

## Wage compression and the gender pay gap

### Wage-setting institutions narrow the gender pay gap but may reduce employment for some women

Keywords: gender, wage inequality, collective bargaining, minimum wages, unions

#### ELEVATOR PITCH

There are large international differences in the gender pay gap. In some developed countries in 2010–2012, women were close to earnings parity with men, while in others large gaps remained. Since women and men have different average levels of education and experience and commonly work in different industries and occupations, multiple factors can influence the gender pay gap. Among them are skill supply and demand, unions, and minimum wages, which influence the economywide wage returns to education, experience, and occupational wage differentials. Systems of wage compression narrow the gender pay gap but may also lower demand for female workers.

#### KEY FINDINGS

##### Pros

- ⊕ Wage-setting institutions that compress wages at the bottom of the distribution disproportionately raise the wages of low-paid workers, reducing inequality.
- ⊕ Wage compression raises women's wages by more than men's because women are more likely to be at the bottom of the distribution.
- ⊕ Wage floors can reduce exploitation of low-wage workers and enhance economic efficiency.
- ⊕ Reducing occupational wage differentials may induce some men to enter female-dominated occupations, thus reducing the consequences of job segregation.

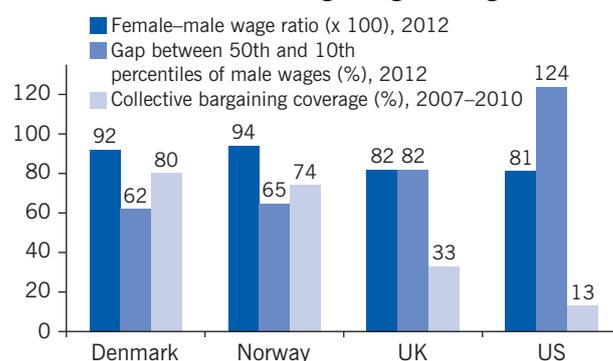
##### Cons

- ⊖ Reducing wage differentials based on skill may adversely affect an economy's resource allocation by reducing workers' incentives to acquire skills.
- ⊖ Low-wage workers, such as women, may experience employment losses as a result of wage floors.
- ⊖ Reducing occupational wage differentials may reduce women's incentives to enter male-dominated occupations and thus contribute to the continuation of occupational segregation by gender.
- ⊖ If wage-setting institutions affect unemployment, they may also affect the sample used in measuring the gender wage gap.

#### AUTHOR'S MAIN MESSAGE

Understanding the gender pay gap can help in evaluating labor market efficiency. Wage-setting institutions such as collective bargaining and minimum wages typically lift the bottom of the pay distribution, disproportionately raising women's pay but also leading to adverse employment effects. Pay systems that compress occupational wage differentials can reduce women's incentives to enter male-dominated occupations and may lower workers' incentives to acquire skills. Policies to reduce occupational gender segregation and career interruptions by women may narrow the gender pay gap without the adverse employment effects of wage compression.

Female to male pay ratio, male wage inequality, and collective bargaining coverage



Source: Calculations based on data from OECD. Online at: <http://bit.ly/1FUtepe>; <http://bit.ly/1DY8Wfs>; <http://bit.ly/1DY8ZrE>