Testimony on the Gender Pay Gap

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Senior Fellow, Hudson Institute

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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 author of How Obama’s Gender Policies Undermine America, a monograph published this month by Encounter Press, and 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, (AEI Press and Independent Women’s Forum, 1999) and The Feminist Dilemma: When Success Is Not Enough (AEI Press, 2001).

Currently I am a senior fellow at 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 and as an economist on the staff of the Council of Economic Advisers under President Reagan.

The most current figures indicate that women have nearly closed the formerly wide divisions that separated men and women in terms of economic and social status.

Over the past three decades, the average wage gap decreased steadily, as shown in figure 1-1. However, average wage gaps do not represent the compensation of women compared to men in specific jobs, because they average all full-time men and women in the population, rather than comparing men and women in the same jobs with the same experience. Data from the U.S. Department of Labor’s Bureau of Labor Statistics that women earned 80 cents for every dollar that men earned in 2008 and in 2009, using full-time median weekly earnings, ignore fundamental differences between jobs, experience, and hours worked. If we compare wages of men and women who work 40 hours a week, without accounting for any differences in jobs, training, or time in the labor force, Labor Department data show the gender wage ratio increases to 86 percent, as can be seen in figure 1-2. Marriage and children explain some of the wage gap, because many mothers value flexible schedules. In 2009 single women working
full-time earned 95% of men’s earnings, but married women earned 76%, even before accounting for differences in education, jobs, and experience.

Figure 1-1

![Graph showing Women's Median Usual Weekly Earnings as a Percent of Men's 1979 - 2009](image)


When the wage gap is analyzed by individual occupations, jobs and employee characteristics, regional labor markets, job titles, job responsibility, and experience; then the wage gap shrinks even more. When these differences are considered, many studies show that men and women make about the same. For instance, a 2009 study by the economics consulting firm CONSAD Research Corporation, prepared for the Labor Department, shows that women make around 94% of what men make. The remaining six cents are due to unexplained variables, one of which might be discrimination.

In a similar vein, a report by Jody Feder and Linda Levine of the Congressional Research Service entitled “Pay Equity Legislation in the 110th Congress,” states that “although these disparities between seemingly comparable men and women sometimes are taken as proof of sex-based wage inequities, the data has not been adjusted to reflect gender difference in all characteristics that can legitimately affect relative wages (for instance, college major or uninterrupted years of employment.)”iii Once researchers account for those factors, the gap shrinks considerably.
Professor Stephen Jarrell of West Carolina University and Professor T.D. Stanley of Hendrix College point out two other possible statistical faults often found in calculating the wage gap. First, although it is decreasing, there is a tendency for male researchers to report larger ‘discrimination’ estimates because in an attempt to be scientifically objective in their research, men tend to overcompensate for the “potential bias implicit in their gender membership.” Second, Jarrell and Stanley's analysis of meta-regression results shows that using annual or weekly salaries significantly overestimates the pay gap because women work fewer hours. Therefore, they recommend instead using hourly wages as a more accurate standard.

Dozens of studies on the gender wage gap that attempt to measure “discrimination” have been published in academic journals in the past couple of decades. Unlike the Bureau of Labor Statistics, which uses simple mathematical tools to calculate the wage ratio, these studies use an econometric technique called regression analysis to measure contributing effects of all factors that could plausibly explain the wage gap. The residual that cannot be explained by any of the included variables is frequently termed as “discrimination.” However, it has been found that an increase in the number of explanatory variables significantly reduces the residual portion attributable to “discrimination.” Many of these studies suffer from a problem called omitted variable bias, which means that
they fail to include enough explanatory variables to truly account for all, or even most, of the factors that plausibly affect wages.

