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COMPARABLE WORTH — — PART 2 : THE HIGH COST OF BAD POLICY

INTRODUCTION

According to the Census Bureau, the average woman in full-time employment earns about 62 percent of the income of the average male in full-time employment.¹ To many feminists, this is proof of discrimination. In addition to this general difference in earnings, it is claimed, there is a systematic gap in earnings between male and female work of "comparable worth." The reason the earnings gap is as large as it is, maintain adherents to the comparable worth theory, is because of sex discrimination in the marketplace.

To remedy this perceived inequity, feminists are now demanding that comparable worth be used to set "fair" wage levels. This goes well beyond the notion of equal pay for equal work: It would require equal wages for work of supposedly comparable value to an employer. Under this doctrine, pay would be based on the opinion of an "objective" government board or similar body, whose decisions would derive from an estimation of the skill, effort, and responsibility involved in one job relative to another. Comparable worth advocates assume that if such job evaluations were to replace the market system in setting wages, the pay of women would rise to a "fairer" level.

The concept is based on economic ignorance. There is no such thing as an objective scale of economic value. Market-level wages are the product of the subjective evaluations of employers, workers, and consumers. Yet the comparable worth notion already has been endorsed by many leading politicians. In addition,

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

comparable worth advocates have been emboldened by a recent court ruling in Washington state that ordered higher wages and back pay for many female state employees. The ruling could cost the state hundreds of millions of dollars if upheld, and it sets a precedent for the private sector. If similar rulings were applied throughout the country, the total cost to the economy could be as much as \$320 billion a year.

Despite their efforts to make comparable worth the law of the land, supporters of the idea have yet to prove their allegations of sex discrimination.² And even if such discrimination existed, determining "fair" wages would be an impossible task, given the subjective nature of such judgments. Moreover, the results of such a policy might be quite the opposite of the original intent. Indeed, women might simply find their employment opportunities vanishing rapidly, as employers replaced them with men and machines.

The comparable worth concept, put forward as a correction to an alleged failure of the marketplace, would have a devastating effect on the nation's economy. It would throw a monkey wrench into the balancing mechanism of the labor market, and lead to shortages and oversupply throughout that labor market. It would prevent unions from winning the best possible terms for their members, since wages no longer would be a product of collective bargaining. And it would cause enormous resources to be devoted to influencing the "objective" decisions of boards of wage evaluation. In short, comparable worth legislation would hamstring the market's steady adjustment to the changing role of women and replace it with politicized central planning.

BACKGROUND

Much of the current debate on comparable worth stems from a recent Washington State court decision. On December 14, 1983, U.S. District Judge Jack E. Tanner ordered the state to award back pay and higher wages to more than 15,000 of its employees, 90 percent of them women. His ruling was based on the alleged principle of "comparable pay" for "comparable work."

The lawsuit before Judge Tanner accused the state of sex discrimination in its pay practices, based on the fact that women as a class were paid less than men. It did not claim that women received less pay for doing equal work, or that their opportunities were somehow limited by the state--only that women were not paid the same as men for work that was claimed to be of comparable value. Tanner's ruling was based heavily on job evaluations conducted by "experts," who claimed that fields of

² See Peter Germanis, "Comparable Worth--Part 1: A Theory with No Facts," Heritage Foundation Background No. 336, March 2, 1984.

work dominated by women consistently provided lower wages for work rated comparable to that in male-dominated fields.

The state of Washington had undertaken several job evaluations indicating disparities, but had not acted upon them (which was a reason for the suit). In 1973, for instance, Governor Dan Evans, now a U.S. senator, commissioned the firm of Norman D. Willis and Associates to determine whether or not the state was paying women and men equal wages for work comparable in skill and responsibility. The worth of the various jobs was evaluated by assigning points for four categories: knowledge and skills, mental demands, accountability, and working conditions.

The study found that on this basis of worth, predominantly female jobs paid about 20 percent less than jobs held mainly by men.³ Later studies, using the same assumptions and methodology, confirmed the original findings. Table 1 gives examples of jobs that earned equal points in the 1982 study and thus supposedly are "comparable."

