

# Equal Pay for Work of Equal Value

*Moving toward, or away from, wage justice for women?*

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## Executive Summary:

Equal pay for equal work initiatives in the 1970s gave Australia a lead in closing the gap between women's and men's earnings. A 10 per cent gap for full time workers and a 20 per cent gap for all workers remains, mainly because women have different labour force characteristics than men. More women work part-time and casually. They retire earlier, so that they are usually no longer working when men's earnings peak. Some women's choices may be determined by outmoded social attitudes, but given present mores, they are the choices they make.

The NSW Labor Council is arguing before the Industrial Relations Commission of NSW that differences in earnings do not result from labour force characteristics, but from the underpayment of women in occupations in which women are concentrated. Occupational concentration, however, only accounts, at most, for 2 per cent of differences in earnings.

It is also being argued that pay increases for women should compensate them for past and present gender discrimination. If considered desirable, such compensation should be paid out of taxes as social security. It should not be a labour cost charge that undermines international labour cost competitiveness.

The NSW Labor Council proposes that industry-wide comparative worth evaluations of predominantly women's jobs should be set against evaluations of necessarily dissimilar men's jobs. Librarians' work is being compared with that of geologists. Experience in the United States suggests that a small number of upper income women could benefit from work value evaluations in the public sector, but at the cost of employment and income for low-income women.

Research commissioned for the NSW Treasury confirms that unemployment would be likely to follow increases in women's pay based on hypotheses about 'equal pay for work of equal value'. Concerns about equity for working women are thus being misused to move back to industry-wide wage fixing and its attendant dangers of increased unemployment.

## I. Origins of the New South Wales Inquiry

Toward the end of 1996, the Labor Council and the National Pay Equity Coalition (composed of the Women's Electoral Lobby and the Association of Business and Professional Women) began to pursue 'equal pay for work of equal value' through the NSW arbitration system. It was argued that, although equal pay for equal work arbitration agreements and arrangements have been so well implemented that Australia is leading industrial countries in reducing the gap between women's and men's earnings, Australian women had, nevertheless, not achieved justice in remuneration.

The case was twofold. In predominantly women's occupations, it was claimed that the work done by women was undervalued compared to men's work in necessarily

dissimilar occupations. It was suggested that industry-wide inquiries should be held using the comparative worth methodology to determine the value of women's work in comparison to men's work.

A second line of reasoning suggested that women were discriminated against in terms of wages, discretionary earnings, promotion, barriers to entry and on-the-job training. Some of the discrimination was said to be the result of past attitudes, but some was embedded in present practices. It was argued that women so affected should be compensated as a matter of social justice, but the compensation would be borne by private and public employers rather than by social security payments covered by tax revenues.

These and associated arguments were pushed forward by the appointment of a 'Pay equity and the undervaluation of women's skills in NSW Task Force. Not surprisingly in view of the Task Force's composition and the submissions to it, the Task Force reported in March 1997 that a major effort to raise women's earnings in NSW should be undertaken. The Task Force paper was so unpersuasive that it has had to be supplemented by a Pay Equity Inquiry in the New South Wales Industrial Relations Commission. The Commission is attempting to shore up the case for wage increases so that it can proceed with a program of industry-wide hearings of female occupations, turning away from enterprise agreements back to industry-wide wage fixing. The comparative worth methodology proposed to underpin these inquiries ignores productivity, labour cost and Australia's competitiveness. The electoral objective is to release the Inquiry's findings prior to the NSW election in early 1999. It is hoped that a finding that women are underpaid so that their earnings should be raised will be electorally attractive.

What is being ignored is the subjectivity and hence unreliability of comparative worth 'equal pay for work of equal value' wage determinations, the likely unemployment effects and the shifts of income from lower income to middle and upper income women are being ignored.

The actual reasons why women earn less than men are very different to those claimed by the Labor Council. Most of the differences between women's and men's earnings arise from differences in their labour force characteristics. Only two percent of the differences between female and male earnings result from women's segregation in so-called women's occupations (Section II).

Comparative worth is a subjective, arbitrary methodology. Used as the determinant of wages in central planning, it led to worker dissatisfaction and low productivity. By divorcing wages from productivity and other market signals, it multiplied inefficiency. It was strongly biased against women. Limited experimentation in the United States to raise earnings in women's occupations in the public sector by comparative worth methodologies has led to small wage increases for middle income women, but at the cost of reduced access to the occupations covered and reductions in potential employment. The experiments have therefore been abandoned (Section III).

The principal effect of applying comparative worth industry-wide inquiries in NSW could raise wages for some professional and para-professional women in the public sector, albeit at the cost of employment of lower income women. In occupations such

as child-care and hairdressing, where demand for these services is highly elastic, raising wages would be likely to result in a shift from the formal to the informal sectors, where wages are low. Raising wages of grocery check out workers would be likely to accelerate mechanisation and hence lead to unemployment on a considerable scale.

