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# Women's Pay in Australia, Great Britain and the United States: Commentary

## **Abstract**

[Excerpt] My reaction to this paper is mixed. On the one hand, it represents one of the few serious efforts I know of to place discussions about comparable worth in a comparative perspective and to bring evidence from other countries' experiences into the debate about policy in the United States. For this the authors should be resoundingly applauded. On the other hand, I am left with the feeling that they have not pushed their empirical analyses as hard as they might have, and because of this, in places they may have drawn some inappropriate conclusions. My discussion will elaborate on this latter theme.

## **Keywords**

women, pay equity, Australia, Great Britain, United States, gender, compensation

## **Disciplines**

Labor Economics | Labor Relations | Law and Gender

## **Comments**

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## Commentary

RONALD G. EHRENBURG

At the start of the 1970s, the average weekly earnings of employed women relative to the average weekly earnings of employed men (which I henceforth call the *female relative wage*) was approximately equal in the United States and Australia and somewhat lower in Great Britain. During the decade, however, the female relative wage rose substantially in Australia and Great Britain, but remained roughly constant in the United States. As a result, by the early 1980s, the female relative wage in Australia exceeded that for the other two countries and the relative wage in Great Britain had reached roughly the same level as the relative wage in the United States.

With these facts as background, the Gregory, Anstie, Daly, and Ho paper addresses four questions. First, why do female relative wages differ across countries in the early 1980s—do the differences reflect differences in relative (female/male) human capital endowments or differences in labor market institutions across countries? Second, why did women achieve such large relative wage gains vis-à-vis men in Great Britain and Australia during the 1970s? Third, what is the implication of the experience in Aus-

tralia and Great Britain for the debate over comparable worth in the United States and elsewhere? Finally, what can we learn from the Australian and British experiences about the effects of such relative wage changes on employment and unemployment of women?

To answer the first question, the authors use the now standard Oaxaca decomposition method to determine whether differences in female relative wages across countries are due to differences in relative (female/male) human capital endowments or differences in wage equation coefficients across countries. "Comparable" micro-level data sets from household surveys are used for each country, and log weekly earnings equations for men and women are specified to be a function of education, potential labor market experience (age minus years of schooling minus six), marital status, the presence of children in the home, and rural/urban location.

The estimates (found in Table 10-1) are used to compute the extent to which the female relative wage in a country changes when one substitutes the mean value of male and female characteristics from either

of the other two countries into its wage equation to arrive at a predicted female relative wage. By substituting the mean characteristics of British workers into the Australian wage equations, for example, one can compute what the female relative wage in Australia would look like if Australian workers had the same human capital endowments as British workers. In fact, the authors find (Table 10-2) that the predicted female relative wage in each country appears to be quite insensitive to which country's characteristics are used. Thus, they conclude that most of the difference in female relative wages across the three countries is due to differences in the wage structures (coefficients of the wage equations); human capital differences are relatively unimportant.

To answer the second question, why female relative wages rose in Australia and Great Britain during the 1970s, the authors focus on the unique labor market institutions that exist in each country and the fundamental changes that took place in them during the decade. Turning first to Australia, minimum wage rates are set there by occupation through a system of federal and state tribunals. Prior to the early 1970s, minimum wages in male-dominated occupations were set by determining some minimal living standard for a family and then adding to that a premium for the "work value" of the occupation. Minimum wages in other occupations were similarly determined, but in female-dominated occupations an explicit downward adjustment was then made (usually 25 percent during the 1950-1969 period). Discrimination against women, then, was *explicit* in Australia.

Between 1969 and 1975, two very important changes occurred in the tribunal's behavior. First, by 1972 the federal and most state tribunals had ruled that the sex of a worker should not be used as a criterion in setting wages in those jobs that were neither predominantly male nor predominantly female (equal pay for equal work).

Second, between 1972 and 1975, the tribunals introduced the concept of "equal pay for work of equal value" by eliminating in three stages the downward adjustment of wages in female-dominated occupations. Thus, something akin to comparable worth was mandated by the federal government for all workers in Australia. As these changes occurred, the female relative wage in Australia rose from roughly 60 percent in 1970 to 75 percent in 1979 (Table 10-3).

Turning next to the British experience, the British labor force, as is well known, is heavily unionized; the four largest national agreements cover almost one-fifth of the work force. Prior to 1975, *explicit* sex discrimination in pay (different pay rates for men and women doing the same job) was built into the agreements. The Equal Pay Act of 1970, which was to become effective in 1975, required equal pay for equal work within a firm, equal pay for jobs of equal value within a firm if a job evaluation was undertaken, and that women's wages be at least equal to the lowest male wage rate in the firm. The authors conclude that the act appeared to be effective: The female relative earnings of manual workers rose from roughly 60 percent in 1970 to 71 percent in 1979.

The authors next address the third issue, the implications of these findings for the comparable worth debate. They point out that in both Great Britain and Australia pay discrimination was *explicit*, and it was thus easy to identify where discrimination was occurring. Given the unique labor market institutions in each country, government intervention could be direct; they observed that "the marketplace" did not appear to frustrate the equal pay efforts.