A quantitative analysis of studies that reported sex discrimination, conducted by University of Florida professor Henry Tosi and engineer Steven W. Einbender of Electronic Data Systems, found that of the 11 studies showing discrimination, 10 used fewer than 4 explanatory variables. On the other hand, only 3 out of the 10 studies that did not report discrimination used less than 4 explanatory variables.vii

Many studies have conducted regression based decomposition analysis in order to infer the relative importance of various factors in forming the wage gap. One such study, by Professor June O’Neill of the City University of New York, shows that the adjusted wage ratio between men and women in 2000 increased from 78.2 percent to 97.5 percent when appropriate explanatory variables were included in calculations.viii When data were included on demographics, education, scores on the Armed Forces Qualification Test, and work experience, the wage ratio increased to 91.4 percent. When workplace and occupation characteristics, as well as child-related factors, were added, the wage ratio rose to 95.1 percent. Finally, the addition of the percentage of women in the occupation increased the ratio to 97.5 percent.

Similarly, Professor Marianne Bertrand of the University of Chicago and Professor Kevin Hallock of Cornell University found an insignificant difference in the pay of male and female top corporate executives when factoring in the size of the firm, company position, age, seniority, and tenure.ix As table 1-1 shows, when accounting for detailed manager occupation, the female-male wage ratio rises from 56 percent to 87 percent and, when accounting for age and tenure, the wage ratio jumps from 56 percent to 95 percent.

Moreover, studies on the pay gap largely ignore the fringe benefits given to workers that account for approximately one-third of total compensation. Professor Helen Levy of the University of Michigan found in her study that the adjusted own-employer health coverage gap, 0.088, was only half as large as the pay gap, 0.25. Thus, data show smaller gender wage gaps when using both health insurance and wages than wages alone.x

Indeed, the rate at which the wage gap is closing has slowed down in recent years, but this is understandable if we take into account the various other factors that are consistent with the slow-down. For one, fertility rates of female college graduates have increased substantially. Professor Qingyan Shang of the University at Buffalo and Professor Bruce Weinberg of Ohio State University conducted a study that analyzed fertility data between 1940 and 2006. The
results showed an increase in fertility among highly educated female college graduates of all ages since 2000, indicating that women are increasingly opting for family over career. Thus, motherhood is a major factor behind the slowdown and the pay gap all-together.

Table 1-1

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Year</th>
<th>Sample From</th>
<th>Factors included in adjusted ratio</th>
<th>F/M Wage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Census Bureau</td>
<td>2008</td>
<td>Population</td>
<td>Full-time Annual Wages</td>
<td>0.78</td>
</tr>
<tr>
<td>BLS</td>
<td>2008</td>
<td>Population</td>
<td>Full-time Weekly Wages of Workers who work 40 hours per week</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Industrial Specialization, Firm Size, Average Weekly earnings of workers working over 35 hours, Compensation, Detail Manager Occupation</td>
<td>0.56</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.87</td>
</tr>
<tr>
<td>Bertrand and Hallock</td>
<td>2001</td>
<td>Top Executives, Managers</td>
<td>Breaks in federal service, Unpaid Leave, Education, Occupational differences, Worker characteristics</td>
<td>0.89</td>
</tr>
<tr>
<td>GAO</td>
<td>2009</td>
<td>Federal Workers</td>
<td>Age, Gender, Race, Education, Hourly wage, Work Experience, Marital Status, Number of Children</td>
<td>0.78</td>
</tr>
<tr>
<td>Jane Waldfogel</td>
<td>1989</td>
<td>Population</td>
<td>Industrial Specialization, Firm Size, Average Weekly earnings of workers working over 35 hours, Compensation, Age and Tenure of Manager</td>
<td>0.56</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.95</td>
</tr>
<tr>
<td>June O’Neill</td>
<td>2003</td>
<td>Population</td>
<td>Age, Gender, Race, Education, SMSA, Region, AFQT, work experience, Time lost due to family responsibilities, Class of worker, Occupational Characteristics, Percent female in occupation</td>
<td>0.78</td>
</tr>
</tbody>
</table>

Note: The unadjusted wage ratio includes compensation only.
For the wage ratios provided in Jane Waldfogel’s study, 0.84 is the overall female to male wage ratio and 0.95 is the wage ratio of non-mothers to male.

