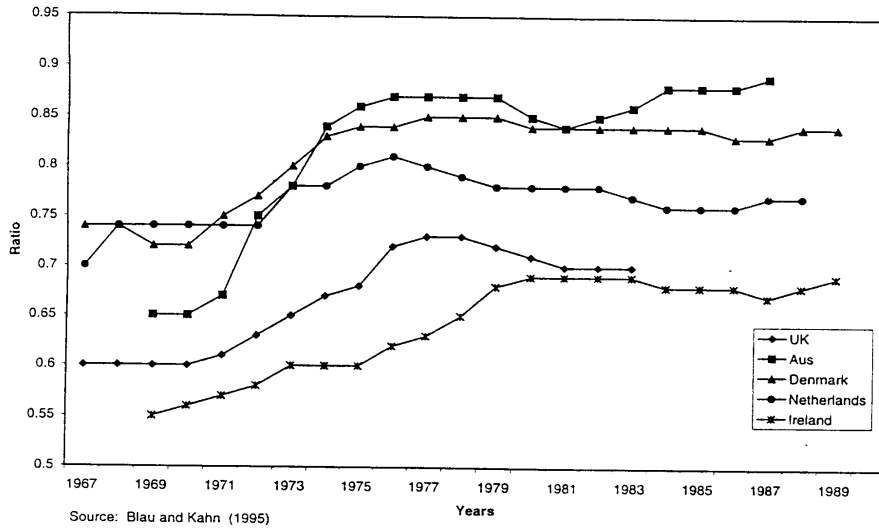


Figure 1b. Female/Male Hourly Earnings, Non-Agricultural Workers, 1967-1990

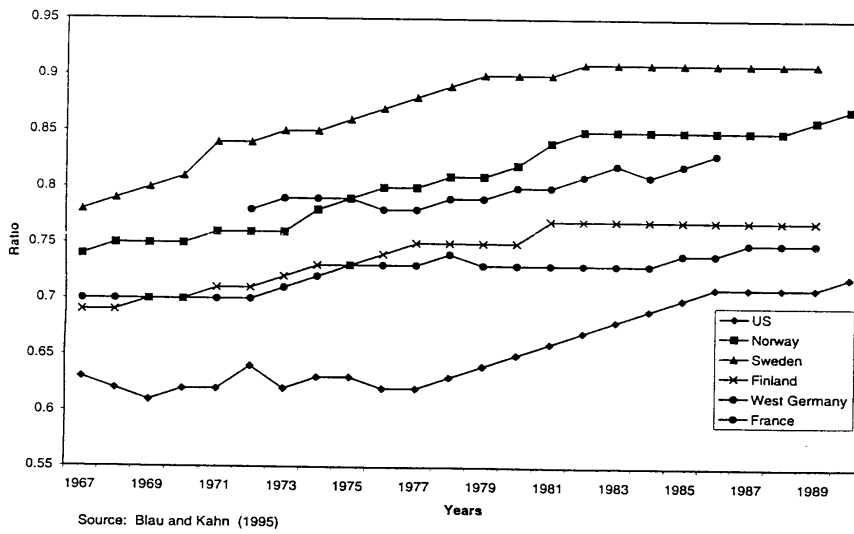


Figure 2. Changes in the US Female Wage Dispersion, 1976-1996

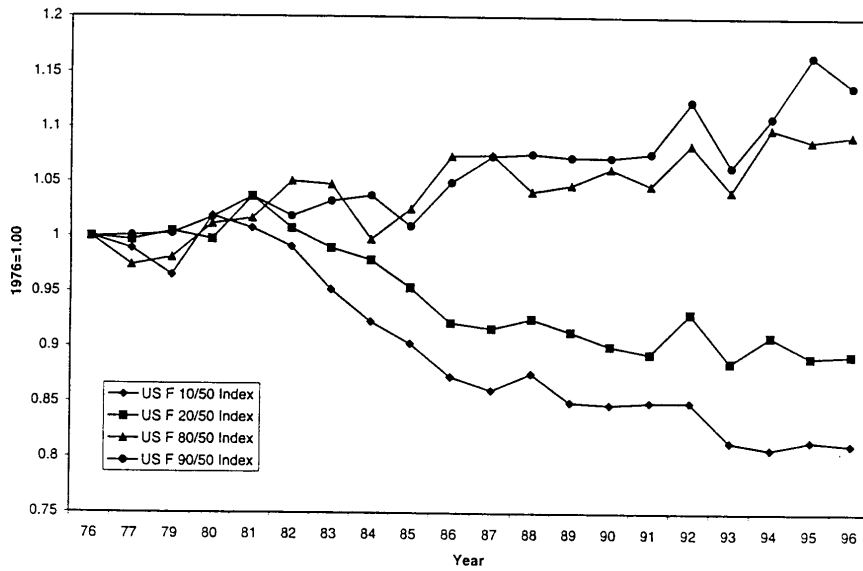


