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## **Changing Labour Market and Gender Equality: The Role of Policy**

### **PAY COMPRESSION AND THE GENDER PAY GAP: A NORWEGIAN PERSPECTIVE**

**High level Conference organised jointly by the OECD, the Ministry of Children and Family Affairs and the Ministry of Labour and Government Administration, Norway, Oslo, 12 and 13 October 1998**

*This document is a detailed outline of the presentation by Kjell Erik Lommerud, University of Bergen, Norway. The presentation will be made at Workshop A on "Employment Flexibility and Gender Equality"*

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## **PAY COMPRESSION AND THE GENDER PAY GAP: A NORWEGIAN PERSPECTIVE**

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### **STARTING POINT: THE BLAU-KAHN ARGUMENT**

The gender pay gap is shaped both by wage setting institutions and human capital incentives. Narrow gender pay gaps are a by-product of general pay compression. Further pay compression can widen the gender pay gap due to disincentive effects on human capital variables. (Blau-Kahn, *Economica*, 1996; Blau-Kahn, manuscript, 1998).

Norway seems a very interesting case study: Very high degree of pay compression – small male-female wage gap.

Possible implication of Blau-Kahn: It is not possible to go even further towards pay equality between the sexes by pay compression, because this at the same time weakens women's career incentives. One can also experience a future backlash in the gender pay gap because of worldwide tendency to higher skill premia.

### **SOME FACTS ABOUT NORWAY**

#### **Pay compression in Norway**

*Norway has a very compressed wage structure.*

Many ways to measure compression of the pay structure:

- Pay variation among industries: Norway moderately compressed. (Rowthorn 1992)
- Very compressed wage and income structure with most other measures, like individual disposable income, family income, management-worker gaps, skill premia.

Tendency to keeping top earners down. Other OECD countries differ as regards to the degree bottom earners are lifted up. (Blau-Kahn, *Journal of Political Economy*, 1996)

Little evidence of a "cost side".

*Trends in pay compression:*

The skill premia revolution since 1970: is it a US-UK phenomenon? At least not entirely.

Norway in the 1990s: Some evidence of increasing pay gaps, but not much in international comparison.

Is "Inequality-Norway" media hype?

Increasing inequality in the 1990s:

- Increases in capital income (dividend payments) for top earners. Unrealized capital gains not properly accounted for (stock value increased by factor of 4 over 1992-1997).
- Also, increase in number of very old persons on minimum pensions (widows). During some years minimum pensions did not keep pace with other pensions and other income.

What about pay compression?

- In the recentralization era -1987 onwards- bottom workers are lifted relative to the median: going "against the wind". (Kahn, 1998)

### **Women in the labour market in Norway: "Changed dependency?"**

*Some facts*

- High participation rate for men and women
- Women highly educated
- Average woman in Norway in a very low percentile of the male wage distribution
- Sector segregation – note role of public sector
- High incidence of part-time work
- High fertility rate – high incidence of the third child

Does this constitute evidence for strong incentives for some labor market participation - - but weak incentives for career building?

*Some caveats:*

- High participation rate is to some extent overstated because of comparatively high effective retirement age.
- Part-time is much higher than in the US, but part-time work is sharply increasing in some other European countries. Large public sector gives women the possibility to choose part-time, perhaps without 'scars'.
- High period fertility is to some effect explained by "catch-up" effect from earlier delayed fertility. Cohort fertility is steadily declining.

### **Policies in operation**

Centralized, "responsible" wage setting. Concerns for pay compression.

- Three main employee confederations, but "wage laws" typically end strikes among academics. So the power of the LO is considerable.
- In the private sector: central – local bargaining, but no strike option at local level. Tendency that local bargaining undoes the pay compression agreed upon at the central level? (Rødseth – Holden)
- In the public sector: pay compression bites.
- No minimum wage law.
- No institution that keeps down top salaries. Social pressure or tax progressivity?

In some years, central bargaining is replaced by industry bargaining.

- Industry level bargaining in 1974, 1982, 1984, 1986, 1998. (Kahn, Economic Journal 1998.)

What characterizes "Recentralization"?

- Years of rising and high unemployment. Labor government. Wage restraint and pay compression.

Kahn shows lift of the bottom earner group 1987 – 1991. At the same time some extent of widening gaps in disposable income – because of rising number of unemployed and increasing capital income. (Aaberge 1997, Epland 1997)

Gender discrimination forbidden, and "comparable worth" notions are starting to be introduced.

- Small or none differences between men and women doing exactly the same work (Trond Pedersen and collaborators.)

- Effect within the public sector? Political correct attitude to women shows up in bargaining result?

Pay structure also determined by the whole tax-benefit system.

- Individual taxation with progression.

- Paid parental leave – 80% of income 1 year, four weeks father's quota. "Scar effects"?

- Subsidized day care. "Cash support" cancels the work incentives?

## **EVALUATING THE BLAU-KAHN ARGUMENT**

Contrast between the US and the Scandinavian countries is really striking.

1998 article argues that the effects prevail also with the US removed from the sample.

*Critical remarks:*

- Cross-country comparison data is typically rotten.

- Is the selection bias dealt with properly? (Much higher participation rate in Norway means women with more traditional values in the labor market, means more part-time.) (See recent developments in the Netherlands.)

- The question of whether or not wage compression lifts up women should be isolated from the question if wage compression has negative incentive effects for women.

- Reverse causality: "Women's lib" use existing institutions to close gender gap?

- Can the Norwegian data be explained by earlier entry of women in the labor market – with delays in child births – and with the pick-up in fertility, labor market arrangements that combine work and family become popular. Will Italy follow Norway's path?

- No focus on wage dispersion among women.

*It remains a fact that the Norwegian pay compression makes it very cheap compared to the US to hire oneself as nanny or housekeeper – and this ought to have effects.*

## **POLICY OPTIONS**

Centralized wage bargaining has lifted bottom earners, among them many women.

Will this web of institutions be able to do the same in the labor market of the future – with outsourcing and high skill-intensity of production?

Can these institutions be duplicated elsewhere?

Do we need to rely less on unions, more on public policies, as minimum wages?

Could we do more to lift up female bottom earners with weak unions?

Could public sector bargaining be used to lift up groups of women?

Has pay compression come to its limit? Should women be given stronger incentives for full-time careers in a wide choice of sectors?

The evidence on the disincentive effects on women from wage compression can be exaggerated

A full-fledged move to the US system would cost too much at the bottom end of the distribution.

For some groups of women, career incentives can be sharpened without affecting overall distribution very negatively

Are the premia to work stability and responsibility too small in the public sector?