Industry comparative worth inquiries could include reduced remuneration for some men as well as some women. If women's wages were increased ahead of productivity, there would be adverse effects on employment, competitiveness, exports and external debt. The pay equity proposals may be well meant. In practice, however, their effects are likely to be negative for the women they are meant to help. Low income women and their families would be the losers and the gap between them and high income women and their families would widen. The principal beneficiaries would be the industrial relations advocates and associated staff. In economic terms, unless the comparative worth campaign for pay equity led to higher productivity, it would be a 'dead weight' on the economy (Section IV).

Earnings for young women with good education are quickly catching up to men's earnings. There is no difference in earnings between men and women under 30 years of age. Women are benefiting from new opportunities in new occupations that use advanced skills. Improved education for girls in low socio-economic areas thus has a high priority for raising women's earnings. Entry into traditionally male trades and occupations such as motor vehicle repairs and train driving would also rapidly increase women's earnings. These issues are discussed in the conclusions in section VI.

## **II. Women in the Australian Labour Force**

Although the ratio of women's to men's earnings in Australia improved dramatically in the early 1970s and has continued to rise, it has not reached parity. For full-time workers, women's hourly earnings reached 90 per cent of male full-time hourly earnings at the end of the 1980s. The average award rate for women was 94 per cent of the male award rate. Average female earnings were a little over 80 per cent of average male earnings. Australia was, however, level with Denmark, France and Norway, and only exceeded by Sweden (90 per cent), among industrial countries in the narrowness of its female-male pay ratios (Gregory 1998).

The differences in male and female earnings are mainly accounted for by differences in men's and women's positions in the labour force.

### ***Labour force differences***

The participation of women in the labour force has risen rapidly since World War II from 33 per cent in 1964 to 61 per cent for unmarried and 54 per cent for married women in August 1997. This is still well below the 72 per cent men's participation (Table 1). Women's work participation rates in Australia are low compared to countries such as Sweden where participation rates are 70 per cent.

In Australia a shift from full-time to part-time, casual and contract work began in for men as well as women in the 1970s. Women form a relatively high proportion of the part-time labour force (73 per cent), and a higher proportion of married women (46 percent) and unmarried women (39 per cent) than men (12 per cent) work part-time. Women's work participation rates are particularly low for some immigrants from non-English speaking countries (31 per cent for women from Middle East countries and 46 per cent for women from Vietnam). They are lower for women from low socio-economic areas than for women from high socio-economic areas (Gregory and Hunter 1995).

Some of the reasons for the differences in labour force participation are traditionally and socially based. Women make different choices from men in the trade-offs between work participation and the nurture of children and families. But the choices also differ between low and middle and high socio-economic areas. In low socio-economic neighbourhoods, poor education and training result in low earnings compared to child-care costs. Women have little choice but not to work, particularly where their English skills are limited or where they are heads of single parent households. (Non-English speaking migrant women are the principal victims of illegal factory and outworking low earnings arrangements. These are usually not reported in average earnings data. Such labour market problems can only be solved by improved implementation of existing awards).

**Table 1: LABOUR FORCE STATUS, August 1997**

	<b>Married Women</b>	<b>Unmarried Women</b>	<b>Total Men</b>
<b>Full-time ('000)</b>	1,172.7	852.3	4,153.3
<b>Part-time ('000)</b>	1,016.8	544.5	575.9
<b>Full-time (percent)</b>	54	61	88
<b>Part-time (percent)</b>	46	39	12
<b>Total employed ('000)</b>	2,189.5	1,396.8	4,729.2
<b>Looking for work - unemployed ('000)</b>	123.4	193.4	447.8
<b>(Percent of labour force)</b>	5.3	12.2	8.7
<b>In labour force ('000)</b>	2,312.8	1,590.3	5,177.0
<b>Not in labour force ('000)</b>	1,947.0	1,561.3	2,004.4
<b>Civilian population aged 15 and over ('000)</b>	4,259.9	3,151.5	7,181.4
<b>Labour force participation rate (percent)</b>	54.3	50.5	72.1

Source: ABS Labour Force, Australia, August 1997, Catalogue No6203.0, Table 1

Women tend to break or reduce their work participation during their child nurturing years. Work participation by unmarried women is, however, lower than by married women, because high numbers of young women are in full-time education. The numbers not in the work force also include unmarried women who are heads of single households.

Some women with good education and training backgrounds, mainly from middle and upper income socio-economic areas, have managed to enter new occupations such as tourism, human resource related activities and computing. They have been able to train on the job and thus benefit from skill loadings, promotion, seniority and performance-based high earnings. These new skilled occupations are not subject to the arbitration framework. Relatively high remuneration packages have replaced discretionary earnings. Such recent trends contribute to the convergence of earnings by women and men under 30 (Wooden 1998) and augur well for future female to male earnings ratios. Escaping from arbitration intervention has been highly beneficial to these women.

