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COMPARABLE WORTH -- PART 1: A THEORY WITH NO FACTS

INTRODUCTION

The Equal Pay Act of 1963 and the Civil Rights Act of 1964 required equal pay for equal work in most fields of employment. Beyond the law, nearly every American solidly endorses equal pay for equal work. Yet many women's groups allege that this does not go far enough to end what they see as continued widespread discrimination. As evidence, they argue that the average woman with a full-time job earns only 62 percent of a male's earnings.[1] This earnings differential has triggered a campaign for what is called "comparable worth." This means, according to its advocates, equal pay for jobs requiring similar levels of training, responsibility, and other employee characteristics--even if these jobs are in completely different fields. Determining what is and is not "comparable" would be left to bureaucrats or judges or government boards. What comparable worth supporters thus seek is to replace the existing market system of wage determination with a wage-setting mechanism that would define "fair wages" for jobs of supposedly comparable value. In effect, "comparable worth" would require the government to force employers to pay equal wages for unequal work.

Advocates of comparable worth assert that women have been victims of sex discrimination because they have been forced into jobs that typically are underpaid relative to "comparable" male-dominated jobs. But this oversimplified view of the labor market is based on no solid facts or data. It ignores the host of personal, cultural, and market conditions that are critical in determining wages and account for wage differentials. Closer examination of these factors reveals that the relatively lower earn-

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1 Robert Pear, "Earnings Gap is Narrowing Slightly for Women," The New York Times, October 3, 1983, p. B15.

ings obtained by women actually reflect their own preferences and productivity--not systematic sex discrimination by society.

If such discrimination did exist, nondiscriminating and profit-seeking firms would simply hire females for lower wages, thereby lowering production costs and enabling them to bid business away from discriminating firms by charging lower prices. In other words, the business community would consist of two groups: those who discriminate, pay more to hire males, and thereby erode their own profits; and those who hire only women at lower cost, thereby increasing their profits. Those who allege wage discrimination on the basis of sex have yet to explain why this has not happened.

The fact is, there is a great deal of wage competition in the labor market, and wages tend to reflect a worker's productivity. Indeed, after adjusting for relevant and measurable productivity differences between men and women, many researchers have been able to eliminate about 50 percent of the wage gap. Some studies have explained the entire earnings gap in measurable economic terms.[2] And even those studies that do not attribute the whole wage differential to economic factors cannot assert that the differential is due to sex discrimination--only that reliable statistics on certain factors are difficult to assemble. Notes Emory University economist Cotton Lindsay:

> The evidence of wide and persistent wage disparities between working men and working women thus does not point unequivocally to discrimination. Economic theory suggests little scope for discrimination in employment to produce wage effects, and therefore observed wage differences are likely to originate in productivity and taste differences, not in discrimination.[3]

The assumption that differences must mean discrimination is not supported by analysis of the factors affecting wage levels. Supporters of comparable worth must provide a far more convincing hypothesis and body of evidence before they can expect their arguments to appeal to more than emotionalism.[4]

SOME FACTS ABOUT COMPARABLE WORK

Comparable worth advocates urge the creation of wage boards to determine fair wages for work of comparable value. They ignore

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2 For a summary of the empirical evidence, see Cotton M. Lindsay and Charles A. Shanor, "County of Washington v. Gunther: Economic and Legal Considerations for Resolving Sex-Based Wage Discrimination Cases," Supreme Court Economic Review, vol. 1, 1982.

3 Ibid., p. 221.

4 This study is the first of a two-part series on the comparable worth issue. Part II examines the implications of the comparable worth doctrine for the competitive market system.

the existing mechanism for computing such comparability--the free labor market. In a competitive labor market, wages are determined by the voluntary interaction of employers and employees. And competition on both sides of the bargaining table ensures that the wage rate ultimately will be based on a worker's productivity. Supporters of the comparable worth doctrine fail to understand this wage-setting process; they attribute--erroneously--earnings differences between the sexes to discrimination.[5]

Many factors affect a worker's productivity. These include inherited characteristics and environmental factors: intelligence, health, physical strength, dependability, and the ability to interact socially. Other characteristics, such as work skills, on-the-job training, and job experience, are learned or acquired during the process of education and in the workplace. Not surprisingly, employers will normally be willing to pay a higher wage to workers with a greater endowment of such attributes.