Table 1

<u>Points</u>	<u>Male-Dominated Jobs</u>	<u>Top Monthly Salary</u>	<u>Female-Dominated Jobs</u>	<u>Top Monthly Salary</u>
97	Truck Driver I	\$1,574	Laundry Worker	\$1,114
155	Equipment Operator II	1,738	Attendant Counselor*	1,200
197	Electrician	1,918	Secretary III	1,324
209	Equipment Mechanic	2,015	Attendant Counselor III**	1,392

* Provides care for retarded people.

** Supervisor.

Source: Jake Lamar, "A Worthy but Knotty Question," Time, February 6, 1984, p. 30.

According to the survey, therefore, a truck driver is equivalent to a laundry worker and the two should earn the same salary--either by boosting the laundry worker or cutting the truck driver. In the Washington State judgment, the state was ordered to boost the salaries of those below the norms.

In addition to studies by Willis and Associates, the plaintiffs introduced other evidence purporting to show sex discrimination, such as help wanted advertisements from 1959 to 1973 that separated state jobs into "female wanted" and "male wanted"

³ See Geoffrey Cowley, "Comparable Worth: Another Terrible Idea," The Washington Monthly, January 1984, p. 54.

columns and certain state job specifications prior to 1972 that contained gender references.⁴

The state's case was severely hampered by Judge Tanner's refusal to allow the testimony of a number of state witnesses and the presentation of all of its exhibits.⁵ The witnesses prevented from testifying included: a state official who would have described the state's wage setting process and affirmative action programs for women; June O'Neill, an economist with the Urban Institute, who would have testified about the factors contributing to the wage gap and the absence of studies determining how much is due to discrimination; and an expert on job evaluation systems who would have criticized the methodology of the Willis firm. But Judge Tanner would hear only testimony arguing that the state had economic reasons for justifying discrimination. He refused to hear evidence disputing the allegation of discrimination. Thus, the state was forced to rest its case on the presumption that the comparable worth doctrine is a valid approach to wage determination.

THE FAULTY LOGIC OF COMPARABLE WORTH

Job Evaluation Techniques

Wage determination under comparable worth would work as follows: Jobs are identified that are segregated by sex (e.g., those where more than 70 percent of the jobs are held by one sex), and each is assigned points based on some supposedly objective value. The Willis job evaluation, on which Judge Tanner relied heavily in his decision, assessed each job classification

...using the following four evaluation components (1) Knowledge and Skills (Job Knowledge, Interpersonal Communications Skills, Coordinating Skills), (2) Mental Demands (Independent Judgment, Decision Making, Problem Solving Requirements), (3) Accountability (Freedom to Take Action, Nature of the Job's Impact, Size of the Job's Impact), (4) Working Conditions (Physical Efforts, Hazards, Discomfort, Environmental Conditions). The total value of these four components constituted the final point value of the class.⁶

⁴ For more details, see the memo from Christine O. Gregoire, Deputy Attorney General of Washington, to a number of elected officials in the state of Washington, dated October 4, 1983.

⁵ For a summary of the obstacles faced by the state, see *ibid.*

⁶ American Federation of State, County, and Municipal Employees v. State of Washington, No. C82-465T, Slip Opinion, cited in Phyllis Schaffly, "Equal Pay for Unequal Work: The Comparable Worth Concept," unpublished manuscript, p. 5.

To calculate the "value" of each of these components and subcomponents, a group of "experts" reviewed the various job descriptions, interviewed workers, and then assigned a final point score for each job. In the Washington case, for example a laundry worker had 97 points, a truck driver 97, librarian 353, carpenter 197, registered nurse 573, and computer systems analyst 426.⁷ The results of this comparable worth study, in other words, suggest that a registered nurse is in some objective sense more valuable than a computer systems analyst and should be paid more--even though the market actually rewards computer systems analysts with earnings that are 56 percent greater than those of nurses.⁸

The principal problem with these job evaluations is that they completely ignore supply and demand. The "fair" wage determined by some expert is irrelevant if a position cannot be filled because potential applicants feel it is too low. Similarly, if the expert sets the wage above the market rate, there will be a flood of applicants, many of whom will have to be turned down because no positions are available, even though they would have been willing to compete by accepting a lower wage. Under a market wage system, profitable and efficient companies can offer higher wages to fill vacancies, and workers can retain their jobs in difficult times by accepting wider differentials with workers in other industries.

