

Why women get paid
less than men
economics essay



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Introduction

One of the most debated issues in relation to globalization is whether it leads to more inequality. While there is wide consensus that there are aggregate welfare gains to be reaped by international integration, there is less agreement on the distributional consequences. Possible adverse effects on inequality are often perceived as one of the main costs of further international integration, which must be weighted against other gains accruing in the process. In the debate some have focused on the possibility that increased inequality would backlash the integration process, while others have pointed to the fact that it necessitates policy reforms coping with possible adverse distributional consequences. A central question is therefore how international integration affects wage formation, employment and inequality (Torben and Allan, 2005).

Much of the inequality cum globalization debate has in particular centered on how integration of low wage countries in the international economic sphere affects the relative wages of unskilled to skilled workers. A significant deterioration in the relative wage of unskilled relative to skilled workers has been observed over the last couple of decades for the US and also other countries like the UK. Integration of countries with an abundant supply of unskilled workers (relative to skilled) would simply a deteriorating position of unskilled workers and an improved situation for skilled workers in the incumbent countries. Extensive research on this issue has been performed, and the consensus view is that trade has played a much smaller role for these changes than technological changes biased to the favor of skilled workers. 1This paper takes a different perspective on the distributional <https://assignbuster.com/why-women-get-paid-less-than-men-economics-essay/>

consequences of international integration to cope with a number of stylized facts, which are not well represented in the Heckscher-Ohlin model underlying the Stolper-Samuels proposition. Specifically, we take outset in the following stylized facts concerning international integration. First, while there has been an increase in the level of trade between high wage and low wage countries it is relatively modest compared to the increase in trade between the developed countries, i. e. “ North-North” integration has played at least as large a role as “ South-North” integration in recent years. As a case in point, trade has grown substantially relative to GDP in recent years for all EU-15 countries, but the consolidated trade share for EU-15 countries is not significantly larger today than it was about 40 years ago (Hanaa, 2005).

Secondly, not only has the importance of trade grown substantially in quantitative terms, but the qualitative changes may be potentially more important. Trade is changing from inter-industrial towards intra-industrial trade, i. e. trade within industries in final or intermediary products rather than trade between industries. This suggests that differences in aggregate factor endowments do not play a dominant role for the integration process experienced in e. g. European countries. Rather we observe growth in trade between relatively similar countries, which is driven by product differentiation, specialization, economies of scale, innovations etc. It has been documented that European countries tend to specialize production and recent empirical work also attributes a central role to specialization and comparative advantages as driving forces for the growth in trade (Torben and Allan, 2005).

Thirdly, the labor market consequences do not primarily derive from increased mobility of labor. Although labor mobility is part of e. g. the European integration process, there have so far been no significant changes in mobility patterns . Potential labor market consequences therefore have to arise via the interaction between labor and product markets. Product markets are significantly affected by integration, and these changes may have important labor market implications since product market conditions are important both for employment creation and the rents to be bargained over in wage negotiations. To capture this situation it is necessary to account for imperfect competition in both product and labor markets to address how product market integration affects employment creation and wage formation and therefore in turn wage dispersion. This also matches the perception that European labor markets are best characterized as markets with various forms of imperfections, including imperfect competition. International integration may have distributional consequences since it creates both opportunities and threats, and it is unlikely that these are equally shared across all groups in the labor market. Indication that product market integration may have labor market consequences including effects on inequality is found in recent empirical work. In particular it has been documented that exporting firms tend to have higher productivity and pay higher wages than comparable non-exporting firms, and the causality runs from productivity to exports, i. e. productive firms become exporters. Export is also associated with an exit of less productive firms and reallocation of resources to more efficient firms . Studies focusing on the import side of trade have found that lower trade barriers tend to decrease wage premia and that import penetration has a negative effect on wages. This evidence

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suggests that wage formation is affected by opposite forces running via an export opportunity tending to improve wages and an import threat tending to lower wages. It is not plausible that the export opportunity and the import threat are uniformly distributed across different sectors/groups, especially since the evidence points to productivity as a crucial determinant for export possibilities.

There are currently two main accounts of labor markets: the mainstream labor market (MLM) account, which avoids serious analysis of social structures; and a rather unsystematic SOCIOECONOMIC account, which recognizes that labor markets are embedded in social structures, but remains ambiguous vis-à-vis the nature of this embedding. Augmenting the latter with a critical-realist approach serves to reduce that ambiguity, and allows us to break completely with the idea that there are phenomena called 'labor markets' that are embedded in other phenomena called 'social structures' and to move, instead, towards the realization that "labor markets just are, or are exhausted by, the very social structures that constitute them" (Steve, 2006).

Why women get paid less than men

Thirty years after the Equal Pay Act, women are still getting paid less than men - resulting in a financial deficit that could add up to as much as £250,000 over a lifetime. On average, for every £1.00 a man earns, a woman gets only 82p across both the public and private sectors. The government has appointed Denise Kingsmill, the deputy chairman of the Competition Commission, to lead an inquiry into equal pay and suggest practical solutions to the pay gap. Her initial findings show there are few environments where

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women feel they cannot compete equally, but when it comes to pay the odds are still weighed against them. In the banking and insurance sector, for example, male pay averages approximately £18 per hour, whereas women receive just under £10. 50 (Roy, 2007).

Tribunals too slow

Critics say this is just unacceptable and want the law to have more muscle. They point to the length of time it takes for cases to be settled, often up to two years. 30 years since the Equal Pay Act, women are still getting paid less than men. With the help of the Equal Opportunities Commission, Sarah Daly successfully took her former employer to a tribunal, after she realized she was being paid £4, 000 less than a male colleague doing the same job. But it took 18 months for her case to settle out of court (Roy, 2007).

The government has so far not wanted to make pay audits statutory, but one trade union in particular is seeking to strengthen implementation of the Equal Pay Act through the use of audits. The Transport & General Workers Union is pressing all companies where they represent members to review pay structures thoroughly to stop any wage inequality. " If you have a system whereby people are all quite clear about the grading structure and what you need to do to be able to move up grades etc., then there is a transparency about that which enables people to see exactly where they stand within the structure, " says Margaret Prosser, T&G deputy general secretary. The union hopes these kinds of " pay audits" will force businesses to take the gender pay gap seriously. If not, then perhaps the threat of being taken to an employment tribunal for refusing to equalize wage rates might be enough to make companies sit up and listen.(BBC, 2001)

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