In addition, the demand for particular services plays a significant role in the wage determination process. For example, many assume that secretaries are paid less than lawyers solely because the value of a secretary's output is worth less than that of a lawyer's. But another reason lawyers earn more than secretaries is because of their relative scarcities. There are many more secretaries than there are lawyers. The productivity of any worker, and hence the wage, diminishes as the numbers in an occupation grow. If there were as many lawyers as there are secretaries, lawyers could obtain only a fraction of the fees they now do.

A wage differential between these two occupations will exist as long as people view the costs of becoming a lawyer (such as tuition and earnings foregone during schooling) as more than that required to become a secretary. If the differential between these costs began to narrow, some would divert their energies from becoming secretaries to becoming lawyers. This employment shift would push down the wages of lawyers and raise those of secretaries, until the wage and cost differential again returned to a more acceptable equilibrium.

Emory economist Lindsay summarizes how the marketplace prevents employers from arbitrarily determining wages:

> The wage setting process is the result of two conditions, neither of which the employer controls. First, wages are limited from above by the worker's productivity in the job. Profit considerations prevent the firm from paying the worker more than he or she is worth to it. Second, supply considerations prevent an employer from paying to workers of a given productivity a wage that

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5 For a theoretical discussion of discrimination, see Gary Becker, The Economics of Discrimination (Chicago: University of Chicago Press, 1957), and Lindsay and Shanor, op. cit.

makes working for that employer less attractive than working for other employers. To do so invites these workers to seek employment elsewhere.[6]

Thus, the market process has a built-in mechanism to eliminate discrimination: the profit motive. If there were differences in pay between the sexes based on discrimination rather than on differences in productivity, this situation could not be long sustained. The reason: firms that discriminated against women would face higher production costs than firms that did not discriminate against women. In the long run, discriminating employers would pay a financial penalty and would either change their ways or be driven out of the market.[7] It is inconceivable that profit-motivated employers would pass up an opportunity to hire equally productive women for 40 cents less on the dollar--the difference in labor costs attributed by many feminists to discrimination--just to indulge an irrational preference for hiring men.

WHY WOMEN EARN LESS

If discrimination does not explain the earnings differential between men and women, what factors do?

Women Entering the Work Force

One factor is the very large recent influx of women into the labor force. The female labor force participation rate grew from 34 percent for those aged 16-64 in 1950 to 52 percent in 1980.[8] A high proportion of these entrants, of course, have had to start at entry-level positions, which predictably pay less than the average. The surprising aspect of this phenomenon, in fact, is that the wage gap has not widened as the female sector of the workforce has ballooned. That it has not widened is because women as a group are now moving into higher paying jobs. Once the surge of women into the labor force levels off, women will no longer be disproportionately represented in entry-level positions and their aggregate earnings relative to men will increase.

Hours on the Job

A major flaw in measuring alleged male-female wage differentials lies in comparing the total annual earnings for men is com-

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6 Ibid.

7 This would be true of firms operating in the private sector. Discrimination may exist in the public sector because it is not subject to competitive forces. It would therefore be desirable to interject greater competition in the wage-setting process in the public sector, preferably by contracting out or privatizing many of the functions of government.

8 U.S. Bureau of Census, American Women: Three Decades of Change, Special Demographic Analyses, CDS-80-8 (Washington, D.C.: U.S. Government Printing Office, August 1983), p. 15.

pared to the total annual earnings for women. Yet statistically, women are less likely than men to work the full year. As a result, the difference in earnings is greater than would be the case if quarterly, weekly, or hourly rate data were used for comparison. For example, in the second quarter of 1983, the median earnings for women were 66 percent of the median earnings for men.[9] Simply correcting the data for this one factor reduces the alleged gap by 4 percentage points.