This process of adjustment would be ruled illegal by comparable worth legislation. An iron rule would set wages, without regard for the reality of the labor market and without regard for the welfare of employees.

The "Objective" Value Fallacy

Another problem with any job evaluation of this kind is that, although it is supposedly objective, it requires a subjective opinion by an evaluator as to how much each job is worth. Given the large number and diversity of jobs being rated, it is unlikely that any two people could come up with an identical valuation. This is not only because people disagree about "the facts," but because the whole notion of assigning an objective valuation on labor is absurd. Like beauty, value is in the eyes of the beholder. The value of a person's work depends not on how "socially necessary" it is or how many "points" it is awarded by a board, but on the willingness of consumers and thus employers to pay for it. In the final analysis, the comparable worth doctrine means job evaluators would simply replace the consensus of the market's subjective assessments with their own subjective assessment--and then the law would be used to enforce their views.

⁷ Schaffly, op. cit., p. 6, and June O'Neill, "The 'Comparable Worth' Trap," The Wall Street Journal, January 20, 1984.

⁸ O'Neill, op. cit.

If Judge Tanner had accepted the evaluations of another respected consulting firm, Jeanneret and Associates in Houston, instead of the Willis calculations, he would have been told that no disparity existed in pay among comparable male and female jobs on the Washington State payroll. The Jeanneret system uses 45 factors, compared with four in the Willis system (broken down into 13 subcomponents) and a computerized factoring system, instead of the Willis method of basing scores on committee consensus. This is not to say that the Jeanneret system is any better than the Willis system, only that job evaluations of this type veer all across the board because they must be based on subjective opinions, rather than objective facts.

Under a comparable worth scheme, then, wages would no longer be based on productivity and initiative, but on some bureaucrat's view of the worth of the worker's occupation.

CONSEQUENCES OF COMPARABLE WORTH

The Cost

The ruling in Washington will cost the state between \$500 and \$800 million. The total cost to taxpayers throughout the country could be many times this figure, if other states adopted comparable worth legislation or similar court rulings are handed down. If such laws were applied nation wide and covered all employment, the pay increases required for female-dominated jobs could cost \$320 billion, according to Dan Glassner of the consulting firm of Hay Associates.⁹

Robert Williams, a management representative in labor negotiations, points out:

Unless we are prepared to alter radically our whole economic system, a solution that holds individual employers responsible for market conditions, or forces them to ignore the market in favor of purely internal value scales, simply cannot work.¹⁰

Employment Effects

The pay increases in the public sector required by a comparable pay law would force governments to increase spending or cut services. If they opted for the first choice, the tax hikes to finance the additional spending would drain resources and jobs (for both sexes) from the private sector. If governments chose the second option, many public sector workers would be laid off.

⁹ Jake Lamar, "A Worthy but Knotty Question," Time, February 6, 1984, p. 30.

¹⁰ Ibid.

Women's occupations would be especially hard hit since their labor costs would have risen most rapidly under such comparable pay laws.

The results would be even more disastrous if comparable worth were extended to the private sector. Initially there would be an enormous jump in the cost of doing business. These additional labor costs would bankrupt many firms with a high proportion of women in their workforce, thereby leaving these women without a job. Employers would also seek to replace many women with machines in cases where women's marginal productivity did not justify the increased rate of pay. "Comparable worth," in fact, would hurt the least skilled women most, since their services would be first to be priced out of the market.

Ironically, by raising the pay of predominantly female work, comparable worth legislation could slow or even reverse the employment gains women are making in such traditionally male-dominated fields as medicine, law, and engineering. It would do so by artificially distorting the wage structure, making the male-dominated professions relatively less attractive. It could also encourage some men to enter the traditionally female occupations, generating greater competition for the jobs in these sectors.