Figure 3. Changes in US Female Pay Dispersion Relative to Male Median Pay, 1976-1996

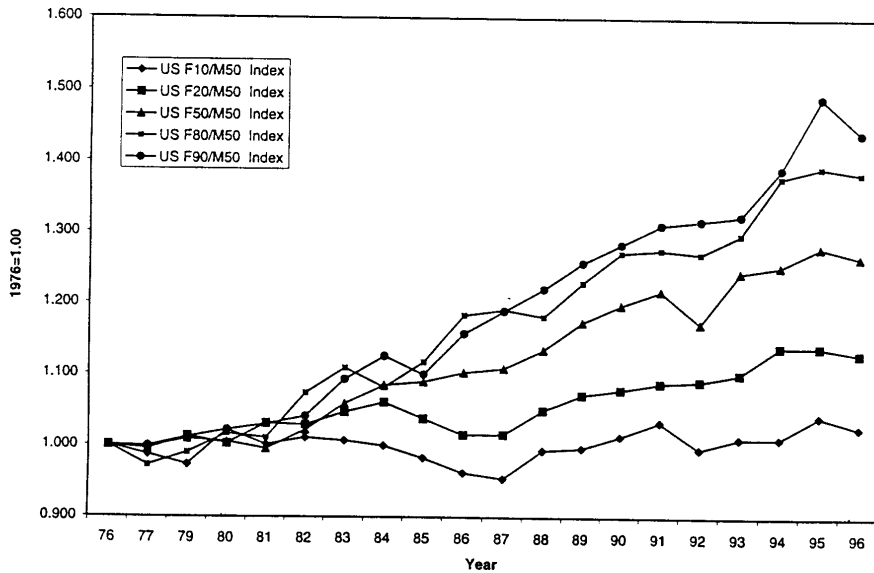


Figure 4. US Female-Male Pay Ratios at Different Decile Boundaries, 1976-1996

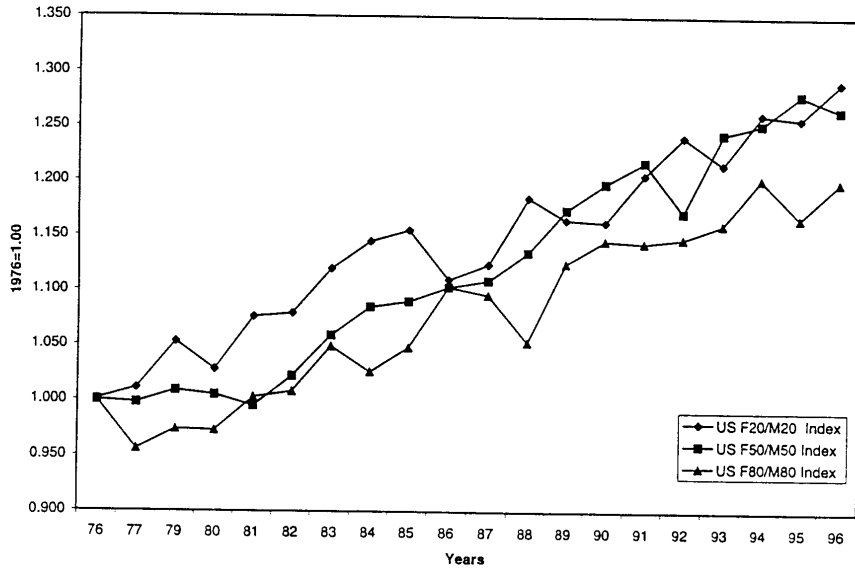


Figure 5. Female/Male Full Time Weekly Earnings Ratios by Decile, 1976 and 1996