Married women report low unemployment experience (5.3 per cent), in part because married unemployed women do not always report that they want to work when they do not have a job. Their choice balance tips in favour of nurture. Unmarried women, however, have a much higher unemployment incidence (12.2 per cent) than men (8.7 per cent). High unemployment suggests that in some of the occupations in which women are concentrated, wage rates are too high to clear the market. Lower wages in these circumstances could, though would not necessarily, reduce women's unemployment.

High unemployment is particularly serious for young women. In February 1998 women not in education, aged 15 to 19 years, have unemployment rates of 25.9 per cent compared to 22 per cent for men of that age. For women who leave school without completing year 12 and have no further education, learning on the job is the principal road to work participation. Poor employment experience for young women often means a lifetime experience of low skilled and intermittent employment and low income levels. For these women, improving productivity through effective education and training is likely to be the only route to higher employment.

Unemployment falls disproportionately on women (and men) in low socio-economic areas. Unemployment of women in low socio-economic (and some country) areas may be over 20 percent of the work force, whereas it is usually below 5 per cent in middle and upper income socio-economic areas (Dorrance and Hughes 1996a). Gregory and Hunter (1995) report that between 1976 and 1991 'for the top half of neighbourhoods the proportion of women employed increased approximately 10 per cent. For the bottom half of neighbourhoods employment fell by 40 per cent. We were taken aback by this fall.'

Not all women in the work force are disadvantaged. Some are high income earners. Highly educated and trained women in two parent (and even in some single parent) households can afford child-care. Their husbands often work in relatively highly paid and flexible conditions. Such women have greater choices in managing their work force participation. This explains why women from middle and upper socio-economic areas have higher work participation and lower unemployment rates than women from low socio-economic areas. It also explains why earning differences

between women from low and high neighbourhoods-economic areas are considerable and have been increasing (Gregory and Hunter 1995).

Women tend to leave the work force at an earlier age than men. In part this may be the result of low earnings and low job satisfaction in unskilled occupations. To a large degree it is a matter of choice. Many older women prefer to care for their grandchildren, making it easy for their daughters and daughters-in-law to pursue careers, rather than being in the labour force. The Australian Institute of Family Studies has recently found that 50 per cent of work related care for children aged 5 and under is undertaken by family members (The Australian April 22,1998). Whatever the reasons, when many men are enjoying peak earnings, many women are likely to have retired from the work force.

### *Part-time and casual work*

The higher proportion of women than men working part time explains a significant proportion of the earnings differences between men and women.

Part-time labour force participation has increased as a proportion of total work participation for several reasons. The desire for part-time work changes over the life cycle. High numbers of students work part time. (Interestingly, the proportion of full-time students working part-time is higher for young women (38 per cent) than for young men (34 per cent): ABS Cat.6203.0, August 1997, Tables 11 and 12.) Many married women choose to work part-time for family reasons, but the difference between the proportion of married women working part-time (46 per cent) and unmarried women is surprisingly small.

**Table 2: PREFERENCES FOR LONGER HOURS, August, 1997**

	Married Women		Unmarried Women		Total Men	
	'000	%	'000	%	'000	%
<b>Preferred not to work more hours</b>	859.1	84	365.8	67	355.0	62
<b>Preferred to work more hours</b>	157.7	16	178.7	33	220.9	38
<b>Total</b>	1016.8		544.5		575.9	

Source: ABS Labour Force Australia, August 1997, Catalogue No 6203.0, Table 20

Part-time work preferences recorded by ABS (1997) indicate that a considerable proportion of women who work part-time do so by choice. Table 2 indicates that the proportion of married women part-time workers wishing to work longer hours is 16 per cent. Only 33 per cent of unmarried part-time women workers wish to work longer hours. Data by neighbourhood suggest that a higher proportion of middle and



upper socio-economic than low socio-economic area women not only work, but also work longer hours. Education and skill levels appear to be important determinants of the length of hours worked. Higher earnings make work more rewarding and permit women workers to pay for child and other family care.

The supply of part time (and casual) jobs has increased. Industries such as retail trade, transport and personal services (hospitals and hotels) can roster part-time workers to meet their needs for long hours of operation and so satisfy consumer requirements. The Australian industrial relations system's imposition of labour market rigidities accelerated the trend toward part-time and casual work. Businesses are prepared to pay higher hourly 'bundled' rates for part-time and casual workers than for full-time workers to reduce the considerable compliance costs of 'unbundled' wages. Earnings are not affected, but labour costs are reduced, leading to improved competitiveness. Women can fit work into their life style preferences better with part-time than full-time work. They do not regard such choices as marginal or second rate.

### *The occupational structure*

Table 3 indicates the occupations in which women are concentrated and those in which men are concentrated. Non-market factors have clearly been important in shaping occupational distribution in the past. They still appear to affect entry into skilled manual trades and intermediate production and transport. The total numbers in these occupations are high at some 1.7 million workers. Demand for these occupations remains strong despite the decline in manufacturing because these occupations are needed in many service sectors. These are the most highly paid non-managerial, non-professional occupations. High wages and discretionary payments reflect high skills.

