How Women Can Earn a Living Wage: The Effects of Pay Equity Remedies and a Higher Minimum Wage

Efforts to shift women from welfare into the labor market will not necessarily move women out of poverty because the wages they are likely to earn are so low. IWPR research, which tracked recipients over a two year period, has shown that 43 percent of Aid to Families with Dependent Children (AFDC) recipients combine welfare with a substantial amount of paid employment; recipients, however, tend to earn poverty-level wages. The work that many women do is undervalued, underpaid, or unpaid, causing severe economic hardship for many families. Without labor market reform, emerging welfare policies may succeed in moving women and children off welfare rolls but not out of poverty.

While recent policy debates over increasing the minimum wage have focused on the need for good jobs at good wages, less attention has been paid to women who work to support families. Gender discrimination in low-wage labor markets is often overlooked. In order to correct this oversight, a recent study by Deborah M. Figart and June Lapidus looked at the earnings of a sample of workers aged 16 to 64, taken from the March 1992 Current Population Survey (CPS), and compared the potential impact of two possible labor market reforms on women's and men's earnings and poverty: a federal comparable worth policy and the recent increase in the minimum wage to $5.15 per hour.

Two Labor Market Reforms Could Help Women

Low-wage labor markets contain both minimum-wage jobs and a disproportionate number of female-dominated occupations:

- While the myth that minimum-wage workers are primarily teenagers has been contradicted by research indicating that nearly 75 percent are adults, most policy discussions generally overlook the sex of the minimum-wage breadwinner. Roughly 6 out of 10 minimum-wage workers are women, and 4 out of 10 are the sole support for their families.
- Over half of all women workers are employed in occupations that are more than 70 percent female. These jobs in sales, service, and administrative support typically offer low wages.
- More than 25 percent of women in female-dominated jobs earned less than the hourly wage necessary to bring a family of three above the federal poverty threshold in 1992 with full-time, full-year work.

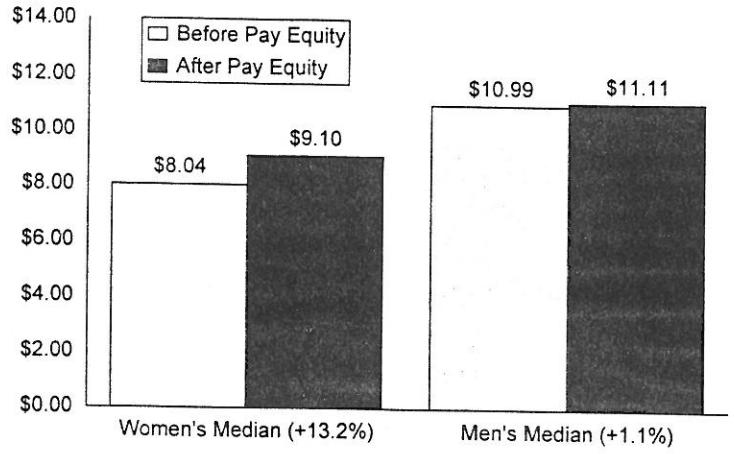
Pay Equity Means More Money For Families

Generally, as the proportion of women workers in an occupation rises, average earnings in the occupation fall. Pay equity policies seek to remedy this unfair wage penalty. A series of previous studies by Lapidus and Figart have estimated what women and men in female-dominated jobs would earn if this wage penalty did not exist, in order to approximate implementation of pay equity nationwide. To correspond with pay equity implementation procedures used in workplaces across the United States and Canada, the studies assume that: (1) no one individual's wage was decreased, paralleling the guidelines of the Equal Pay Act, and (2) firms with fewer than 25 employees (at all locations) were

excluded from the policy. These simulations reveal that pay equity would significantly raise women's hourly earnings and reduce the gender-based wage differential.

- Figure 1 indicates that women's median hourly earnings nationwide would increase by 13.2 percent, from $8.04 to $9.10.
- Men's median pay nationwide would increase 1.1 percent, reflecting the smaller number of men in female dominated occupations.

Figure 1: Women's and Men's Hourly Wages Before and After Pay Equity, 1992 Dollars

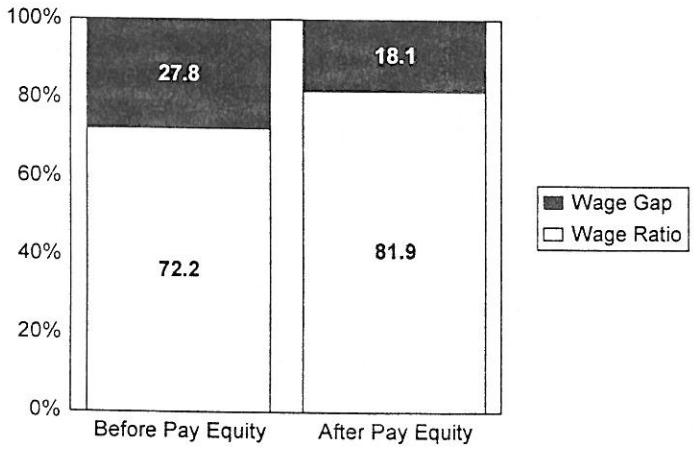


Source: Figart and Lapidus, 1995. Based on the March 1992 Current Population Survey, United States Bureau of the Census.