For the future, the authors see little room for expansion of comparable worth in Australia (effectively, a variant is already in place). An Equal Pay Act amendment in Great Britain (effective January 1984) now permits British women to bring claims through the judicial process if they believe they are not receiving equal pay for work

of equal value. The amendment's ultimate effects will depend on the judicial process.

The authors also claim that although the introduction of comparable worth in the United States in the state and local sectors has led to considerable initial pay changes (although some economists would dispute this claim), the decentralized wage determination process in the United States is likely to make the overall effects of any larger comparable worth policy much smaller (due to likely incomplete coverage and employment of women in low-paying establishments).

Finally, the authors address the issue of whether the female relative wage changes that have occurred in Australia and Great Britain have had any adverse employment and unemployment effects. They note that during the 1966-1984 period women increased their share of hours worked in all three countries, and that the increase was greatest in the United States. They claim a growth trend was dominant in all cases, and no sharp slowdown in growth was observed in Great Britain or Australia after those countries implemented their antidiscrimination policies. They assert (without proof) that this is due to small elasticities of substitution between male- and female-dominated occupations. A cursory glance at the pattern of female relative unemployment rates in each country over time similarly leads them to the conclusion that there is no evidence that the relative wage changes affected these rates either. They note, though, that they have not analyzed the effect of the female wage adjustments on total employment, on male wages, or on corporate profits.

My reaction to this paper is mixed. On the one hand, it represents one of the few serious efforts I know of to place discussions about comparable worth in a comparative perspective and to bring evidence from other countries' experiences into the debate about policy in the United States. For this the authors should be resoundingly applaud-

ed. On the other hand, I am left with the feeling that they have not pushed their empirical analyses as hard as they might have, and because of this, in places they may have drawn some inappropriate conclusions. My discussion will elaborate on this latter theme.

Consider, first, the analyses of the determinants of intercountry differences in the female relative wage differentials. Although the authors, probably justifiably, conclude that the differences are due to differing coefficients of wage equations across countries, not to differences in human capital endowments, they do not attempt to explain why the coefficients found in Table 10-1 might differ across countries. The presence of children in the home, for example, appears to have a much larger negative effect on women's wages in Australia than it does in the United States. Is this because Australian families have more children than U.S. families, or because the lack of child-care facilities in the former makes it more likely that women will leave the labor force temporarily to care for children? To take another example, the return to potential experience for women appears to be greater in Australia than in the United States (Table 10-1). When one takes into account the higher labor force participation rates of adult women in the United States, it is likely that potential experience (age minus years of schooling minus six) systematically overstates actual experience by more in Australia than in the United States and, thus, that the actual returns to female labor market experience are certainly greater in Australia. I wish the authors had provided an explanation for this, as well as for other findings.

Consider, next, their analysis of how female relative wages changed after the passage of the antidiscrimination laws in Australia and Great Britain. They base their analysis here on casual analysis of observations on annual data from 1964 to 1979. I am troubled by their conclusion (comparable-worth-type policies caused relative

wage changes), for a number of reasons. First, their data inexplicably end in 1979. Given the availability (presumably) of data for another 5 or 6 years, they could have studied whether the trends they observed in the data continued. Second, one must question their failure to estimate a multivariate model that would permit other forces, such as aggregate demand pressures, to influence the female wage ratio, their conclusions are implicitly based on simple correlations of policy changes and wage ratio changes. Third, they implicitly treat the policy changes as exogenous. No thought is given to the possibility that social or economic pressures that might lead female relative wages to rise might also lead to the policy changes and tribunals' decisions. Put another way, they may have the direction of causation backwards. Indeed, their Figure 10-1 suggests that the female relative wage started to rise in both Australia (1965-1969) and Great Britain (1970-1971) prior to the implementation of the policies that they describe.

The conclusion that female relative wage changes have had no effects on female relative employment and unemployment levels is similarly based solely on cursory examinations of trends in the data. Since Gregory and Duncan's earlier paper (*Jour-*

*nal of Post-Keynesian Economics*, 1981) estimated relative (male/female) employment equations for Australia for the 1938-1978 period and found some role for relative wages (in the aggregate a  $-.3$  elasticity of substitution with respect to relative wages), after controlling for trend terms and macro-level conditions, one wonders why a similar structured analysis was not done here. At the very least, such an analysis would provide some comparative data on elasticities of substitution between men and women. To do this correctly, of course, would require a formal model of employment and labor force behavior.

Ignoring my concerns about the nature of their empirical evidence, I take away a message from this paper that is a simple but important one: It is likely to be much easier to improve the female relative wage rate by a comparable-worth-type policy in a world in which wages are set centrally and discrimination is overt than it is in a decentralized market economy in which we still argue over whether labor market discrimination occurs. Proponents of comparable worth in the United States should take heed. Widespread comparable worth initiatives here are unlikely to improve the female relative wage by as much as they did in Australia and Great Britain.