The low proportion of women in skilled trades is a major factor in earnings differences between women and men. Only 11 per cent of tradespersons are women. If tradespersons in such trades as hairdressing and dressmaking are excluded, the ratio drops to 1 per cent. It is also low in the skilled intermediate production and transport category. The situation is only changing at a snail's pace. Women represent negligible proportions of apprentices and trainees in these areas (Dorrance and Hughes 1996 b). Women continue to opt for hairdressing, sewing and cooking, which have relatively low skills and low responsibilities but favourable working conditions.

Market wage setting, albeit modified by the arbitration system, has made allowances for the differences between various occupations, taking into account skills, responsibilities, working conditions as well as the elasticity of demand for the product or service in question, production conditions and the supply and demand of labour. The issues contained in comparative worth evaluations have been taken into account, but so have other factors. A significant cause of unequal earnings lies not in wage and discretionary payment setting, but in the absence of women from highly skilled trades.

**Table 3: OCCUPATIONAL STRUCTURE, August 1997**

	<b>Women</b>		<b>Men</b>	
	'000	%	'000	%
<b>Managers &amp; Administrators</b>	153	24	475	76
<b>Professionals</b>	725	49	741	51
<b>(Nurses)</b>	(145)	(90)	(15)	(10)
<b>Associate Professionals</b>	328	37	562	63
<b>Tradespersons</b>	112	11	1,015	90
<b>(Miscellaneous Tradespersons*)</b>	(8)	(1)	(757)	(99)
<b>Advanced Clerical and Service</b>	343	90	40	10
<b>Intermediate Clerical and Service</b>	972	71	392	29
<b>Intermediate Production and Transport</b>	107	14	657	86
<b>Elementary Clerical and Service</b>	534	64	299	36
<b>Labourers</b>	314	36	548	64
<b>Total</b>	3,586	43	4,729	57

\* Mechanical and fabrication, automotive, electrical and electronic, construction and food tradespersons

Source: ABS, Labour Force Australia, Catalogue No 6203.0, and August 1997, Table 51.

Attempted comparative worth comparisons between hairdressers and motor mechanics clearly illustrate this problem (Stinson 1998). The question that needs to be asked is why at least 50 per cent of motor mechanics are not women. Women drive cars. When they take their car to be serviced or repaired they are generally met by male mechanics, a large proportion of whom treat women clients as second class citizens when it comes to knowledge about cars. Not only women, but also men, would prefer motor mechanics that are not only well trained, but civil and treat all clients equally. Motor mechanics is becoming increasingly skill intensive, combining electronic with mechanical skills. Electronic engineering is another area which women are not entering. Why? Women use computers, watch television and program videos. Why are the high-earning repairers always men?

A professional inquiry into the reasons for women's lack of access to motor mechanics, electronic engineering and similar trades would make a serious input into raising women's earnings and at the same time increase productivity by widening the choice of candidates.

Among clerical and service workers, women are most concentrated in the most advanced category. This category includes the new occupations where wages and discretionary payments are high. The intermediate clerical and service category has the next highest concentration. The elementary clerical and service category has a more even gender ratio, reflecting education and training levels. The number of women in the least skilled, labourers and related workers category, is relatively small. They are mainly cleaners.

### *An overview of labour force characteristics*

The differences between male and female labour force characteristics are considerable. Wooden (1998) has shown that the bulk (98 per cent) of earnings differentials between men and women is accounted for by these differences. Only 2 per cent of the shortfall in women's earnings is the result of women's concentrations in female dominated occupations.

To the extent labour force differences between women and men follow deliberate decisions, such decisions must be honoured. Some women want to stay at home to mind their children, to study part-time or for other reasons. They are aware that this will affect their careers and their earnings. Employers cannot compensate the resulting short fall in earnings without raising remuneration above productivity and hence reducing Australia's international competitiveness. If it is deemed desirable from an equity point of view to compensate women for work participation choices that lead to low earnings or no earnings at all, it has to be through the tax and social security systems.

### **III. Experience of comparative worth**

In traditional wage setting in Australia, market forces have been modified by the arbitration system and by legislation. At times this led to impediments to the efficient organisation of production, for example, by uneconomically high shift, weekend and holiday rates. Tourism was threatened when it was too costly to turn down beds or serve meals on Sundays. Some penalty rates, such as 'dirt money' for handling cargoes, no longer apply when bulk loaders and containers take over dusty cargoes. Non-market factors, such as living standards and social security, have been incorporated into industrial awards. The spread of maternity and parental leave is an example. Such trends resulted in complexity and rigidity, adding to labour costs while separating remuneration from productivity. The macroeconomic effect was to contribute to rampant inflation in the 1980s. The economy-wide effects were that relative wages fell in comparison to other countries and unemployment grew to a new high level. Hours of work in awards declined, but many workers had to rely on long hours to maintain earnings in real terms. The inequality between the incomes of the employed and the unemployed grew.