Role Differentiation

According to Stanford University economist Victor Fuchs, "role differentiation" is the principal explanation of male-female wage disparity.[10] This role differentiation between the sexes begins in childhood, he says, and is eventually reflected in the marketplace through differences in labor force attachment, occupational choice, schooling, location, time spent in market employment, and other factors that determine wages. The roles of men and women in the family unit traditionally have differed--the husband normally having primary responsibility for providing financial support, and the wife having primary responsibility for child rearing and household upkeep. Thus, if a married woman does take a job, it is generally one that is compatible with her household responsibilities and her husband's preferred place of work. As Fuchs points out, it is women's own preference, not sex discrimination, that leads to their relatively lower earnings. Feminists may deplore the choice of role made by most women, but they can hardly blame employers for it.

Geographic Mobility[11]

A key reason married women have fewer opportunities than men to accept the best jobs available to them arises from their restricted mobility. Husbands generally earn more than their wives because they work longer hours and have made greater investments in their jobs in terms of schooling, training, and experience. If both spouses are searching for work, it is unlikely that the most desirable jobs for each will be in the same area. So one has to forego his or her job preference. Since the husband is the primary earner in most families, and the wife manages the household, the wife will generally accommodate to the husband's choice if the family is to maximize its total income. Married women must also search for employment close to home because of their family responsibilities, which gives them a smaller pool of jobs from which to choose. As a result, many women earn less than they otherwise could, not because of employer discrimination, but

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9 Pear, op. cit.

10 Victor Fuchs, "Recent Trends and Long-Run Prospects for Female Earnings," American Economic Review, May 1974, pp. 236-242.

11 See Robert H. Frank, "Why Women Earn Less: The Theory and Estimation of Differential Overqualification," American Economic Review, June 1978, pp. 360-373.

because of their own choice of role in the family. One study has found that this may explain as much as one-quarter of the wage differential between the sexes.[12]

Turnover Rates[13]

Women tend to move in and out of the labor force more often than men do, and this reduces the employability--and hence wages--of women as a group. High turnover rates among women require firms to hire and train new workers more frequently, adding to total labor costs. It is only rational, therefore, for firms to seek workers with a low probability of leaving. With imperfect information about the potential productivity of a worker, employers have to make decisions on the basis of past experience. If an employer believes a woman is more likely than a man to leave the firm--and statistics show this to be the case--the woman is likely to be hired only if she accepts a lower wage than a man with identical credentials to compensate the firm for the additional risk.[14]

This is similar to the process by which insurance companies adjust automobile insurance premiums to reflect statistically important factors, such as the typically higher accident rates of male drivers under 25 years of age. While charging a 20-year-old male with a perfect driving record a higher premium than a 20-year-old female may seem unfair, it is reasonable for insurance companies to do this, in view of the risk data available on that identifiable group of drivers. If it were an irresponsible decision, there would be an enormous market open to any insurance company that did not "discriminate." So it is with firms that hire high turnover workers. If wage rates for women did not truly reflect the risks and costs for the firm, aggressive companies (perhaps owned by women) could improve their profits by recruiting only women. Proponents of the discrimination theory have thus far failed to explain why this does not happen.

In addition to the effects of employees leaving voluntarily, wages are also related to the layoff rate in an industry. Individuals working in an industry characterized by frequent layoffs or employment insecurity are generally paid more than workers in similar industries with a lower layoff rate, since the demand side of the wage equation reflects the risk faced by the employee.

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12 Ibid., p. 370. This estimate was for Standard Metropolitan Statistical Areas with populations under 250,000.

13 See Elizabeth M. Landes, "Sex-Differences in Wages and Employment: A Test of the Specific Capital Hypothesis," Economic Inquiry, October 1977, pp. 523-538, and James F. Ragan and Sharon Smith, "The Impact of Differences in Turnover Rates and Male/Female Pay Differentials," Journal of Human Resources, Summer 1981, pp. 343-365.

14 Women are 11 times more likely to drop out of the labor force than men are. See Illinois Commission on the Status of Women, Minority Report, 1984, p. 104.

