

Research-in-Brief



Pay Equity and the Wage Gap: Success in the States

By 1989, twenty states had implemented programs to raise the wages of workers in female-dominated jobs in their state civil services. According to a joint Institute for Women's Policy Research and Urban Institute study, of the fourteen states for which information was available, all succeeded in increasing the female/male wage ratio in their civil service. Statistical analysis of wages and employment in three states indicates that these adjustments were implemented without substantial negative side effects such as increased unemployment. These findings suggest that pay equity is an effective means of raising women's wages to levels that reduce the impact of discrimination or devaluation. This fact sheet answers many common questions about the wage gap and pay equity based on findings from this study. The data analyzed in the study were collected over a four-year period from the relevant state agencies.¹

THE WAGE GAP AND PAY EQUITY

Isn't most of the gap between female and male workers due to differences in education, skill, and work experience?

No. Reviewing its civil service for pay equity, the State of Minnesota found that female-dominated jobs were consistently paid less than comparable male-dominated jobs. For instance, the jobs of radio communications supervisors (who were more likely to be male) and typing pool supervisors (who were more likely to be female) were determined to entail comparable skills and responsibilities, yet the male communications supervisors were paid \$460 a month more than the female typing pool supervisors, an additional \$5,500 a year. Studies that attempt to control for variations in human capital disagree as to what proportion of the wage gap is due to discrimination, with those using a greater number of variables finding smaller unexplained wage gaps. These unexplained remaining wage gaps are usually considered to be the result of discrimination. However, certain control variables reflect discrimination themselves and should not be factored out.² In 1981, the National Academy of Sciences estimated that about half the gross wage gap between women and men might be due to discrimination.³

What is Pay Equity?

The concept of pay equity, also known as comparable worth or equal pay for jobs of equal value, refers to a set of remedies designed to raise the wages of jobs that are undervalued at least partly because of the sex or race of the workers who hold those jobs.

As practiced in the United States and Canada, pay equity remedies are applied within a given firm, rather than in the labor market as a whole. The jobs in a single firm are evaluated and compared to one another according to a set of uniform criteria accepted by the firm. Once these guidelines are set, however, they must be applied equally to all employees in the firm. Based on these criteria, a determination is made as to whether those jobs typically held by women or minorities are underpaid (ie., paid less than jobs typically held by white males that are comparable in the skill, effort, responsibility, or working conditions they entail). An adjustment plan is developed to raise the wages of the jobs found to be underpaid.

THE EXTENT OF STATE PAY EQUITY PROGRAMS

How extensive have pay equity adjustments in the state civil services⁴ been?

When the study began in 1989, twenty states had implemented reforms aimed at increasing the wages of employees in female-dominated job classes: California, Connecticut, Florida, Hawaii, Illinois, Iowa, Maine, Massachusetts, Michigan, Minnesota, New Jersey, New Mexico, New York, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Washington, and Wisconsin. Of these, Florida, Hawaii, Pennsylvania, and South Dakota do not consider their adjustments to have been motivated by pay equity concerns. In Maine, the reform was limited to the University system. In some other states, such as Vermont and New Mexico, pay equity was not the only goal of the civil service reform.

For the sixteen states from which we were able to collect data, the total spent on pay equity adjustments was more than \$527,000,000 (1990 dollars) through 1992. Individual states spent between \$1.1 million in Hawaii to \$71 million in Massachusetts (1990 dollars).

Pay equity adjustments as a percent of the states' annual wage bills ranged from one-tenth of one percent in Hawaii to twelve percent in Vermont. Of the sixteen states for which we were able to collect data, twelve states -- California, Connecticut, Iowa, Maine (the University System only), Massachusetts, Michigan, Minnesota, New Mexico, New York, Oregon, Vermont, and Washington -- spent one percent or more of their wage bills on pay equity adjustments, a considerable reform.

Approximately 335,000 workers received pay increases. The number of affected workers ranged from 700 in Hawaii to 78,000 in New York. In ten of the twelve states for which we were able to collect data about the gender of affected workers, women were the majority of those receiving pay increases (from 59 percent in Iowa to 98 percent in Pennsylvania). In Connecticut and Oregon, where women constituted 49 percent of the workers receiving pay increases, they nevertheless were more likely to receive increases than male workers (who constituted an even larger portion of their state work forces). In Connecticut, 79 percent of the female workers received increases, while in Oregon, 65 percent did.

The average annual pay equity adjustment received by an affected worker was \$1,400 (1990 dollars).

FEATURES OF STATE PAY EQUITY PROGRAMS

What methods did states use to increase women's wages?

Some states targeted adjustments at the most undervalued female-dominated job classes. Other states made large scale changes in their personnel systems. These large scale or systemic changes can be further broken down into those that affected the classification system, those that updated or implemented a job evaluation system, and those that revised the state's compensation system. Many states utilized a combination of these three systemic changes, and some used both targeting and systemic reform. Of the sixteen states for which we have sufficient information, seven states targeted adjustments, five implemented system-wide changes, and four combined both approaches.

Who was involved in pay equity reform?