- The female-to-male wage ratio would increase by nearly 14 percent, from 72 cents on the dollar to 82 cents (see Figure 2). To place this statistic into an historical perspective, it took the last 10 years to reduce the gender-based wage gap by a a similar amount.

The approximate increase in payroll costs that would result from these comparable worth wage adjustments is less than 3.7 percent of total hourly payroll costs throughout the economy (calculated from the March 1992 CPS). This expenditure, which corresponds with the cost of implementation across twenty state governments measured by Heidi Hartmann and Stephanie Aaronson (1994), is lower than the cost of implementing pay equity for civil service employees in Washington, Oregon, Iowa, Connecticut, Vermont, New Mexico, Massachusetts, and Michigan.

Figure 2. Female-to-Male Median Wages Before and After Pay Equity

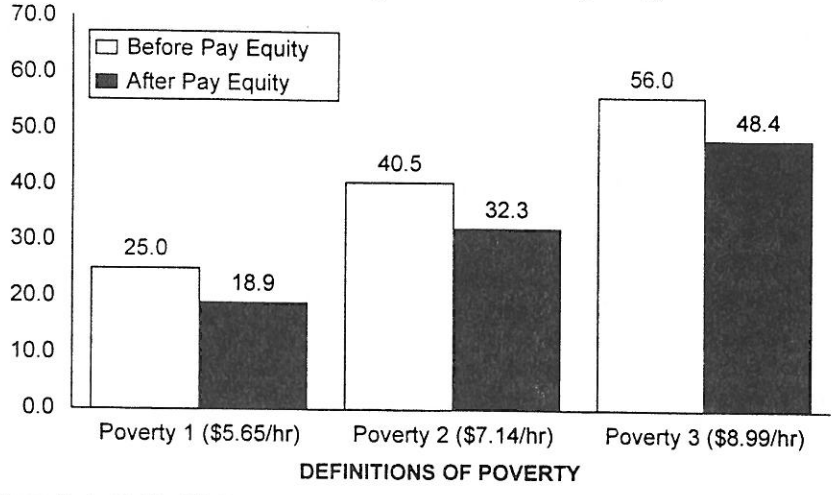


Source: Figart and Lapidus, 1995. Based on the March 1992 Current Population Survey, United States Bureau of the Census.

Pay Equity Reduces Women's Poverty

If pay equity were adopted nationally, the percentage of women earning below each of three poverty thresholds would decline (Figure 3). These poverty thresholds can be viewed as indicators of adequate levels of earnings. The first two are the hourly wage rates which would bring an adult supporting two or three children, respectively, above the federal poverty line. These poverty wage rates, designated Poverty 1 (for a family of 3) and Poverty 2 (for a family of 4), were $5.65 and $7.14, respectively, in 1992. Poverty 3 ($8.99) is based on a measure of a female-headed family's basic needs for a mother with two children, as calculated by Trudi Renwick and Barbara Bergmann (1993). Poverty 3 is substantially higher than Poverty 1 because it includes the cost of child care. The estimates of the impact of pay equity wage adjustments on

Figure 3. Impact of Pay Equity on the Percent of Working Women Earning Below Poverty Wages



Source: Figart and Lapidus, 1995. Based on the March 1992 Current Population Survey, United States Bureau of the Census.

women's poverty assume that the woman works full-time, year-round and has no income other than her own earnings.

All the reductions in poverty for women shown in Figure 3 are large and statistically significant:

- As portrayed in Figure 3, the percentage of working women below Poverty 1 (a family of 3) would fall by almost 25 percent — from 25 percent to 19 percent.
- If small employers were also covered by pay equity, the reduction would be nearly 40 percent (data not shown).

