

In its recent report on how to make further progress in closing the gender pay gap, the Women and Work Commission emphasises policy interventions before women enter the labour market. **Alan Manning** is sceptical about their likely effectiveness.

# The gender pay gap

**T**he pay gap between men and women has fallen quite dramatically over the past 30 years though a sizeable gap still remains. But this headline figure masks some less positive developments in recent years. We are used to each generation of women making progress relative to the one before. But this process has slowed substantially with the current generation doing only slightly better than the previous one.

Figure 1 shows how the gender pay gap has evolved over the lifecycle of four generations of women – from those born in 1945-54 to those born in 1975-84. For

all four generations, the gender pay gap starts off low (or even negative) and then rises before falling somewhat for older workers.

Each generation of women has done better relative to men than the previous generation, but the pace of improvement has slowed. For example, women born in 1965-74 have a gender pay gap 8 percentage points below those born in 1955-64. But the generation born in 1975-84 is only doing 2 percentage points better than women born in 1965-74. As the gender pay gap at the age of 30 is about 20%, this suggests it will take 150 years at the present rate of progress for this gap to disappear!

It is very likely that the headline gender

pay gap will continue to fall quite substantially for several years as women retiring from the labour market (currently those born in the 1940s) will have much higher gender pay gaps than new entrants. But that change is more the product of discrimination 30 or 40 years ago than what is happening now.

## The slowing progress of women

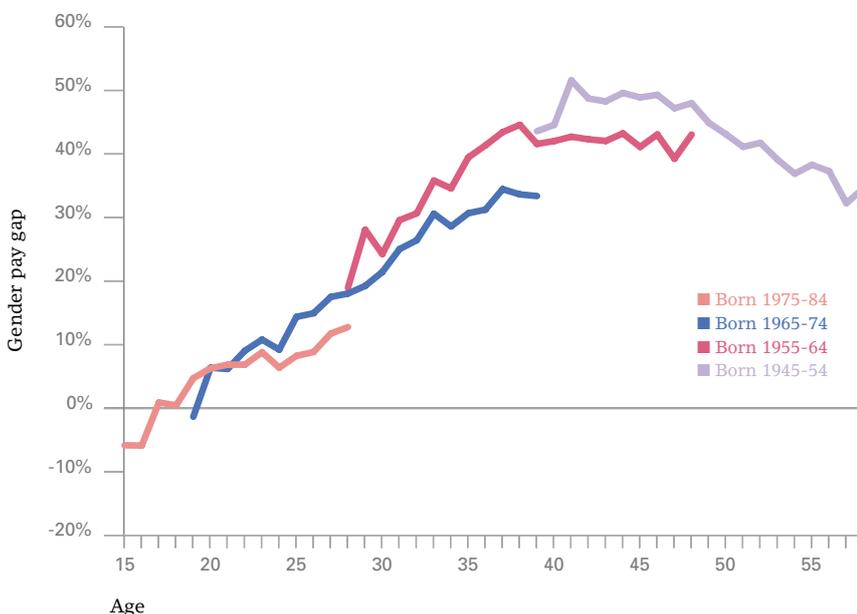
So why has the progress of women slowed? There are two main explanations. First, discrimination against women used to be blatant whereas it is now more subtle. Half a century ago, many employers operated a marriage bar preventing women from working once they were married. Before the 1970 Equal Pay Act, it was routine for collective agreements to have women's pay rates below those of men.

The abolition of such discriminatory practices had a big effect on the gender pay gap. But it is much harder now to find practices that have such a large effect and can be directly influenced by policy.

The second explanation for slowing progress is revealed in Figure 2, which shows the gender gap in employment rates for the same four generations of women in Figure 1. The generation born in 1965-74 had much higher levels of labour market attachment than previous generations. But the most recent generation of women – those born in 1975-84 – does not have any stronger attachment to the labour market than the previous generation.

Although the gender gap in employment rates for the 1975-84 generation is small among young workers, it still grows fast. By the age of 30, the employment rate of men is still 20

Figure 1:  
The gender pay gap and the lifecycle for different birth cohorts



percentage points higher than that of women. The reason is that most women still take some time out of paid employment when they have children.

### The Women and Work Commission

These facts are the backdrop to the Women and Work Commission, established in 2004 to address the causes of the gender pay gap and recommend what to do about it. The Commission's report, published in February 2006, presented what it described as 'a radical programme to end decades of jobs and pay unfairness for women'. It concluded that women are not making full use of their skills and the primary cause is the culture of schools and workplaces.