Official labor statistics, graphed in figure 1-3, indicate a higher gender wage ratio for women without any children than for women with children. Thus, mothers tend to have lower wages than women without children. This is widely known as the “mother’s penalty,” and some argue that it exists because of discrimination. However, various empirical findings prove that it is rather a matter of productivity and preference, than discrimination.
In a study that addresses the notion of how the majority of parenting responsibilities fall on the mother rather than the father, the AAUW writes that “women’s personal choices are similarly fraught with inequities.”\textsuperscript{xii} This statement suggests that what people choose for themselves is not right for them. They are referring to the problem of the “social construct” of gender roles, but it can be argued that this is not entirely about “nurture” but also about “nature.” After birth, it is the mothers who need time off to rest and recover. Even if the social construct of gender roles were eliminated, it still would not stop the need for women to take work leave, while men continue working in their respective professions. Consequently, it is unclear how laws would help us change such gender roles.

Mothers often choose to work fewer hours and do flexible jobs in order to spend more time with their children, and it is highly unlikely that mothers perceive childcare as a burden. Professor Elizabeth Fox-Genovese writes from her research that “even highly successful women frequently want to spend much more time with their young children than the sixty-hour weeks required by the corporate fast tracks will permit.”\textsuperscript{xiii} Having done a thorough study on the extent to which non-discriminatory factors explain the wage gaps, Professor June O’Neill and Professor Dave O’Neill of the City University of New York, argue that the gender pay gap arises from women’s choices on “the amount of time and

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**Figure 1-3**

<table>
<thead>
<tr>
<th>Gender Wage Ratio by Presence and Age of Children, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>80.2%</td>
</tr>
</tbody>
</table>

energy devoted to her career, as reflected in years of work, experience, utilization of part-time work, and other workplace and job characteristics”.

Professor Paula England of Stanford University also comes to similar conclusions. She explains that mothers tend to choose “mother-friendly” jobs in which flexibility is traded off for higher earnings, promotion prospects and on-the-job training. Another study by Professor Lalith Munasinghe, Professor Alice Henriques, and Tania Reif of Barnard College, Columbia University and Citigroup respectively finds that women, compared to men, are less likely to invest in learning job-specific skills, and are much less likely to select jobs with “back-loaded” compensation, because they know that they are likely to face more job separations.

In her book, *What Children Need*, Professor Jane Waldfogel of Columbia University writes that there is a positive correlation between the number of children and the pay gap. Her analysis of the importance of family status in determining the pay gap using cohorts from national longitudinal surveys found that mothers earned much less than non-mothers and men. She found that the 20 percentage point increase in the wage ratio from 64 percent to 84 percent during the 1980s was averaged from a higher increase in wages of non-mothers and a lower increase in wages of mothers. Mothers’ wages had only grown from 60 percent to 75 percent, while the wages of childless women had risen sharply from 72 percent of men’s pay to 95 percent.

Consistent with her findings are those of Professors Claudia Goldin and Lawrence Katz of Harvard University and Professor Marianne Bertrand of the University of Chicago, which report that the presence of children was the major reason behind career interruptions and fewer working hours of the female MBA graduates they studied. Their study found that although all MBA graduates entered the job market with the same amount of compensation, their pay gap started rising steadily over the years because of the difference in MBA training, working hours and career interruptions.

The home page of the Yale Law Women Web site, the site for female law students at Yale Law School, reads “In the aftermath of the recent global financial crisis, YLW believes that the focus on family friendly firm policies and policies designed for the retention of women remains more important and pressing than ever.” Friendly firm policies are those that allow children to be combined with a professional career.

In addition to a desire for flexibility within full-time work, the Labor Department reports that 31 percent of women chose to work part-time in 2009. (Another 5 percent reported that they worked part-time because they could not find full-
Labor Department data show that in 2009 single women working full-time earned about 95 percent of men’s earnings, but married women earned 76 percent of what married men earned. Married women with children between the ages of 6-17 earned 70 percent of men with children of the same age.