Since male-dominated jobs are more closely linked to fluctuations in the economy, part of the wage gap between the sexes can be explained by the wage premium paid men to compensate them for the greater risk of job loss. One study has concluded that, "the combined effect of training and turnover account for between 67 and 100 percent of the differential."[15]

Education and Training[16]

Reflecting their higher turnover rates, women tend to invest less than their male counterparts in productivity-increasing education and training. And since women as a group are more likely to interrupt their career development--for childbearing and household duties--they tend to have less job experience and seniority than men. This is an important factor in explaining their relatively lower earnings.

A major reason that many women do not invest as much in their own "human capital" is precisely because they expect to be absent from the workforce for extended or frequent periods, and thus have a shorter "payoff" period over which to recoup their investment in education and training. Consequently, they are less likely to study for highly specialized fields, such as the sciences, medicine, and law, because the payoff period for these disciplines is longer. By contrast, many other female-dominated fields, such as teaching and nursing, have relatively short and inexpensive training periods.

Skills depreciate when workers are out of the labor force for extended periods. The higher turnover rate associated with women means, therefore, that firms are generally less willing to provide women with costly training to upgrade their skills. This induces women to work in occupations where specific training is less important, thereby minimizing the investment loss as they move from job to job. It means also that women are less likely to be found in high-paying jobs that require considerable training.

If the traditional family roles continue to change, and women play a more important and permanent role in the labor force, these earnings differentials can be expected to narrow. Women's attitudes toward investing in their future are already showing signs of significant change. For example, over the last 30 years, women's college enrollments and completion rates have steadily approached those of men.[17] Nearly half of all bachelor and master's degrees in 1979-1980 were awarded to women. Women are also making major inroads into traditionally male-dominated

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15 Landes, op. cit., p. 532.

16 See Jacob Mincer and Soloman Polachek, "Family Investments in Human Capital: Earnings of Women," Journal of Political Economy, March/April 1974, pp. 576-608.

17 The following statistics are from U.S. Bureau of Census, op. cit., pp. 12-13.

fields such as dentistry, medicine, law, engineering, mathematics and science. And about 20 percent of all law and medical degrees now go to women, compared with just 5 and 10 percent, respectively, in 1970. As these trends continue and women in these new disciplines mature and represent a larger proportion of the profession, future pay gaps will narrow.

Career Choices

Since women tend to select professions that allow them to move in and out of the labor force easily, or to work part time, they are disproportionately--but understandably--represented in jobs that afford them this flexibility. Thus, even if their education and training equals or exceeds that of men doing similar jobs, wages in these female-dominated professions are nevertheless lower, due to the supply and demand factors of the occupation.

If women want higher earnings, then they must choose work where earnings do not generally reflect the higher turnover and other factors associated with women. As Coleman Young, Mayor of Detroit, has explained, "If a painter makes more than a secretary, then let more women be painters."[18]

Working Conditions

Many wage comparisons overlook other aspects of employment. For example, women may trade off wages for better working conditions, such as good hours and pleasant surroundings, particularly indoor work. Many male-dominated professions, on the other hand, are characterized by less agreeable and more dangerous surroundings.

Taxes[19]

Tax policy has discouraged women from entering paid employment (particularly once they are married) and developing marketable skills. Because the wife is usually a secondary earner, the first dollar she earns will effectively be taxed at her husband's highest marginal tax rate. By lowering her after-tax reward for work, the progressive tax system creates an economic disincentive for women to pursue a demanding career.

Social Security payroll taxes represent an additional disincentive for women considering working or investing in activities that could raise their earnings potential. As the Social Security system is currently structured, a nonworking wife can receive a

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18 Cited in John H. Bunzel, "To Each According To Her Worth?" The Public Interest, Spring 1982, p. 84.