The report makes 40 detailed suggestions for tackling the problem. Very crudely, these proposals are of two kinds:

- Policies for before (or very soon after) labour market entry, including reducing gender stereotyping in schools and encouraging women to study male-dominated subjects and undertake vocational training in male-dominated occupations. The intended aim here is to reduce occupational segregation among young men and women entering the labour market.
- Policies for after labour market entry, including making more senior jobs



### The current generation of working women is doing only slightly better relative to men than the previous generation

available to those who want to work part-time, extending the right to request flexible working and helping women returning to the labour market with job search and skill acquisition.

What is different about these recommendations is the emphasis on action before or soon after entry into the labour market. This contrasts with the general thrust of policy over the past 30 years to reduce women's disadvantage at work – including the Equal Pay Act, the 1975 Sex Discrimination Act, stronger maternity rights and rights for part-time workers and the right to request flexible working – all of which have aimed to

reduce inequalities within the labour market.

But is the Commission right to conclude that action is now needed before women enter the labour market? The evidence of my research suggests we should be sceptical.

### The gender pay gap among young workers

Figure 1's depiction of how the gender pay gap changes over the lifecycle does not suggest that the biggest problem is on labour market entry as the gap is very small among young workers. The Commission is right that there is occupational segregation even among young workers – the jobs done by young men and women are very different. But the fact that there is only a small pay gap at this time suggests that women are not choosing occupations that put them at a big immediate disadvantage.

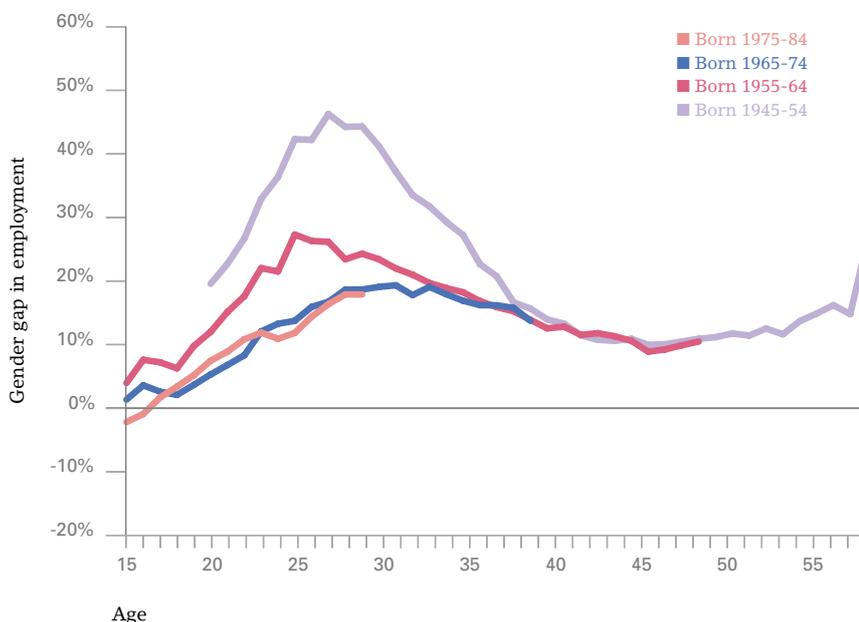
As an indication of the magnitudes involved, consider university graduates. Men and women continue to study very different subjects at university and this is reflected in their occupations when they graduate and enter the labour market. On graduation, there is currently a small gender pay gap of about 2.5%, all of which can be explained by the different subjects men and women study. So eliminating this gender difference might be expected to reduce the gender pay gap by 2.5%. But when the gender pay gap is 25% by the age of 35, this is a non-trivial but small amount.

From this, one might be inclined to dismiss the Commission's argument that we need to pay more attention to what happens prior to labour market entry. But perhaps things are more subtle than that; perhaps women are choosing occupations that offer relatively good wages initially but little prospect for wage growth. The evidence here is less clear. There is some evidence that the subjects studied by women offer lower wage growth than those studied by men but again, the contribution of this seems to be quite small.

One might also argue that policy should not necessarily be directed where the problems are greatest but where the policy will have the most effect. But many of the Commission's proposals are for policies about whose effectiveness we have absolutely no evidence. In some cases, we probably never will.

For example, one recommendation is to

Figure 2: The gender gap in employment and the lifecycle for different birth cohorts



train early years childcare workers to ensure that 3-5 year olds do not have their horizons limited by gender stereotyping. If implemented, this could only have an effect 20 years down the line. Even then, we would probably be unable to see its effect very directly.

There have clearly been huge changes in attitudes about the role of women and men in society in the last 50 years. But government has primarily reflected not initiated these changes. It may be that policies like teaching maths and science to girls in single-sex classes is effective, but I doubt if the gender pay gap will fall by much as a result.