Childbearing may be the reason for some differences in preferences between men and women, but experimental psychology proves that women’s preferences are different than men’s even regardless of the presence of children. Professor Rachel Corson of the University of Texas at Dallas and Professor Uri Gneezy of the University of California, San Diego conducted a thorough review of experimental studies on behavior and found that women and men have significant differences in preferences when it comes to risk-taking, social preferences and competition. Lab results reported that women are more risk-averse, less competitive and are more sensitive to subtle social cues than men; leading them to choose professions with less risk-taking, fewer degrees of competition, and careers that are deemed socially appropriate for them. This behavior translates into lower pay and slower advancement within their chosen professions, a phenomenon that is allegedly called the “pink ghetto”. Taking into consideration such evidence, it becomes clear just how simplistic the argument for discrimination theory really is.

In the book Women Don’t Ask, Professor Linda Babcock of Carnegie-Mellon University and writer Sara Laschever argue that women avoid competitive negotiation situations, leading them to receive lower wages and fewer concessions. They based their argument on a variety of evidence, including a laboratory study where the participants were promised to be paid between three and ten dollars for their participation. Once the participants finished, the experimenter thanked them and said “Here’s $3. Is $3 OK?” The findings reported that nine times as many men requested for more money than women. Similar findings have been reported at the workplace. Professor Lisa Baron of the University of California, Irvine found that only 7 percent of the women in her study negotiated their salary offer, as opposed to 57 percent of men.

With all these elements working against the unexplained pay gap, it is simply irrational to argue that it exists because of “persistent discrimination.” It also shows how government intervention targeted towards discrimination will not be effective. However, supporters of the discrimination theory have kept pushing bills like the Pay Check Fairness Act, which have a higher potential of harming women than helping them. For example, in order to escape the heavy guidelines set by the Pay Check Fairness Act, employers may actually find it easier to hire males than females.
Proponents of wage guidelines, such as the National Committee on Pay Equity, approvingly cite examples of areas where pay equity has been used, but fail to acknowledge major problems with the practice. One example cited occurred in Hawaii in 1995, where nurses, mostly female, were given a sum of $11,500 in their annual raises to equate their salaries to those of adult correction workers, who were mostly male. Another example cited was in Oregon, where female clerical specialists were deemed underpaid by $7,000 annually in comparison to male senior sewer workers. In both cases, working conditions were not taken into account. Working conditions in prisons and sewers are far more dangerous and unpleasant than conditions in hospitals and offices. Most people, given a choice of working in an office or sewer at the same salary, would choose the office. So, to allocate workers into sewers and prisons, one must offer them higher pay.

Many organizations like the American Association of University Women (AAUW) and the National Organization for Women (NOW) are quick to falsely attribute the unexplained portion of the pay gap to discrimination. These organizations believe discrimination plagues the American workplace, and their argument is not surprising given that their work begins with the weight of their preconceived notions on the gender wage gap. The AAUW study, “Behind the Pay Gap” shows that even when all various factors normally associated with pay have been included in the computation, the wage gap persists, which the study’s authors then attribute to gender discrimination. But that claim is a rather narrow and simplistic interpretation of the gender pay gap for it ignores the complexity of the issue at hand.

In earlier decades, when the pay gap was larger, many blamed discrimination. As the years went by and the narrowing gaps in pay rates reflected increasing similarity in the characteristics of workers in terms of jobs, educational attainment and level of experience, as the 2009 GAO report shows, it became clear that the American workplace is rather meritocratic. Yet the allegations of discrimination continued, even though, under current law, it is possible for workers to sue employers if they feel discriminated against. Today American women have the same opportunities as men in the workplace; they simply make different choices. Thus, there is a clear path for women to achieve what they want.

Similar to the case of the “Gender Wage Gap”, the concept of the “Glass Ceiling” has made its way into popular belief as a fact not requiring further questioning. Coined in the 1980s by the Wall Street Journal, this catchy phrase is defined as an “invisible but impenetrable barrier between women and the executive suite.” Proponents of the theory, such as the Glass Ceiling Commission, imply that women are systematically excluded from career advancement opportunities to
higher level management and leadership roles. Their reports point to the under-representation of women at top corporate positions as evidence of the existence of the “glass ceiling”. However, under-representation alone is a rather weak argument to assert such a theory, for if we look at the issue as a whole and not just the numbers, we find very different reasons behind the statistics.