Central wage fixing has therefore been modified in recent years by enterprise agreements that are intended to reflect market forces. Enterprise bargaining seeks to increase labour and total factor productivity, enabling earnings to rise, while at the same time bringing payments to labour into alignment with firms' performance.

In any industry or sub-industry group, there is a spread of firms from marginal to intra-marginal. In economic terms, marginal firms are those that earn normal profits. They determine an industry's competitiveness nationally and internationally. They are not 'marginal' in the colloquial sense. Removing them from the economy will reduce the supply of domestic goods and exports. Intra-marginal firms (because they are extremely efficient, have a favourable location or resource endowment) have higher profits and can afford higher labour remuneration than the marginal firm. These differences mean that through enterprise agreements some workers can benefit from working for an intra-marginal firm. A minimum wage safety net is to remain in place to protect workers in marginal firms. Market factors will be modified by other institutional pressures, such as those of trade unions, employers' organisations and the legal and arbitration systems, but underlying market forces limit the role of such intervention.

The comparative worth approach ignores market forces. In rectifying unduly low earnings in occupations dominated by women because they are deemed to result from discrimination against women, a return to industry-wide arbitration-style inquiries is proposed. It is argued that this would increase the ratio of women's to men's earnings without appreciable negative effects. The value of work in selected occupations is to be ascertained by comparing it with the value of work in other, dissimilar, occupations. It is not the concern of the evaluators that such comparative worth determinations could lead to wage increases above productivity. Higher prices for consumers, or, if the demand for the product or service is inelastic, loss of domestic or export markets, bankruptcy for the firms and unemployment for the work force, would not be taken into account.

### *History of comparative worth*

The comparative worth method of wage setting has a long history against which its utility can be measured. It was the principal tool of determining wage relativities between as well as within occupations in centrally planned economies. Wage rates for all occupations, from janitors to particle physicists, were centrally determined in countries as large as the Soviet Union and as small as Albania. Wage steps within occupations were also determined by the comparative worth methodology. The comparative worth wage setting in centrally planned economies was part of the framework that led to the collapse of these economies. Comparative worth wage determinations broke the linkages between remuneration and productivity.

Intra-occupational and inter-occupational differences were the subject of unhappiness and friction that undermined morale and led to endless disputes. Managers who seriously attempted to meet production targets with reasonable quality controls and at reasonable cost, ignored comparable worth determined wages, often at considerable personal risk, to pay workers according to market signals.

The outcomes of comparative worth wage determination were particularly damaging to women. Women in female dominated occupations, whether at the bottom of the wage structure, such as street cleaners, or at the top, such as medical doctors, were paid less than men in the same and similar occupations. A recent study of remuneration of women in the ostensibly reformed township and village enterprises

in China showed that, as a result of the failure to reform wage determination, women were paid less than men (Xin 1992).

Labour economists working on centrally planned economies were familiar with these aspects of the comparative worth methodology, but the full implications did not become widely known until the collapse of central planning at the end of the 1980s. Comparative worth thus began to be used in the 1970s in the United States, West European economies and Canada to increase remuneration in female dominated occupations, without drawing on the central planning experience. These experiments, and the associated literature, have been reviewed in considerable depth. The comparative worth approach has been notably unsuccessful so that it has largely been abandoned (Brook 1990, Moens and Ratnapala 1992).

Most of the comparative worth method applications to raise women's earnings have been in the public sector, where commercial criteria are only loosely applied so that the demand for the services supplied can be deemed to be inelastic. Killingsworth (1990) closely studied two major comparative worth applications, the Minnesota State Government Employment and San Jose Municipal Government Employment cases in the United States. In both cases women's remuneration was increased slightly, but there was also a slight loss of employment in the form of reduced future additions to the labour force. The demand for government services has, however, proved to be elastic. The San Jose case contributed to the agitation for a substantial downsizing of public services in California.

Similar attitudes are developing widely among taxpayers worldwide, leading to reductions of public services and corporatisation/privatisation which is also sharply reducing public service numbers. The demand for public services can no longer be regarded as inelastic. It is increasingly considered that public sectors are inefficient because they do not follow market forces. They are often over-manned and consequently have low productivity in relation to earnings and working conditions (including security of tenure). Many Australian taxpayers earning their incomes in the private sector (75 per cent of the labour force) are no longer prepared to support non-market remuneration and working conditions in the public sector. Central planning systems showed that the value of work could only be divorced from market considerations with dire results. In the private sector, wages and associated payments have to meet economic criteria if a business is to survive in an internationally competitive environment. Employees must be attracted into an industry, occupation and to a particular employer by the wages and associated payments that make up total earnings. It is well known that these are not all monetary. The arbitration and legal systems ensure minimum wage rates, maximum working hours and freedom from discrimination and harassment. Workers take other considerations into account, such as physical working conditions, location and the way a business is run. Some workers are concerned about whether it is easy to take a day's leave when family members are ill, regardless of award entitlements. Can children come to the office during school holidays? For others, opportunities for promotion are paramount. For employers, workers' education, training, experience, the ability to get on with others, initiative and many other factors determine selection. An economy relies on market forces to maintain its international competitiveness. Some occupations and industries thrive and expand, while others decline. The signals are clear that women need better education, training and experience to increase their earnings. Human capital is becoming an increasing

