

The gender pay gap in literature economics essay



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The gender pay gap refers to the differences in average hourly earnings between male and female employees. In labour economics the understanding of the gender wage gap has relied on two conventional principles – the human capital and labour market discrimination theories. Both explanations are gender specific as they account for gender differences in skills or unequal treatment as the cause of the wage gap.

Human Capital consisting of training, education and work experience (Dex et al, 1994) is generally viewed as being determined by an individual, in short, people choose the amount of time to invest in their Human Capital (Polachek, 1981) thus it is deemed a valid cause of earning discrepancies. Discrimination in contrast, is the systematic disadvantage faced by a group within society and is therefore seen as a valid area for policy intervention. Discrimination perspectives focus on the barriers which constrain women to low paid employment and view the disadvantages faced by women in the labour market as beyond the control of the individual rather than a result of individual choice.

Women are typically concentrated in low earnings occupations. For example, in the UK sales assistants/check out operators have a female share of 74%, and secretarial/administration roles which have a female share of 93% (Grimshaw and Rubery, 2001). Human Capital explanations such as that of Becker (1985, cited in Hakim, 1996) suggest that rather than a result of discrimination, women are concentrated in low paid jobs through choices they make early on in their life about the type of occupation, sector of employment, education/training investments and their employment status. Human Capital explanations view people as being paid according to their

value to their employer; the higher a person's Human Capital, and greater amount of time spent working, the higher their pay. It is argued that women are paid less than men because they invest less in their Human Capital and consequently acquire a smaller number of skills, fewer qualifications and less labour market experience than their counterparts.

To the extent that gender differences in outcomes are not fully accounted for by human capital and other supply-side considerations, models of labor market discrimination offer an explanation. Theoretical work on discrimination was initiated by Becker's (1957) examination of race discrimination. Becker conceptualized discrimination as a taste or personal prejudice against members of a particular group. Models of statistical discrimination were later developed, in part to explain the persistence of discrimination in the long run in the face of competitive labor markets (e. g., Aigner and Cain, 1977; and Lundberg and Startz, 1983). Such models assume a world of uncertainty and imperfect information and focus on differences between groups in the expected productivity or in the reliability with which productivity may be predicted. Another aspect of interest is the relationship between occupational segregation and a discriminatory wage gap formulated in Bergmann's (1974) overcrowding model. She argues that discriminatory exclusion of women from " male" jobs results in an excess supply of labor in " female" occupations, depressing wages there for otherwise equally productive workers.

Pay gap in transition

When considering the social or economic achievements of the Soviet Union, it is often stressed that gender equality had been truly accomplished. The full-employment policy left little room to choose not to be in the labour force. In the central planning system wage and prices were determined in a way that having one breadwinner in a family simply could not sustain in, thus making the proclaimed 100 percent employment rate almost a reality. According to the census of 1989 81% of Lithuanian women were employed as compared to 86. 1% of men (Professional, 1995). The majority of women had full access to education and health care, but they also had to work (Jurajda, 2003). All these rights that were granted to the Soviet women had an interesting effect that is still prevailing in post-communist societies today. It is sometimes referred to as “ an allergy to feminism.” Many women now claim to have suffered from “ too much emancipation” under socialism, and are seeking what they see as new forms of freedom in femininity and maternity (Einhorn, 1993). Ogloblin (1999) and Brainerd (2000) present a thorough analysis gender and institutional background in Communism.

In command economy wage discrimination based on sex was hence restrained in line with the Soviet propaganda on equality. Pay was determined according to industry and could vary with the job specification, the worker’s experience or education level, but not gender (Münich et al., 1999). However, despite the widely manifested gender equality the pay gap between male and female labour was significant, especially given the narrow distribution of wages. Evidence from the Soviet period indicates that the gender wage gap in the Soviet Union was comparable to Western countries. In terms of basic wage, women earned on average less than two-thirds of a

man's wage; at home they spent more than twice as much time on household chores as do their spouses (Ofer and Vinokur 1992).

Following the fall of the Soviet Union and the introduction of free market in Lithuania the pay regulations were eradicated which resulted in a number of distortions in the labour market. Labour force participation rates were artificially high for both men and women in the Soviet period and declined substantially during early transition across the post-communist countries. The decline was somewhat more severe for women than for men; see Ham et al. (1999). During the period from 1991 to 1995 the female employment rate dropped by 18.6 %, whereas male – 4.5%. In the second half of 1996 and in 1997 following the positive economic growth the employment rate rose, however, it's important to note that according to Statistics Lithuania these positive tendencies are mostly associated with an increase in male economic activity. LENTELE (Statistikos departamentas) Undoubtedly growing number of economically inactive women had important implications for the gender wage differential. Another important effect besides the prevailing unemployment was a rapid increase in the dispersion of earnings, highlighted to some extent by increases in returns to education (Jurajda, 2003). Brainerd's (2000) study of seven countries of the former Soviet Union showed that the widening of the wage gap negatively affected women in all of them, although in five of the seven the losses were “ more than offset by gains in rewards to observed skills and by an apparent decline in discrimination against women.” However, in this sense women in Lithuania lost out. A significant fraction (around 40 %) (Autore, 1992) of females that were unemployed in the early transition had actually been qualified

