

The minimum wage debate: whatever happened to pay equity?

Jill Rubery and Damian Grimshaw

EWERC

University of Manchester

Labour markets and the law of one price

- Law of one price still a central organising principle in labour economics theory of wage determination
 - *‘The law of one wage provides a fundamental and remarkably useful approach not only to describe market wage determination, but also to identify and interpret existing wage gaps. It remains our single most powerful tool and the necessary starting point for most wage analyses’* (Barry Hirsch, 2007 Presidential Address)
- But empirical evidence that wage structures in coordinated market economies are more in line with textbook model than liberal market economies:
 - eg. unexplained variation in wage equations is greater in the US and UK than in Sweden and Norway

Evidence: a) gender gaps at the lowest decile

Table 1. Gender pay gaps at the lowest decile (D1) (full-timers only) by type of wage system, 2005

	High relative minimum wage (40%+ of average)	Strong collective bargaining coverage (80%+)	Weak CB coverage AND No or low minimum wage
	AS 2%	FR* 9%	US 12%
	NZ 5%	DK 10%	UK 15%
	FR* 9%	IT 10%	CA 19%
	IE 7%	SE 11%	JA 27%
		FI 12%	DE 33%
		ES 15%	
		NL 17%	
		AT 31%	
Average gender pay gap	6%	14%	21%

Note: *France appears twice since it has both strong collective bargaining coverage and a high relative minimum wage. Data for Central and Eastern European countries are excluded. No interdecile earnings data for Belgium past 1995. Missing interdecile data for Portugal.

Evidence: b) gender differences in the incidence of low wage work

Table 2. Low pay incidence of women relative to men (full-timers only) by type of wage system, 2000

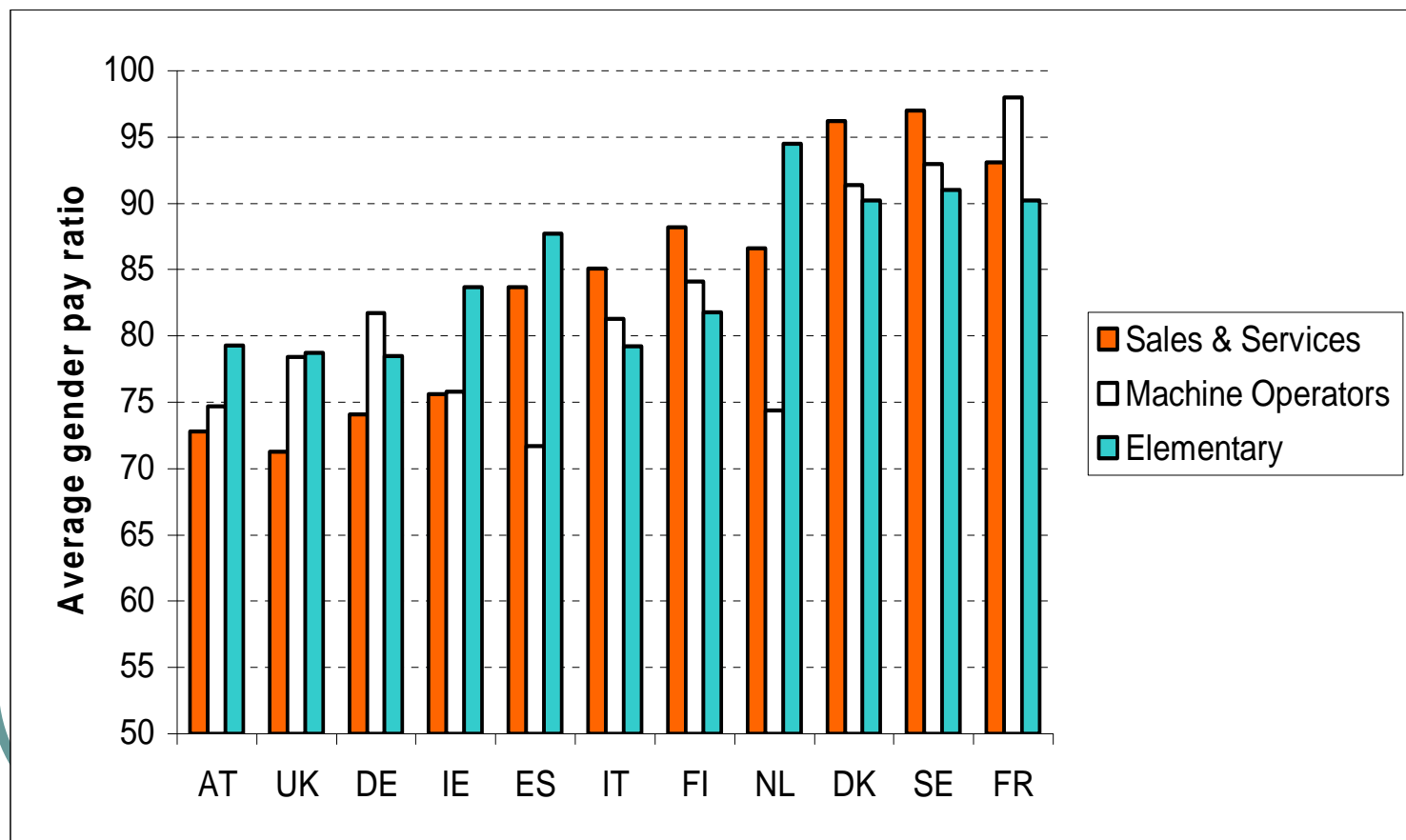
	High relative minimum wage (40%+)	Strong collective bargaining coverage (80%+)	Weak CB coverage AND No or low minimum wage
	NZ 1.4	IT 1.5	US 1.6
	AS 1.6	FR* 1.7	CA 2.0
	FR 1.7	SE 2.1	UK 2.3
	IE 2.0	FI 2.1	DE 3.9
		ES 2.1	JA 4.9
		NL 2.6	
		DK 2.6	
Average low pay incidence of women compared to men	1.7	2.1	2.9