source of wealth. Many women are taking advantage of the opportunities that are opening up.

### *The effectiveness of comparative worth in raising earnings for women.*

Comparative worth is an essentially subjective and arbitrary methodology that leads to worker dissatisfaction. The failure to take market trends into account has led to an inability to achieve its objectives. Supply and demand factors in a wage setting are modified by institutional pressures, such as those of trade unions, employers' organisations and the legal and arbitration systems, but underlying market forces limit the role of such interventions. Where shortages of workers have occurred, notably in nursing, wages and earnings have risen appreciably in occupations dominated by women.

## **IV. The likely outcomes of comparative worth evaluations in New South Wales**

Future outcomes can never be predicted with any degree of certainty. Before adopting any new policies, however, responsible policy makers must construct scenarios of the likely outcomes of applying new policies.

### *Microeconomic implications*

The experience of other countries indicates that comparative worth does not lead to significant changes in remuneration (Moens and Ratnapala 1992). Market determined wage rates in occupations where women predominate are likely to be deemed to coincide with the worth of work in comparison to other occupations. This is likely to be the case for the majority of women workers. Comparative worth cases would thus create costs for employees, employers and arbitration institutions (that is, for taxpayers), without any return.

In some instances, employers will argue that in comparative worth terms, wages are too high. Where an industry is under intensive competitive pressure, and where some women workers or unemployed women are known to be willing to accept lower wages, some entrepreneurs might argue that new machines have made work so easy that margins for skill or experience need no longer be paid. Comparative worth exercises would thus give employers an argument for reducing wages. While such cases would most likely be confined to low skilled occupations, the increased mechanisation of some associate-professional occupations could lead to similar arguments and wage rate reductions with a concomitant fall in earnings.

A re-examination of men's wages and discretionary payments cannot be ruled out if comparative worth is adopted as a methodology for women's occupations. Since the arbitration process has favoured men as 'breadwinners' in the past, reducing such, in effect social security, payments could be argued to bring male earnings into a closer relationship with productivity. Employers could find comparative worth a useful instrument in wage negotiations.

In a few professional women's occupations, comparative worth inquiries might increase wage rates and discretionary payments. In the private sector, and even in the public sector under increasing productivity imperatives, this would be likely to lead to pressure for greater output per hour and per person and/or increased mechanisation to reduce labour costs. The women who remained employed would benefit, albeit perhaps under less pleasant working conditions. Where the case is won on education and skill grounds, the level of certification of new entrants would be increased, making it harder for those training on the job to be promoted. If wage rate increases were not accompanied by increased certification, new entrants would be expected to flood in, putting downward pressure on wage rates and remuneration. The limited number of women who gained would be likely to be from middle and upper socio-economic areas. Those who would lose jobs and promotion opportunities, would be from lower income groups. The ensuing redistribution of income would be from low income to high income earners.

In some cases raising wages would lead to lower employment. Child-care is an example. Higher wages would reduce demand for formal child-care because demand is known to be highly elastic. Children would be minded informally. In the latter, market remuneration is low. In some occupations, raising wages would accelerate mechanisation, sharply reducing employment. This is a likely development in grocery checkouts, where the substitution of capital for labour is technologically possible. The pace of change is determined by the relative price of labour (labour costs) and machines.

### *Macroeconomic implications*

Australia's falling standing in per capita income and relative standard of living terms is well established. From having the highest per capita income in the world at the beginning of the twentieth century, and the third highest 50 years ago at the end of World War II, it will enter the twenty-first century about 20th, (World Bank 1997). Our ranking is still falling. It is true that per capita ranking does not take into account an exceptionally rich resource endowment, abundant space and a benign climate, but these are not the result of Australia's good economic management. On the contrary, Australia has a history of poor economic management. Australia's late and partial acceptance of the benefits of global trade, capital and labour flows has been the principal cause of the low productivity growth that lies at the heart of overall low economic performance. Recent increases in productivity growth have hardly offset low productivity growth in the 1980s. Sustained substantial increases in productivity growth will be needed to reverse Australia's poor economic management (Industry Commission 1995).