A wide range of actors worked to increase women's wages, including women's groups, unions, consultants, elected officials, and administrators.

Legislatures, government employees, and women's leaders worked together to institute pay equity in the states. Six states -- Hawaii, Massachusetts, Minnesota, New Jersey, Oregon, and Vermont -- created committees to study the extent of discrimination and potential comparable worth policies.

All the states that implemented pay equity plans allow collective bargaining. In all but four of the states (Michigan, New Mexico, South Dakota, and Washington) unions are allowed to bargain on classification. In all but two (South Dakota and Washington) the unions are allowed to bargain over wages. In virtually all the states, unions were involved in raising the visibility of workers' pay equity concerns and in negotiating specific pay increases or classification changes. The high rate of unionization in pay equity states suggests the importance of unions in promoting pay equity.

What factors affected the success of the pay equity programs?

The following decisions about the scope of pay equity and methodology used in implementing it substantially affected program outcomes:

whether states revised their job classification systems to better account for the skills associated with female-dominated jobs;

whether states gave adjustments to all undervalued job classes or only to some undervalued female-dominated job classes;

whether states raised the salaries of undervalued job classes to an average payline (which would be below the payline for male-dominated jobs), or to the male payline, or to some percentage of either;

whether pay equity was the only goal of reform or whether (as in New Mexico, Oregon, and Vermont), pay equity was only one goal of larger civil service reform, in which case, pay equity goals may have been moderated to meet other requirements.

Program details are important because they determine how much pay discrimination is found, how many and which workers are affected, and the extent of the remedies.

PAY EQUITY IS AN EFFECTIVE MEANS OF CLOSING THE WAGE GAP

Did the female/male wage gap close during the period of pay equity implementation?

Yes. In all fourteen states that implemented some type of wage adjustments and for which we have outcome data, the female/male wage ratios improved during the period of implementation, no matter how small the program.

Improvement in the state female/male wage ratios ranged from one to eight percentage points. All fourteen states increased their wage ratios to between 74 and 88 percent, higher than the national wage ratio of 71 percent in 1992.

Minnesota, Oregon, Washington, Michigan, California, and Connecticut saw their female/male wage ratios increase significantly, by at least four percentage points.

Statistical regression analysis of three states shows that pay equity reforms were responsible for the wage gains taking place.

In Minnesota, pay equity implementation was responsible for a nine percentage point increase in the ratio.⁵ In the state of Washington, pay equity was responsible for five out of the seven percentage points

of the wage ratio increase. In Iowa, the model estimated that pay equity policies increased the female/male wage ratio by one percentage point.

Which pay equity programs were the most cost-effective?

Targeting underpaid female-dominated occupations is more cost-effective than systemic approaches, if pay equity is the only goal. This may be due to the fact that women receive a greater proportion of the pay adjustments when they are targeted.

No state that used targeting spent over 3.5 percent of its wage bill on pay equity programs, yet three of the six targeting states achieved wage ratio improvements of five percentage points or more. For these three states, the “average” improvement was six percentage points at a cost of 1.8 percent of the wage bill.

States that used the more comprehensive methods spent up to twelve percent of their wage bills, yet only two out of eight achieved wage ratio improvements of five percentage points or more. These two states, Washington and Oregon, experienced an “average” gain of seven percentage points at a cost of 8.4 percent of the wage bill. It should be noted that some states using comprehensive methods, such as Vermont, were trying to achieve other goals in addition to pay equity when implementing their adjustments.

Although targeting is more cost-effective, it may not be feasible for all states. Systemic approaches address more issues and therefore garner more support for pay equity objectives. Furthermore, systemic approaches may be the only practical route to achieve pay equity, if the state does not have a sound enough personnel system on which to base specific targeting.

PAY EQUITY DOES NOT HAVE SIGNIFICANT NEGATIVE SIDE-EFFECTS

Won't the wages of white male workers have to be reduced in order to raise the wages of underpaid women and minorities?

No. Pay equity reforms need not come at the expense of other workers, and in fact may be less effective if they do so. In Iowa and New York, where the original pay equity proposals included reductions in the wages of some men's jobs, the programs failed to gain broad support. As a result, pay equity in Iowa and New York had a much smaller effect on the wage gap than in states whose plans did not include pay reductions for male workers.

Won't employers be forced to reduce employment in order to pay for higher wages?

No. Statistical regression analysis in three states indicates that in Minnesota there was virtually no effect on employment growth, while in Washington, women did experience slightly slower (but not negative) employment growth. In these states pay equity was implemented over a number of years, probably reducing the impact on employment. In Iowa, where employment growth slowed noticeably for both men and women, reforms were implemented all at once.

CONCLUSION

Women employed in state governments that implemented pay equity programs have made significant wage gains, absolutely, relative to their male co-workers, and relative to the national experience for all women. In all states, the female/male wage ratio improved during the period of pay equity implementation. The pay equity programs of all states affected more women than men. In two-thirds of the states, more than half of all women workers received pay increases through these programs. Thus, these programs were generally large enough to make a positive difference for women workers.