### The gender pay gap after labour market entry

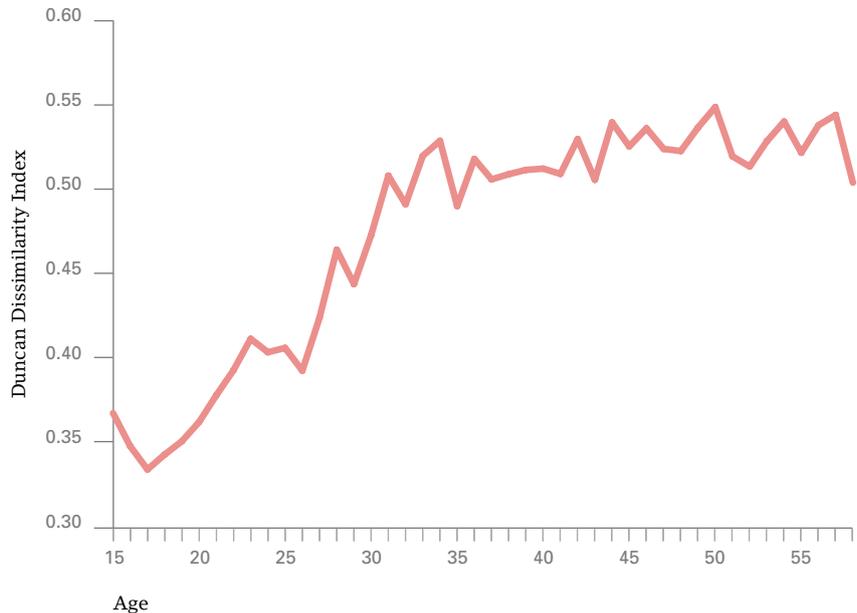
The evidence in Figure 1 shows that the gender pay gap is small on labour market entry but then widens quite rapidly. This suggests that what happens in the labour market is much more important than what happens before entry. That is why my research with Joanna Swaffield tried to understand gender differences in wage growth among young workers. This widening gap after entry is true whether one looks at the pay gap or some other measures of differences between men and women.

For example, Figure 3 shows how occupational segregation evolves over the lifecycle. The measure of occupational segregation here is the Duncan Dissimilarity Index, which calculates the fraction of men and women that would have to change jobs for the proportion of women to be the same in all jobs. Clearly, there is occupational segregation on labour market entry as emphasised by the Commission. But occupational segregation also grows very sharply until the age of 35.

So an awful lot is happening after labour market entry – what are the reasons for this divergence? Joanna Swaffield and I conclude that approximately half of the rise in the gender pay gap is the result of differences in the labour market attachment of women (indicated in Figure 2) and differences in the receipt of training.

The main cause of this is that many women continue to take breaks from paid employment when they have children. The problem is not that women are choosing one career – such as hairdressing – rather than another – such as plumbing. It is that

Figure 3:  
Occupational segregation and the lifecycle



they are continuing to choose family over career at some point in their life.

What's more, when they return to the labour market, they often work part-time. Our labour market severely punishes those who at any point in their lives sacrifice career for family. So people returning to part-time work often do so in lower-status jobs than they had previously. Very few high-level jobs are done on a part-time basis.

The Women and Work Commission is right to recommend that more should be done to open up high-level jobs to flexible working arrangements. But it is not very specific about what should be done.

For example, my research with Barbara

Petrongolo finds little evidence that the right to request flexible working has had any impact on the incidence of the whole range of flexible working practices. It is likely that people will always pay some price for taking periods out of paid employment as experience is valuable to employers. But the price currently paid by women who take career breaks does seem to be disproportionate.

### Why women don't 'get on' in the labour market

While career breaks clearly have an impact, my research with Joanna Swaffield finds that most of the gender gap in wage growth among young workers cannot be explained by differences in labour market attachment. For example, we estimate that a woman who has worked full-time ever since leaving full-time education can still expect to be paid 12% less than an equivalent man after 10 years. For some reason, women are failing to 'get on'.

One way of seeing this is in the evidence that women are much less likely to become managers. Figure 4 shows the percentage of men and women of different ages who are in managerial occupations. A gap begins to open up when people are in their mid-twenties but then widens very dramatically after the late twenties. This is what is commonly understood as the 'glass ceiling'.

Why do women fail to 'get on' in the labour market? Some recent research

The gender pay gap is small when women enter the labour market but then widens quite rapidly



(see Babcock and Laschever) suggests that systematic differences in personality are responsible – for example, that women are intrinsically less competitive than men, tend to be less self-confident and less effective in negotiation. This might be because of intrinsic differences between men and women or because of gender stereotyping within the education system.

Joanna Swaffield and I find that this has little explanatory power. It is true that adolescent women have less self-confidence than men and that the self-confident do significantly better in the labour market in later life. But the effects we uncover are simply too small to be an explanation.