Australia is clearly not internationally competitive. The ratio of exports to GDP is low, at 20 per cent. It should be 30 per cent (Hughes and Toguchi 1995). Inefficient import substitution industries cannot compete against a wide range of imports. The net results are chronic balance of payments deficits that mean that Australia is accumulating external debt at some \$25 billion dollars a year. External debt has reached \$293 billion or 57 per cent of GDP (ABS 5206 and Commonwealth Treasury 1998). Servicing this debt adds to balance of payments problems. Our children and grand children will have to pay back this debt in the future as well as caring for an aging society.

Welfare indicators must be a major concern. While official unemployment figures hover over 8 per cent, real unemployment, counting those who have dropped out of the labour force, is about 12 per cent (Dorrance and Hughes 1996a). Long term unemployment, youth unemployment and unemployment of older workers is of particular concern. The proportion of households living in poverty in Australia has grown with unemployment since the 1970s. It is now estimated at 12 to 15 per cent. Real wages have been falling relatively to those of other countries with poor productivity growth so that Australia is becoming a low wage country.

Low earnings, unemployment and poverty are not evenly distributed in Australia. There is a sharp division between middle and high socio-economic areas on the one hand, and low socio-economic areas on the other hand. The differences are growing. They are most marked, and increasing, in the work-force participation and earnings of women (Gregory and Hunter 1995). Unemployed women and their families are bearing the brunt of Australia's lagging economic performance.

Ignoring these indicators is both short sighted and callous. Reintroducing industry-wide inquiries, particularly if they are not related to productivity and market trends, would offset the greater flexibility coming through enterprise agreements. Implementing a comparative worth approach across industries in Australia would have considerable economy-wide effects. If women's earnings were for 'pay equity' reasons, that is, ahead of productivity, there would be considerable negative macroeconomic effects. This would be reflected in heightened uncompetitiveness of import substituting industries and exports. To the extent that the wage rises would be in the public sector, the costs of public employment would rise with a consequent upward labour cost pressure on taxes. Public investment funds for schools and hospitals would decline. Total output would be likely to decline and unemployment would rise.

These conclusions are sharply underlined by research commissioned by the New South Wales Treasury. Borland (April 1998) provides theoretical and empirical support for the above arguments. General equilibrium modelling carried out for the NSW Treasury concludes that if 'pay-equity' measures were instituted in New South Wales alone, output and employment would be reduced in the short and, to a lesser extent, in the long-run. Introduced on a national basis, there would also be a reduction in output and employment in the short-run. The Treasury study assumes that long-run overall wage bargaining would ensure that the 'pay-equity' measures leave no lasting impact on national employment. The study does not show how this would come about, although it claims that on this assumption there would be short-term output and employment reductions even if 'pay equity' were introduced nation wide, though in the long run a small GDP increase would follow nationally (NSW Treasury May, 1998).

Access Economics (May 1998) supports the NSW Treasury studies. '(Borland) brings home the central point that it is impossible for wage tribunals to make everyone better off. Decisions aimed at raising pay in female dominated sectors will improve fairness for some, worsen fairness for others (notably those who lose jobs), and have an uncertain (but probably negative) effect on the economy's overall efficiency' (Access Economics 1998: 1). Macroeconomic modelling by Access Economics supports the general equilibrium model's conclusion that the employment outcomes of 'pay equity' would be negative.



The sophisticated general equilibrium modelling carried out for the NSW Treasury clearly indicates that income rises and consequent rises in expenditures on goods and services arising from 'pay equity' increases would not offset the negative economy-wide effects of such pay increases. Under-consumption arguments, dating back to the 1920s and early 1930s, already considered outdated on theoretical grounds at the time, have also failed the rigorous research tests made possible by the development of improved databases and rigorous general equilibrium models.

The negative economic effects of 'pay-equity' rises would not be distributed evenly across the economy. The direct beneficiaries of increases would be women in middle and upper middle socio-economic areas who are already advantaged by their educational background (and, if they are married, that of their husbands). The costs, in terms of reduced access to 'certificated' occupations through informal channels and through loss of jobs, would be largely borne by low income women and their families.

If 'pay equity' led to reduced wages and remuneration for women in such occupations as child care, some clerical grades, and for retail workers, the employment effects could be positive. Empirical research indicates, however, that the relationships between falling remuneration and employment, and rising remuneration and unemployment, are complex (Hartley 1992, Russell and Tease 1992, Card and Kreuger 1995, Kennan 1995, Freeman 1996). The outcomes depend on the degree of skill required for a job, the degree of responsibility and working conditions, and also on the elasticity of supply and demand for the product of the industry concerned, the efficiency of management and the supply and demand of inputs, including workers. The number of workers involved gives rise to macroeconomic questions. If earnings run ahead of productivity, inflation will follow. In the long run earnings can only exceed productivity at the cost of lower long term growth and falling standards of living.