Thus employment shortages and surpluses would develop because comparable worth rules would distort the price mechanism, which provides the signals necessary to induce people to enter fields where there are shortages and leave those that are oversupplied. Generalized employment losses would also arise as the artificial and inefficient wage structure created by comparable worth made U.S. industries less competitive. Forcing a change in the cost of one input in the production process--in this case female labor--would cause employers to shift their resources around until they could once again minimize costs. This new mix of resources, however, would mean a rise in total costs (otherwise managers would have chosen it before), and so push up the prices of domestically produced goods and services. This, in turn, would make products from abroad more attractive to American consumers, leading to a decline in the demand for U.S. goods and increased unemployment in the affected industries.

Central Planning

The proliferation of comparable worth laws, with wage boards determining the worth of every job, would be a significant and dangerous step toward central economic planning. No individual, or group of individuals, can possess the vast amount of knowledge necessary to set wages in a way that allocates resources throughout the economy most efficiently. Only the free market price mechanism can do this. Any wage set too high by a wage board would attract too many people for that particular job, while wages set too low would create shortages. In a free market, wages rise or fall to remove shortages or surpluses. In a planned

economy, there is no self-correcting mechanism to deal with this problem.

A wage board cannot determine that a nurse and a tree trimmer are "worth" the same. Only the valuation awarded by the marketplace, in the form of competitive wages, makes any economic sense. And only wages emerging from this market process will balance demand and supply. If women prefer nursing to tree trimming, resulting in an oversupply of nurses relative to tree trimmers (or any other occupation) and a relatively low wage, the result may not be to the liking of nurses, but that does not mean employers are responsible and should be penalized for the result.

Clearly wages set by a comparable worth evaluation board would render collective bargaining obsolete. If market factors were no longer to be the basis of wage setting, it would be irrelevant whether or not a union won concessions from a profitable firm--only the worker's "objective" worth would matter. Unions would be reduced to toothless watchdogs, ensuring that management paid the wage rates determined by the board of evaluation.

Rent-Seeking

Wages determined by wage boards would mean an end to pay increases reflecting productivity increases. As such, workers would have less incentive to develop their skills if they felt that a point system would not reward them sufficiently. On the other hand, workers would have strong incentives to lobby wage boards and expend considerable resources in an attempt to persuade the board to raise the wages of their particular occupation by adjusting their "worth" score.

As some groups succeeded by such lobbying, other workers who might have been successful in a free market would be penalized. This would be a particular problem of jobs subject to rapid technological change, where innovations could quickly alter the nature of a job, making it a candidate for reevaluation on the comparable worth scale. Thus, resources would tend to be diverted from education and training, to petitioning wage boards--to the disadvantage of consumers, taxpayers, and labor.

CONCLUSION

Women's advocacy groups often attribute differing wage levels to persistent sex discrimination in the marketplace. Yet they overlook real differences in productivity, as well as basic supply and demand in the labor market. "Comparable worth" cannot end wage differentials. By trying to do so, moreover, it would impose extraordinary costs and distortions on the economy. Among them: bureaucratic regulation; higher prices, higher taxes, increased unemployment, emasculation of labor union wage-bargaining power, reduced competitiveness in world markets, lower productivity, and perhaps worst of all, a significant loss in freedom.

Several steps could be taken to improve women's economic status without destroying the labor market basis of the U.S. economy. Tax laws could be changed so that a household's secondary worker (usually a woman) would no longer face high marginal tax rates on earnings, which now are simply added on top of the primary worker's earnings. Barriers restricting entry into certain occupations or raising the cost of employing certain groups could be eliminated. Moreover, occupational licensing laws and restrictions on doing work in one's own home, which eliminate potential jobs for many women, could be repealed. In short, impediments that prevent the marketplace from adjusting to the changing role of women could be dismantled, allowing female wages to reflect their improving productivity.¹¹

Comparable worth legislation would only slow down the progress being made. And it would probably increase discrimination, rather than reduce it, because the higher wages forced upon employers would lower their demand for traditionally female jobs, while the number of applicants would rise, thanks to the mandated new pay scales. This would make it much easier for employers to discriminate. Comparable worth legislation, in other words, would simply exacerbate the very problem it was designed to cure.

Peter Germanis
Schultz Fellow

¹¹ See Catherine England and Robert Valero, "Working Women: Is Uncle Sam the Solution--Or the Problem?" Heritage Foundation Background No. 263, May 2, 1983.