There is still considerable mystery surrounding why women do not make as much progress as men in the labour market. And without a clear understanding of the reasons, it is hard to make recommendations on policy.

### Equal pay audits

As we need to know a lot more about why the gender gap persists, one policy idea is to try to force information out into the open through the use of equal pay audits. It is quite likely that without any conscious policy, the promotion decisions in millions of companies add up to a big disadvantage for women.

Employers are very often shocked to discover the size of this disadvantage as

they think of their policies as non-discriminatory. If statistics were published on the position of women within firms, this would bring the position out into the open and we would expect women themselves to gravitate to firms where they appear to do better.

Should such a scheme be compulsory or voluntary? Employers do not have a fantastic track record in supporting equal pay measures that few would now oppose: many predecessors of today's executives justified the marriage bar and opposed the Equal Pay Act as being 'bad for business'.

But compulsion is perhaps too far: if we set up a scheme that encourages employers to publish statistics on the position of women in their organisation and perhaps gives a stamp of approval to those who do well, then people can draw their own conclusions about the firms that choose not to publish such information.

### Conclusion

There is much that is sensible in the recommendations of the Women and Work Commission's report. But I am a little sceptical about how effective their recommendations are likely to be for the simple reason that it is now not so easy to identify the remaining causes of the gender pay gap.

And I have one concern that the Commission may make things worse. The dominant impression from the report is that

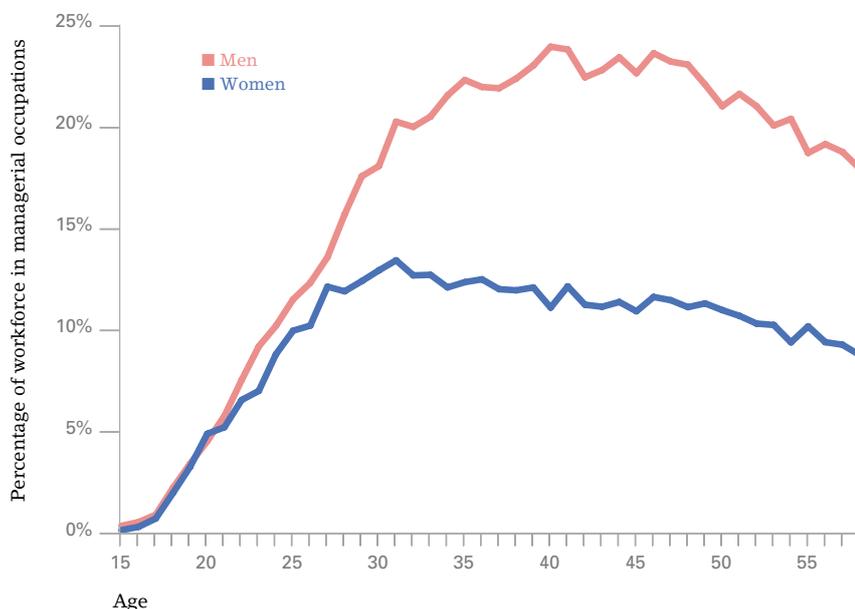
women are not making full use of their skills and this is bad for the economy as a whole. In phrasing things in these terms, there is a danger of setting 'market work' up as the ideal, reinforcing our culture that says that rewards should go disproportionately to those who work hard, a culture that continues to be to the advantage of men rather than women.

Every time I sit in my garden enjoying the sunshine and 'doing nothing', I am not making full use of my skills and 'UK plc' suffers as a result. But I choose to do this because that is what I prefer. In making that decision, I am probably making a small sacrifice in career terms, but career is not everything.

Perhaps the biggest culture change we need is not in the attitudes and aspirations of women but those of men. It is not more women truck drivers that we need but more male homemakers. On the problem of men, the Women and Work Commission is largely silent.

**Alan Manning** is professor of economics at LSE and director of CEP's research programme on labour markets.

Figure 4: Percentage of managers and the lifecycle



### Further reading

Linda Babcock and Sara Laschever (2003), *Women Don't Ask: Negotiation and the Gender Divide*, Princeton University Press.

Alan Manning and Barbara Petrongolo (2005), 'The Part-time Pay Penalty', CEP Discussion Paper No. 679 (<http://cep.lse.ac.uk/pubs/download/dp0679.pdf>).

Alan Manning and Joanna Swaffield (2005), 'The Gender Gap in Early Career Wage Growth', CEP Discussion Paper No. 700 (<http://cep.lse.ac.uk/pubs/download/dp0700.pdf>).

The Women and Work Commission (2006), *Shaping a Fairer Future* ([http://www.womenandequalityunit.gov.uk/women\\_work\\_commission/](http://www.womenandequalityunit.gov.uk/women_work_commission/)).