The comparative worth methodology is intensive of professional and associate professional inputs. If widely applied, it would create jobs for middle and upper income men and women. Such applications would have costs to trade unions, business and the public sector that would presumably manage the industry-wide studies. The earnings of comparative worth participants' would be 'economic rents'. If the total costs exceeded the benefits to the national economy, they would be deemed 'dead weight' rents because they would reduce potential growth and rises in living standards.

## V. Conclusions

The Australian female to male earnings ratio is among the highest in the world. The argument that Australia is lagging in the application of national and international legal measures to implement equality for women in the labour market is not borne out in practice.

Continuing differentials between women's and men's earnings are largely the result of differences between their labour force characteristics.

### *Alternative approaches to improving women's earnings*

Although girls have done well in catching and often by-passing boys in secondary school performance, a considerable group of girls still appears to be disadvantaged in education in low income socio-economic areas. The same is probably true for boys. Such students leave school before year 12, and form a high proportion of unemployed between the ages of 15 and 19. A major educational and social effort in low-income socio-economic areas would improve the lifetime productivity and earnings of women from such areas. Primary and secondary school reform and associated social support for disadvantaged communities are urgently needed if many of the young people from these areas are not to become long term unemployed and labour force dropouts.

The gravest current discrimination against women lies in barriers to entry into skilled manual trades for women from low socio-economic areas. While the demand for manual trades in manufacturing is declining as the Australian economy moves further toward services, the demand for tradespersons is holding up fairly strongly because of service demands for these and allied skills. If these trades became available for young women, the pressure from women entrants into such occupations as hairdressing would fall. Economic factors would then be likely to increase earnings in such trades. Improved gender distribution among occupations according to education, training and ability would raise productivity Australia wide, and hence enable higher wages and earnings to be paid while maintaining competitiveness. Unemployment would fall.

### *Can women's earnings be raised to parity with men's earnings by industry-wide inquiries into work value?*

In allocating their time between working careers and family, many women make different choices from those that men make. A larger proportion of women than men work part-time or in casual jobs, suspend their participation in the labour force to nurture children and families, and retire earlier, often to look after grandchildren. This is their choice.

The distribution of skill and earnings by gender is changing. Educational achievements are enabling women to take up skilled employment opportunities in a wider range of occupations. Such choices are largely outside the arbitration framework. For full-time employed labour force participants under 30 years of age, there is no longer any difference between male and female earnings.

Focusing the argument for earnings equity on occupations in which women dominate and where their skills may, or may not, be under-rewarded, avoids most of the labour force factors that account for differences between female and male earnings. It is not likely to lead to significant improvements in women's earnings because it ignores productivity issues. The argument for using comparable worth methodologies to increase women's earnings implicitly acknowledges that the bulk of differences in women's and men's earnings arise from differences in work participation, not in the value added in production.

The proposal to measure comparable worth in selected female dominated occupations against male dominated occupations is deeply flawed. The methodology had a poor record in centrally planned economies, and it has only been successful in raising women's wages in the public sector in a few cases in industrial countries at the cost of employment. Ignoring supply and demand for labour and the goods and services produced would reduce the efficiency and competitiveness of the Australian economy. Adding to costs that are not linked to productivity in the public service reinforces sentiments for cutting public service costs by reducing public sector employment.

Where comparative worth exercises would increase earnings in a profession, women who remained employed would benefit. Their total numbers are small and they are predominantly middle and upper income earners. Higher earnings would create pressure for improved organisation, mechanisation and higher entry qualifications. Promotion possibilities within the occupation would decline. Total employment, particularly for auxiliary workers, would fall. Women with low earnings would be negatively affected.

In occupations requiring little training, raising wages above present levels in industries with inelastic demand would lead to unemployment. In the case of pre-school child care, where earnings have probably been raised above market levels by institutional interventions, the unemployment effects of increasing wage rates could be considerable, because the demand for child care is highly elastic. When the increased costs of higher earnings were passed on to consumers, demand for formal childcare services would fall and so would the number of jobs. Formal child-care would decline as customers moved to informal child-care, where remuneration is market determined. In some occupations, for example, for check-out workers, higher wages would mean accelerating mechanisation, eliminating thousands of jobs.

Comparative worth inquiries cannot be confined to selected female occupations. Once employers geared up for the methodology, it could be used to reduce wages in male dominated occupations that are deemed to be the beneficiaries of past institutional interventions. It could also be used to lower female wages and earnings.

Australia is still falling in rank in per capita income. From being one of the highest per capita income countries, it is now 20th. Recent productivity rises have not yet offset lagging productivity in the 1980s and early 1990s, so that relative per capita income is still falling. Uncompetitive import substitution and weak exports lead to balance of payments problems and rising external debt. If New South Wales introduced 'pay equity' increases it would be disadvantaged vis a vis other States, particularly in the short-run. Introduced Australia-wide, 'pay equity' increases would lead to nationwide declining output and rising unemployment in the short-run. The argument that this would turn to a small rise in GDP in the long-run can only be made with unrealistic wage bargaining assumptions.

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