When the Glass Ceiling Commission released its ominous report in 1995, stating that only 5 percent of senior managers at Fortune 1000 and Fortune 500 service companies were women, it completely ignored the qualified labor pool in its assessment. Instead, it compared that number to the entire labor force. The numbers used and the theory would have made sense if the Commission had used the number of working men and women who have an MBA with at least twenty-five years of work experience in order to calculate the percentages of men and women who are represented in top corporate jobs. It is surprising why the number was not correctly adjusted despite the researchers' study into “preparedness” of women and minorities to rise to top corporate positions. And although the study supported the pipeline theory, the report’s authors were quick to argue that there are barriers within the pipeline.

The pipeline theory holds that one needs to be “in the pipeline” long enough to gain the necessary experience and skills before qualifying for top executive jobs. It is not difficult to realize that very few women entered the pipeline a couple of decades ago: only few graduated with professional degrees and even fewer remained in the workforce long enough to garner necessary experience, which explains why there is a dearth of women executives today. Figure 1-4 shows the percent of Master’s degrees in business awarded to women between 1970 and 2008. Given that top corporate jobs require one to be in the pipeline for at least 25 years, in 1995, less than 5 percent of the qualified candidates for these jobs were women.

Similarly, today, less than 25 percent of those qualified for executive jobs are women, even assuming that all female MBA recipients have been active in their business careers since graduation. In 2008, about 45 percent of Master’s degrees in business were awarded to women, so we can expect the pipeline to balance out only after 2030, provided that all women graduates with master degrees in business remain active in their business careers. Thus, critics who seem appalled by the systems’ unequal gender distribution of top managerial and executive positions must consider these statistics before jumping to conclusions.

The Glass Ceiling Commission report also noted that “certain functional areas are more likely than others to lead to the top. The “right” areas are most likely to be line functions such as marketing and production or critical control functions such as accounting and finance.”xxviii The report also cited studies that concluded
that there are certain factors that are very important in climbing the corporate ladder; such as broad and varied experience in the core areas of business; access to information, particularly through networks and mentoring; company seniority; initial job assignment; high job mobility; education; organizational savvy; long hours and hard work; and career planning. As discussed in the previous section, women have different preferences, are more likely to work part-time and also tend to take more career breaks, leading them to end up with less experience than men, shorter hours, and more interruptions in their career. Such factors that become “barriers” to upward mobility at work are the same reasons behind the gender wage gap.

**Figure 1-4**


Women in management have been attaining increasingly similar levels of education and work characteristics as men, but significant differences still remain. The GAO’s report on women in management showed that for most industries in 2000, female managers had less education, were younger, were more likely to work part-time, and were less likely to be married than men in management.

The GAO also found that in 2000, half of the ten industries studied had no statistically significant difference between the percent of management positions filled by women and the percent of all industry positions filled by women. In the industries where the difference was significant, namely, educational services; retail trade, finance, insurance and real estate, hospitals and medical services,
and professional medical services; the majority of management positions were filled by women, except in retail trade. By 2009, as shown in figure 1-5, women made up the majority of higher-level jobs in public administration, financial managing, accounting and auditing, insurance underwriting, and health and medicine managing. This encouraging evidence highlights women's achievements in the workplace, and casts further doubt on discrimination theory.

**Figure 1-5**

![Figure 1-5: Women as a Percentage of Total Employment by Occupation, 1983, 1997 and 2009](image)


Although individual cases of discrimination still take place, there is no evidence that discrimination is systematic and persistent. The Korn/Ferry executive search firm reported in July that, by 2007, women were represented on corporate boards in 85 percent of the Fortune 1000 companies, compared with 78 percent in 2001, 53 percent in 1988 and 11 percent in 1973.xxxi This growth is notable for women, and there is no reason to believe that it has stalled.