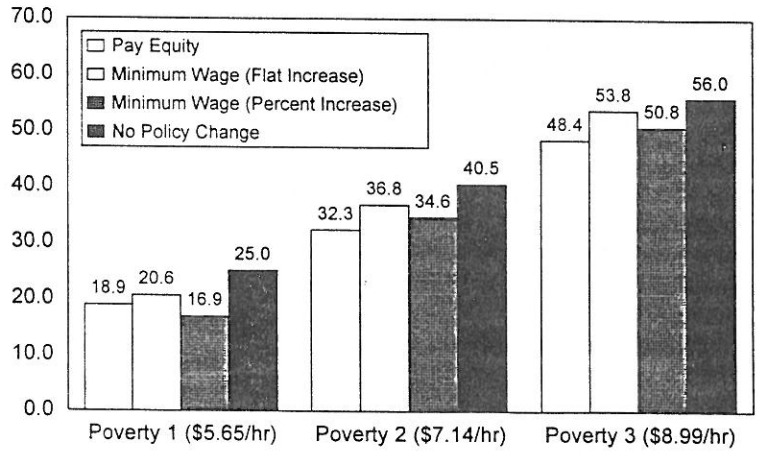
Raising the Minimum Wage: Another Policy to Reduce Women's Poverty

Recognizing the need for labor market reform, the Congress and the President have approved a 90-cent increase in the minimum wage to $5.15 over two years. This amount is still less than the poverty threshold for a family of three supported by a single breadwinner ($5.65, see Poverty 1 above). The minimum wage increase, however, can be expected to reach beyond those who were earning the previous minimum of $4.25 an hour. In a study for the Economic Policy Institute, William Spriggs and Bruce Klein (1994) found that the minimum wage serves as a key rate for several industries and occupations such as food service and retail sales workers. When the minimum wage is increased, firms try to maintain their internal wage structure by providing additional increments that raise the pay of some workers above the new minimum. These workers are said to be on a "minimum wage contour."

To assess the impact of raising the minimum wage on women's poverty, wage increases on this minimum wage contour were also included. Women were 65 percent of all workers on this minimum wage contour. Two alternative scenarios modeled employers' response to the increase as either a flat or a percentage increment for workers on the contour.

The minimum wage boost to $5.15 (with additional increases for workers on the contour), like pay equity, was estimated to have a large effect on the wage adequacy of the lowest paid workers. A comparison with pay equity (and with no policy change) is provided in Figure 4. In two out of the three

Figure 4. The Impact of Pay Equity and the Minimum Wage on the Percent of Working Women Earning Below Poverty Wages



Source: Figart and Lapidus, 1995. Based on the March 1992 Current Population Survey, United States Bureau of the Census.

simulations, a 90-cent increase in the minimum wage would not reduce women's poverty as much as pay equity, although it would come close in its impact. In one simulation, its impact on poverty reduction is slightly greater. (The two policies were not very different in their impact on men's poverty; data not shown.)

These findings imply that labor market reforms are an essential element of anti-poverty policy. A minimum wage increase, although gender-neutral on its face, helps women more than men to earn above-poverty wages, simply because more women than men work at minimum wage or near minimum wage jobs. The pay equity policy modeled here generally has a slightly larger impact in reducing women's poverty than even a 90 cent increase in the minimum wage. Imagine the possibilities for raising the incomes of millions of poor working women if a pay equity policy were adopted along with regular increases in the minimum wage.

Pay Equity and the Disappearing Middle

Pay equity can also help reverse the increase in earnings inequality and the erosion of living standards at the bottom end of the earnings distribution in the United States that have occured since 1980. In research on the causes of these trends, Harrison and Bluestone (1988) suggest that the expansion of low-wage, female-dominated occupations -- in administrative support, sales, and service -- has skewed the earnings distribution downward; they argue the "middle" is disappearing as many more workers earn lower wages, while others move up to high wages. Therefore, a commitment to pay equity for these occupations could offset the rising inequality brought about by industrial and occupational restructuring in the U.S. economy.

A variety of indices have been developed to measure earnings inequality and compare the earnings distribution at different points in time. Several of these indices (the Gini coefficient, coefficient of variation, variance of the natural log of earnings, Theil-Entropy index, and Atkinson's measure of social welfare) were used to estimate how pay equity wage adjustments would affect earnings inequality (see Figart and Lapidus, 1996). Each index was calculated using the sample of workers (from the CPS) with and without the elimination of the wage penalty against workers in female-dominated occupations. These comparisons indicate that a pay equity policy would substantially decrease earnings inequality, both between women and men and among women. In fact, pay equity primarily benefits the lowest paid workers. These findings indicate that pay equity can stall "the disappearing middle" in a feminizing labor force.

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This *Research-in-Brief* was formatted by Megan DeBell and Jill Braunstein of the Institute for Women's Policy Research (IWPR) in April 1997. It is part of a series by IWPR which highlights the work of IWPR's affiliates on topics of importance to women. The Institute for Women's Policy Research is an independent, nonprofit research institute dedicated to conducting and disseminating research that informs public policy debates affecting women. Members of the Institute receive regular mailings including factsheets such as this. Please contact the Institute for further information about individual and organizational memberships at (202) 785-5100, fax: (202) 833-4362 or visit our web page at http://www.iwpr.org.