19 See Michael J. Boskin, "The Effects of Government Expenditures and Taxes on Female Labor," American Economic Review, May 1974, pp. 251-256, and Paul McGouldrick, "Why Women Earn Less," Policy Review, Fall 1981, pp. 63-76.

spouse's benefit equal to 50 percent of her husband's own benefit. For each dollar in Social Security benefits she could earn herself, therefore, a wife effectively loses a dollar of the spouse's benefit. Even if she were to earn a benefit greater than the spouse's benefit, the tax/benefit ratio is still biased against her working. For example, if she had the same earnings history as her husband, her net extra benefits would only be half of those received by her husband, since she could have obtained half these benefits without working at all.

Motivational Differences

It appears that part of the difference between the earnings of the two sexes can also be attributed to their different goals in life. Explains Michael Levin, professor of philosophy at City College of New York: "Women, most especially married women, are less willing to work their way up the career ladder and tend to see their income as supplementing that of their husband, the breadwinner."[20]

THE CASE OF SINGLE WOMEN

If the wage gap really is caused by sex discrimination, then those making this charge have to explain why studies have found that single women earn almost the same wages as single men.[21] The reason is mainly because they have similar employment characteristics: the single woman is less likely than the married woman to leave the labor force for household reasons, such as raising children or because her husband has changed jobs. So skill and experience become the dominant factors in wage setting. Neither single women nor single men, on the other hand, are likely to work as hard as married men, who often have the added responsibility of supporting several dependents.

In an examination of the wages of married and unmarried females, for instance, Hoover Institution economist Thomas Sowell notes that unmarried men and women receive about the same in wages for the same job and same credentials. Married men tend to do better, he says, because they are motivated to provide financial assistance for their spouses, who in turn do somehwat worse in the market because of other duties. Sowell notes that, "Such a

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20 Cited in Robert D. Hershey, "Women's Fight Shifts to Comparable Worth," The New York Times, November 1, 1983.

21 See Thomas Sowell, "Affirmative Action Reconsidered," The Public Interest, Winter 1976, pp. 47-65; James Gwartney and Richard Stroup, "Measurement of Employment Discrimination According to Sex," Southern Economic Journal, 1973, pp. 575-587; and Walter Block, "Economic Intervention, Discrimination, and Unforseen Consequences," in Discrimination, Affirmative Action, and Equal Opportunity, edited by W. E. Block and M. A. Walker (Vancouver, British Columbia: The Fraser Institute, 1981), pp. 103-125.

situation may not be just--but it does not result, however, from employer discrimination."[22]

CONCLUSION

While the concept of equal pay for equal work is nearly universally supported, the notion of "comparable worth" is widely criticized--for good reason. It rests on skimpy research and is backed by no solid facts or data. Instead, the argument for "comparable worth" rests on an assumption that society systematically discriminates against women on a massive scale, segregating them into low-paying jobs simply because they are women. The fact that a disproportionate number of women work in relatively low paid employment, however, does not prove discrimination.

The occupational and pay patterns of men and women can be explained without resorting to unsubstantiated claims of sex discrimination. These patterns result from different cultural roles. The key factor is that women typically have spent about half as many years as men in paid employment, choosing to devote more time to work in the home.[23] Stemming from this underlying distinction, differences in education, training, seniority, experience, turnover, labor force participation patterns, working conditions, personal preferences, and general labor market conditions explain most, if not all, of the wage gap.

If the structure of the traditional family continues to change, with younger women moving into fields traditionally held by men, the forces of supply and demand will narrow the earnings differential between the sexes. Adjusting to these changes in its unprejudiced and inevitable way, the market system will effect wage adjustment to the evolving role of women far more effectively than will the fundamentally flawed notions underpinning the doctrine of comparable worth.

As Part II of this series shows, the "comparable worth" alternative to the market system is likely to be devastating to the U.S. economy. Should the doctrine be given the backing of the law, wages will henceforth be set by judges, boards of "experts," and interest group pressure. When the market is distorted in this way, shortages and surpluses are inevitable, leading to ever louder demands for even more government control of the labor market.

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22 Sowell, op. cit., p. 56

23 See June O'Neill, "The 'Comparable Worth' Trap," Wall Street Journal, January 20, 1984.