The danger is not that progress for women in slowing, but that Congress will overreact to false discrimination claims and pass legislation that will slow the growth of jobs in America for both men and women. This would help to keep the unemployment rate close to its current 9.6 percent rate. Such legislation is discussed in my recent monograph, *How Obama’s Gender Policies Undermine America*, which I would like to submit for the record.
For instance, in order to solve the purported wage gap, Congress is considering the Paycheck Fairness Act, a bill designed to raise women’s wages introduced by Hillary Clinton when she was still a Democratic senator from New York. The bill has 42 Democratic cosponsors, and it would vastly expand the role of the government in employers’ compensation decisions.

The Paycheck Fairness Act was one of the first bills that the House of Representatives passed in January 2009, and, as of this writing, has been stalled in the Senate. It would require the government to collect information on workers’ pay, by race and sex, with the goal of equalizing wages of men and women, by raising women’s wages. (Fortunately for men, depressing their wages to achieve pay equity is not permitted under the proposed law.)

On July 20, 2010, President Obama issued a statement calling for passage of the Paycheck Fairness bill. He declared, “Yet, even in 2010, women make only 77 cents for every dollar that men earn...So today, I thank the House for its work on this issue and encourage the Senate to pass the Paycheck Fairness Act, a common-sense bill that will help ensure that men and women who do equal work receive the equal pay that they and their families deserve.”

The bill is misnamed because it responds to a false problem. As discussed above, there is far less pay discrimination against women than is alleged by professional feminists. With numerous anti-discrimination laws, such as Title VII of the Civil Rights Act, the Equal Pay Act, and the Lily Ledbetter Fair Pay Act (signed into law by President Obama in January 2009), women do not need more remedies for discrimination. Courts have sufficient tools, and use them. The pending bill would only burden employers with more regulations and paperwork, further discouraging hiring—of men and women.

The Paycheck Fairness bill, if enacted, would spawn a tidal wave of lawsuits and enmesh employers in endless litigation. The bill is a full-employment act for lawyers that would further burden already over-burdened courts.

The bill would only allow employers to defend differences in pay between men and women on the grounds of education, training, and experience if these factors are also justified on the grounds of “business necessity.” Jane McFetridge, a witness at the March 2010 Senate Committee on Health, Education, Labor, and Pensions hearing and a partner with Jackson Lewis LLP, a Chicago law firm, testified that this change could prohibit male supermarket managers with college degrees from being paid more than female cashiers—because the college degree for the male manager might not be consistent with “business necessity.”
Another provision of the Paycheck Fairness bill would expand the number of establishments subject to the law from one to all establishments of the same employer in a county.

Now, employees who do substantially the same work in one location have to be paid equally. Including all locations would mean that cashiers in high cost, or unpleasant areas, where the employer has to pay more to attract workers, have to be paid the same as those in low-cost, more pleasant areas. Identifying “substantially the same work” is hard to do for disparate jobs in different locations. The intent is to raise wages of employees at the lower end, driving up employment costs and encouraging layoffs.

Class-action suits would be facilitated by the bill’s opt-out clause. Now, if a worker wants to participate in a class-action suit against her employer, she has to affirmatively agree to take part, or opt in. Under the bill, she would automatically be included unless she opted out. This provision would increase the numbers in class-action suits and would be a boon to plaintiffs’ lawyers.

Penalties that the courts could levy on employers would be heavier, too. Under the law now, employers found guilty of discrimination owe workers back pay. Under the pending bill, they would have to pay punitive damages, of which a quarter or a third typically goes to plaintiffs’ lawyers.

The bill would require the Equal Employment Opportunity Commission to analyze pay data and promulgate regulations to collect more data, including information about the sex, race, and national origin of employees. The paperwork required would be a ruinous burden to employers.

Hence, the danger is not that women have insufficient remedies for discrimination or few paths to the corner office, but that Congress will interfere and slow the economy, reducing job growth and family income.

Thanks for giving me the opportunity to testify today.

NOTES:

3 Jody Feder and Linda Levine, “Pay Equity Legislation in the 110th Congress,” CRS Report for

v Ibid; pg 836

vi Ibid; pg 837


xxi Ibid


xxix Ibid
