Testimony on the Gender Pay Gap

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Ms. Chairwoman, members of the Committee, I am honored to be invited to testify before your Committee today on the subject of the pay gap between men and women. I have followed and written about this and related issues for many years. I am the coauthor of two books on women in the labor force, "Women's Figures: An Illustrated Guide to the Economic Progress of Women in America," and "The Feminist Dilemma: When Success Is Not Enough."

Currently I am a senior fellow at the Hudson Institute. From February 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2003 I served at the Council of Economic Advisers as chief of staff and special adviser. Previously, I was a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush.

One of the concerns of working women is the "pay gap" – the alleged payment to women of 78 cents for every dollar earned by a man. However, men and women generally have equal pay for equal work now—if they have the same jobs, responsibilities, and skills. Members of Congress are paid identically regardless of gender, as are many other men and women with the same job. Two

entry-level cashiers at a supermarket, one male and one female, are usually paid the same, as are male and female first-year associates at law firms. If they believe they are underpaid, they can sue for discrimination under current law.

The 78 percent figure comes from comparing the 2007 full-time median annual earnings of women with men, the latest year available from the Census Bureau.[1] The 2007 Department of Labor data show that women's full-time median weekly earnings are 80 percent of men's.[2,3] Just comparing men and women who work 40 hours weekly, without accounting for differences in jobs, training, or time in the labor force, yields a ratio of 87.2 percent.[4]

These wage ratios are computed from aggregate government data and do not take into account differences in education, job title and responsibility, regional labor markets, work experience, occupation, and time in the workforce. When economic studies include these major determinants of income, rather than simple averages of all men and women's salaries, the pay gap shrinks even more. A report by Jody Feder and Linda Levine of the Congressional Research Service

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[1] DeNavas-Walt, Carmen, Bernadette D Proctor, and Jessica C Smith, U.S. Census Bureau, "Table A-2. Real Median Earnings of Full-Time, Year-Round Workers by Sex and Female-to-Male Earnings Ratio: 1960 to 2007", *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, Washington, DC: U.S. Government Printing Office, 2008, p. 38.
[2] U.S. Department of Labor Bureau of Labor Statistics, *Women in the Labor Force: A Databook*, Washington, DC, December 2008, p. 1.
[3] BLS uncompiled 2008 data on weekly earnings yield an earnings ratio of 79.9 percent.
[4] Bureau of Labor Statistics, "Median usual weekly earnings of wage and salary workers by hours usually worked and sex, 2007 annual averages - continued", *Highlights of Women's Earnings in 2007*, Washington, DC, October 2008, p. 41. Statistic refers to workers who usually work exactly 40 hours a week.

entitled "Pay Equity Legislation in the 110th Congress,"[5] declared that "Although these disparities between seemingly comparable men and women sometimes are taken as proof of sex-based wage inequities, the data have not been adjusted to reflect gender differences in *all* characteristics that can legitimately affect relative wages (e.g. college major or uninterrupted years of employment)."

Many academic studies of gender discrimination focus on the measurement of the wage gap. Dozens of studies have been published in academic journals over the past two decades. These studies attempt to measure the contributing effects of all the factors that could plausibly explain the wage gap through an econometric technique called regression analysis. The remaining portion of the wage gap that cannot be explained by measurable variables is frequently termed "discrimination." Generally, the more explanatory variables that are included in the econometric regression analysis, the more of the wage gap that can be explained, and the less is the residual portion attributable to "discrimination." An analysis that omits relevant variables finds a greater unexplained residual.

However, simple wage ratios do not take into account other determinants of income. They are computed using purely mathematical calculations of U.S. labor market data published by the Bureau of Labor Statistics of the U.S.

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[5] Jody Feder and Linda Levine, "Pay Equity Legislation in the 110th Congress, "*CRS Report for Congress RL31867,* Washington, DC: Congressional Research Service, Updated January 5, 2007.

Department of Labor. Comparisons of men's and women's wages need to be made carefully, because there are differences in hours worked by men and women.

Let's take an example of how regression analysis allows us to distinguish different factors that affect earnings. A female nurse might earn less than a male orthopedic surgeon. But this would not be termed "unfair" or "discrimination" because the profession of surgeon requires more years of education, the surgeon might work different hours from the nurse, and the nurse might have fewer continuous years of work experience due to family considerations.

The standard literature in analyzing wage gaps between men and women is centered on measuring these varying factors. Professors such as Francine Blau and Lawrence Kahn,[6] Charles Brown and Mary Corcoran,[7] David Macpherson and Barry Hirsch,[8] and Jane Waldfogel[9] all take these factors into account to a greater or lesser degree. There are no peer-reviewed academic studies that measure the wage gap between men and women without using regression analysis to account for the major factors affecting wages.

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[6] Francine D. Blau and Lawrence M. Kahn, "The US Gender Pay Gap in the 1990s: Slowing Convergence," *National Bureau of Economic Research,* Working Paper 10853, October 2004.
[7] Charles Brown and Mary Corcoran, "Sex-Based Differences in School Content and the Male/Female Wage Gap," *Journal of Labor Economics* 15 (July 1997 Part 1): 431-65
[8] David A. Macpherson and Barry T. Hirsh, "Wages and Gender Composition: Why Do Women's Jobs Pay Less?" *Journal of Labor Economics* 13 (July 1995): 426-71.
[9] Jane Waldfogel, "Working Mothers Then and Now: A Cross-Cohort Analysis of the Effects of Maternity Leave on Women's Pay," in *Gender and Family Issues in the Workplace,* edited by Francine D. Blau and Ronald G. Ehrenberg (New York: Russell Sage Foundation, 1997).