specialists with university degrees working in engineering, government or research. Again, women did not benefit substantially from the greater returns to education or experience as the positive economic effects for women's pay were often offset if not surpassed by the fact that a very large number of skilled women lost their jobs or even chose to be unemployed. In fact, the pay differentials that account for differences in human capital characteristics rose even in the mid-to late 1990s, but the process seems to have stabilised after 1998 with a gender wage gap fluctuating around the average of 16 % (LENTELE EUROSTAT).

Similarly Newell and Reilly (2000) using mid-transition data find that the gender pay differential has been relatively constant through the 1990s in Eastern Europe. This suggests that the gap could be explained by some socio-economic characteristics that are inherent in these transitional labour markets. In fact, due to the uniformity of labour market practice across the former Communist countries, labour market segregation might be assumed to have a sizeable effect on gender wage differences in many transitional economies. Ogloblin (1999) is the first study to attempt to capture the effect of occupational segregation on wages in transition. He finds that the gender pay gap cannot be explained by gender differences in education and experience alone, a result similar to that of Newell and Reilly (1996).

Ogloblin controls for industry and firm ownership dummies, as well as for a class of occupational dummies, capturing overwhelmingly male and female occupations. He finds that these additional controls account for over 80% of the wage gap and singles out occupational segregation, a legacy of the Soviet era, as the most important determinant of the gender earnings

differentials in transition Russia. Therefore, it is likely that the pay gap in Lithuania could also be interpreted as a consequence of labour segregation. According to Statistics Lithuania, women's earnings are higher than the national average in occupations that are typically considered as dominated by men. On the other hand, the lowest wages are found in the most 'feminised' branches of economy – textile industry, health care, and education. The present study extends the existing research by offering a more detailed explanation as to why the gender pay differences still prevail in Lithuania nowadays.

Pay gap in Europe today

More than 15 years after the Fourth World Conference on Women in Beijing the difference between male and female earnings is still significant and women in the EU are still discriminated. In 2009, the EU average is estimated at 17.1% with Lithuania falling just a bit below average at 15.3% (Eurostat, 2010). From the new Eurostat estimates (based on Structure of Earnings Survey), it appears that there are considerable differences between the Member States in this regard, with the pay gap ranging from less than 10% in Italy, Malta, Poland, Slovenia and Belgium to more than 20% in Slovakia, the Netherlands, Czech Republic, Cyprus, Germany, United Kingdom and Greece and more than 25% in Estonia and Austria.

However, the pay gap should not be considered in isolation as it only takes into account the individuals that are in paid employment. It should be looked at together with other labour market indicators. In most of the countries in which the female employment rate is low (e. g. Malta, Italy, Greece, Poland),

the pay gap is lower than average, which may reflect the small proportion of low-skilled or unskilled women in the workforce. A high pay gap is usually characteristic of a labour market which is highly segregated (e. g. Cyprus, Estonia, Slovakia, Finland) or in which a significant proportion of women work part-time (e. g. Germany, United Kingdom, the Netherlands, Austria, Sweden). Institutional mechanisms and systems on wage setting can also influence the pay gap. Interestingly enough, it would be difficult to draw conclusions about transitional economies in Easter Europe. Although the wage gap is consistently higher in Central Europe (MAP), there is no distinctively common pattern in the post-socialist sphere. Therefore, it is important to recognise and appreciate the different working patterns of women in Europe. For example, Scandinavian countries are often set as examples for gender equality, but the pay gap in Sweden or Finland rarely falls below the EU average. The reasons for existing gender wage inequality can be very different and also cultural.

On the other hand, in contrast to the UK or Sweden where gender equality issues have long been tackled and addressed, the question of unequal pay is largely undermined in Lithuania and other post-Soviet states. Jurajda (2003) finds that occupational segregation is not to blame for most of the gender wage gap in the Czech and Slovak Republics; rather, the gap is mostly a within-occupation, within-establishment phenomenon. Hence, attention should be paid to within-establishment pay discrimination, especially violations of the equal pay clause. In Lithuania the report “ Analysis of differences in wages for men and women as well as reasons of such differences” (Blaziene, 2004) seems to be the only known study directly

touching the issue of the gender pay gap. Apart from purely quantitative assessments, the study covered a concise survey of social partners (representatives of employers and employees). Among other questions, the social partners were asked about difference in male and female work pays as well as reasons of such differences. Moreover, on the governmental level there has been little initiative to address the pay gap until recently when the EU has launched a major campaign to deal with this issue. My study will therefore look into the earnings inequality problem from a policy perspective in order to demonstrate the negative economic and social implications that it could have if further understated.