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The gap between the gender pay gaps

By Bill Rosenberg, CTU Economist and Policy Director

Last week we were told by Statistics New Zealand that “The gender pay gap was 9.4 percent in the June 2017 quarter, down from 12.0 percent in the June 2016 quarter”. That fall was large – “the biggest drop in the gender pay gap since the series began in 1998” SNZ told us.

But are they telling us about the right “gap”?

There are many ways to look at the “gender pay gap” – how much less women employees earn than men – but it is very useful to have one number to indicate where it is heading. Since it gets so much prominence it is important that it is the number that tells us most about changes that are happening.

Statistics New Zealand currently use the “median wage” to measure the gap. The “wage” here is hourly income including all jobs a person might earn wages and salary from. The “median” is the wage in the middle if you line up everyone’s wages in order. The gap is the difference between the median wage for men and the median wage for women as a proportion of the men’s median wage.

This has a number of problems. Most importantly, it is not affected by wages above or below the median.

Here are a couple of examples.

From 1 July, 55,000 mainly women care and support workers received a substantial and well-deserved wage rise to recognise they had been disadvantaged because they were in a predominantly female occupation. This pay equity settlement didn’t affect the June 2017 wages reported by SNZ but we would hope that the gender pay gap measure would reflect that pay rise come June next year.

It probably won’t. The maximum wage to which they will rise is \$23.50. The median wage for women in June 2017 was \$23.05. By June 2018 the median will very likely have risen above \$23.50 due to normal rises in other wages – it would only need to rise 2.1 percent. Because all the care and support workers’ wage increases would still be lower than the median they would not affect the median.

Another example. A study published in March by the Ministry for Women on the pay gap between men and women doing the same job found that the largest gaps were among higher paid women. Gail Pacheco, Chao Li and Bill Cochrane found “the gender pay gap increasing as we move up the wage distribution”.

That makes intuitive sense: we know that there are big gaps at the level of highly (often excessively) paid senior executives.

Another reason is probably that near the bottom of the pay scale, the minimum wage prevents women from being paid much less than men – and both women and men can lose out from being in an occupation like care and support which is underpaid because it is largely female.

The wage gap at the median won't register these increasing gaps at higher pay levels. Pay gaps for women paid above the median could get larger or smaller, but the median wouldn't change.

In short, the median will fail to measure some of the most important features of gender pay differences because they happen above or below it. It is a measurement at just one point in male and female pay scales and the indications are that it isn't typical for the pay gap.

What is a better measure of the pay gap? No one measure can be perfect, but a more sensitive one than the median is the gap between men's and women's average hourly wages.

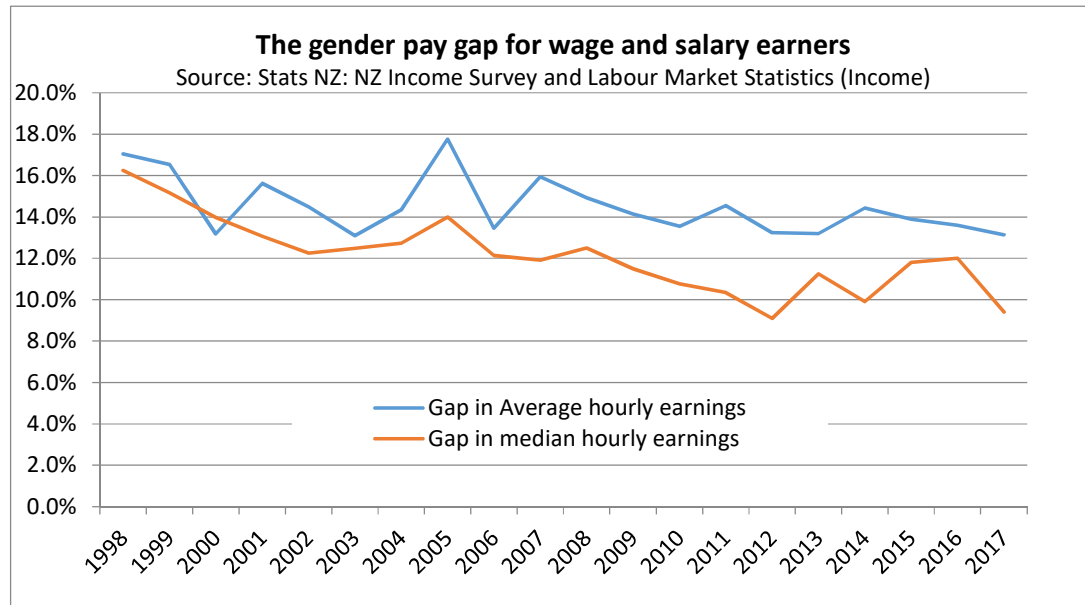
The average adds up all wages and divides them by the number of people earning them. It is therefore affected by all changes and all gaps, right up the pay scale.

Statistics for average hourly wages for both men and women go back to 1973 – most of the time since the Equal Pay Act 1972 was passed – while the median is only available since 1998. The average is therefore much more useful for tracking the trend of the gap.¹

Statistics New Zealand and the government should change to this as their official measure.

The gap in average wages was 13.1 percent in June, down from 13.6 percent a year before, but not down nearly as much as the gap between the median wages.

It's difficult not to suspect that politicians like the median wage gap because it gives a smaller figure.



The gender wage gap has reduced on both measures of the gap in statistically significant terms since the series started in 1998, However the gender gap in median wages fell between 1998 and 2007 and has shown no trend up or down since then. In contrast, the trend in the gap in average wages showed no downward trend between 1998 and 2007 but has since reduced.

¹ These average hourly wages are from a different Statistics New Zealand survey – the Quarterly Employment Survey (QES) and its predecessors – so give slightly different results to the average hourly wages for the same years coming from the survey Statistics New Zealand use, the New Zealand Income Survey and Labour Market Statistics (Income) which replaced it in June 2016. The QES does not cover agriculture and fishing. The gender pay gap in the QES average total hourly wage was 13.2 percent in June 2016 and 11.9 percent in June 2017.

Sadly, neither show particularly good news on their overall trend since 1998. At the rate the gap in average wages is closing, it will be 110 years before equality is reached. It will take 38 years to close the gap in median wages on its trend since 1998 – but much longer if its trend since 2007 continues.