To take one study as an example, Professor June O'Neill, in an article published in 2003 in the economics profession's flagship journal *The American Economic Review*,[10] shows that the observed unadjusted wage ratio between women and men in 2000 is 78.2 percent. When data on demographics, education, scores on the Armed Forces Qualification Test, and work experience are added, the wage ratio rises to 91.4. The addition of variables measuring workplace and occupational characteristics, as well as child-related factors, causes the wage ratio to rise to 95.1 percent. When the percentage female in the occupation is added, the wage ratio becomes 97.5 percent, an insignificant difference.

In another study, Professors Marianne Bertrand of the University of Chicago and Kevin Hallock of Cornell University found almost no difference in the pay of male and female top corporate executives when accounting for size of firm, position in the company, age, seniority, and experience.[11]

Lower pay can reflect decisions—by men and women--about field of study, occupation, and time in the workforce. Those who don't finish high school earn less. College graduates who major in humanities rather than the sciences have lower incomes. More women than men choose humanities majors.

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[10] June O'Neill, "The Gender Gap in Wages, Circa 2000," *American Economic Review*, Vol. 93, No.2, Papers and Proceedings of the One Hundred Fifteenth Annual Meeting of the American Economic Association, Washington, D.C., January 3-5, 2003 (May 2003), 309-314.
[11] Marianne Bertrand and Kevin Hallock, "The Gender Gap in Top Corporate Jobs," *Industrial and Labor Relations Review*, October 2001.

Employers pay workers who have taken time out of the work force less than those with more experience on the job, and many women work less for family reasons. A choice of more time out of the workforce with less money rather than more time in the workforce with more income is not a social problem. A society that gives men and women these choices, as does ours, is something to applaud.

Nevertheless, we need to do all we can to level the playing field so that women are not discouraged by our institutions from dropping out of the workforce. One change that has been proposed is to allow the top tax rate to rise. This would adversely affect married women because their incomes are frequently secondary. It would not only discourage marriage, but also discourage married women from working.

Take a nurse, Amanda, with taxable income of $50,000, who wants to marry Henry, who owns an electrical supply store and has taxable income of $160,000. Amanda's taxable income as a nurse is $50,000. Unmarried, he is in the 28% bracket and she is in the 25% bracket. When they get married, they will be taxed at 33%—rising to 36% in 2011 if Congress allows taxes to rise in 2011.

By raising taxes on upper-income Americans, Congress would worsen our tax system's marriage penalty on two-earner married couples, and Amanda and Henry would pay even more tax married than single.

In President Obama's new budget for 2010, he outlined plans to allow the top two tax rates to rise from 33% to 36% and from 35% to 39.6% in 2011. In addition, taxpayers in these brackets would not receive the full value of their itemized deductions, further exacerbating the fiscal disadvantages of marriage for some couples.

Taxes would rise for singles with taxable income over $172,000 and married couples over $209,000. Even if Amanda and Henry were not immediately affected by higher rates, those rates might well affect Amanda when she earned more.

Unless, of course, Amanda and Henry decide to have children, and Amanda left the workforce to care for them. Say that Amanda's taxable income rose to $60,000, so she and Henry had a combined income of $220,000, placing them in the new 36% bracket. But with Amanda at home looking after the children, their federal tax rate would be 28%.

And federal taxes are not the whole story. State taxes would take another 9% of Henry and Amanda's income in states such as Oregon, Vermont and Iowa; Medicare would take another 1.45%; and Social Security taxes would add another 6.2% up to $107,000.

Our tax system should not make it harder for women to work. The penalty falls most heavily on married women who have invested in education,

hoping to shatter glass ceilings and compete with men for managerial jobs, and the higher taxes would exacerbate the penalty.

When mothers take jobs, earnings are reduced by taxes paid at their husbands' higher rates, in addition to costs for childcare and transportation. This discourages married women not just from working, but also from striving for promotions, from pursuing upwardly-mobile careers. Mothers are more affected by the marriage penalty than other women because they are more likely to move out of the labor force to look after newborn children and toddlers, and then to return to work when their children are in school.

It does not have to be this way. Congress could leave taxes as they are now, with a flatter structure of rates, so that couples do not face higher rates upon marriage.

Labor Department data show that as average number of earners per household rise, so do income levels. One characteristic of the highest-earning one-fifth of households is that they have an average of two earners per household. The middle fifth averages 1.4 earners per household, and the lowest-earning fifth averages half an earner per household—more part-time and unemployed workers, or retirees.

Therefore, when workers marry, more households move into the top fifth of the income distribution. When Congress tries to raise taxes on top earners

then working women are disproportionately affected, even if, like Amanda, they do not earn much by themselves. For Congress to announce that taxes on those at the top end of the scale will rise is an explicit attack on married working women.

Thank you for giving me the opportunity to appear before you today. I would be glad to answer any questions.