Note: Missing data for Austria. Data for Central and Eastern European countries are excluded.

Source: OECD earnings database for inter-decile wage gap, ICTWSS for collective bargaining coverage and OECD for relative minimum wage data.

Evidence: c) gender pay ratios in elementary occupations

Figure 2. Average gender pay ratio by low skill occupation, 2002 (selected EU member states)



Source: Eurostat Structure of Earnings Survey (hourly earnings).

The social structuring of labour supply and the reservation wage

- Women may be regarded as beneficiaries of minimum wages –one of the groups most likely to receive a pay increase
- Women more commonly regarded as ‘victims’ of minimum wages- reduces employment opportunities in general and in particular for outsiders- women regarded as inevitably an outsider group.

Two main counter-arguments

- Gender is constructed- not a natural state- impact of design of welfare system, labour market, family system-focus on reducing women’s position as outsiders
- Labour market without minimum wage not necessarily more favourable to gender equality

Three labour supply issues

- Gender and reservation wages
- Gender and labour market outsiders
- Gender, job mobility and monopsony

Gender and reservation wages

- Unemployment benefits provide floor to labour market - except women less likely to receive unemployment benefits in many societies. Where access for men is also low, may be compensated for by high employment protection
- Women's economic dependence is reinforced by welfare states and family systems- potential for impact on reservation wages- women as 'parasitic' labour (Webbs)- low wage reflects family position not potential productivity. Women's low wages in developing countries built into value chains
- In-work benefits for breadwinners implicitly acknowledges that women/young people receive family subsidies - breadwinners require state subsidies

Table 3. Benefit receipt among the unemployed and the gender gap

Country	Male	Female	Gender gap
Spain	34.6	15.9	46%
Greece	13.6	9.4	69%
Italy	4.3	3.3	77%
France	51.0	40.6	80%
Belgium	79.9	74.0	93%
Luxembourg	22.2	17.9	81%
Germany	68.7	69.4	-1%
Denmark	85.8	83.7	98%
Portugal	26.9	23.4	87%
Finland	79.7	75.4	95%
Austria	59.5	43.5	73%
Ireland	87.9	44.9	51%
UK	33.3	17.2	52%

Note: ECHPS – the question asked is ‘Do you receive unemployment benefit or assistance?’

Source: Aznat et al. 2004

Gender and labour market outsiders

- Should the focus be on reducing regulation so as not to disadvantage outsiders, or on reducing the tendency for women to be outsiders (continuity of employment promoted by paid leave, childcare, opportunities for flexible working)?
- Costs of being outsiders has increased- wage gap increasing between new entrants/re-entrants and others
- Minimum wage may help close gap or may reduce employment opportunities for those whose human capital has 'degraded'- but this explanation requires human capital to degrade a lot faster than it builds (Gregg and Wadsworth)

Gender, job mobility and monopsony

- Monopsony- employers have power over women workers. Main causes- low reservation wages, entering from non employment, lower job mobility due to constraints
- Limited mobility due to family but also institutional constraints- transport system, length of school day etc.
- Committed to work- but supply more price inelastic
- Minimum wage increase could improve pay and employment

Outcome of all three labour supply effects- minimum wages more likely to create a level playing field- even up/reduce differences between men and women in the labour market

Gender, minimum wages and the organisation of the demand side

Minimum wages can also create a more inclusive labour market from the demand side

Wage setting

- Payment of rents common but depends on: sectoral/organisation differences in product market power; ability of workers to extract rents; national systems of wage setting institutions
- Industry differentials large but variable across countries- gender differences due to both segregation by sector and variations in differentials within sectors
- Gender segregation at the workplace may be more important than gender as an individual variable in explaining low wages
- Minimum wages can even up differentials at the bottom- coordinated bargaining may do more. Also minimum wages can be used to evade higher collective agreements in some contexts
- Reduction in gender pay gap requires targeted policies dependent upon specifics of industrial relations/wage setting system

Conclusion: the need to refocus minimum wage debates on gender equity

Evidence demonstrates the need to reject the idea that institutions distort fair and efficient labour market outcomes

3 reasons to refocus on issues of gender disadvantage:

1. Need to understand interactions between primary and secondary earners – increases in 'component wage' labour may destabilise the conditions enjoyed by higher wage workers
2. Minimum wages reduce pay inequities/discrimination by establishing a wage floor to individual effort among low wage workers
3. Minimum wage has wide coverage of labour force groups (unlike gender bias in unemployment benefits or weak union representation among low paid)

Minimum wages not a panacea for gender equity, but a necessary element of a policy approach to close the gender pay gap