

The Gender Pay Gap: A Briefing

Kate Andrews

10th November 2017

Summary:

While the official gender pay gap figure is 9.1% for full-time workers, the pay gap between men and women aged 22-39 is negligible. The gap widens later in life, often as a result of women taking time out of the workplace to raise children, and returning to work in a part-time capacity, reducing future earning potential.

Calculations that put the pay gap above 9.1% are achieved by moving away from like-for-like comparisons between men and women in the work place. The Equal Pay Day campaign calculates a figure five percentage points higher, or 55% higher, than the official figures by using the mean rather than the median of the ONS data, thereby including outlier salaries.

Is There a Gender Pay Gap?

The Office for National Statistics Annual Survey of Hours and Earnings places the provisional 2017 gender pay gap at 9.1% for full-time workers, in favour of men, and -5.1% for part-time workers, in favour of women.¹ These figures are calculated by using the median hourly earnings of full-time and part-time workers, excluding overtime.

Using the median rather than the mean avoids skewing the figures towards the highest earners. Calculating hourly earnings and excluding overtime helps to control for men's tendencies to work more hours than women,² which is often a contributing factor to the attribution of bonuses. These controls implemented by the ONS help to achieve a more accurate reflection of pay differences between men and women.

However, there is limited statistical analysis of gender pay differentials in Britain which involve like-for-like comparisons (i.e. same job, background, education level, and years of work experience)³. While the ONS breaks down salaries into hourly earnings, the calculations do "not show differences in rates of pay for comparable jobs".⁴ As such, the 9.1% and -5.1% figures do not illustrate that men and women are paid unequal amounts for equal work; nor do they reveal any form of employer discrimination or noncompliance with the Equality Act of 2010.

Key Points:

- The Office for National Statistics place the gender pay gap for full-time workers at 9.1%. While this calculation is the best official figure currently available, it does not compare jobs or circumstances like-for-like
- There is a negligible difference between the earnings of men and women aged 22-39:
- The pay gap for women aged 22-29 has fluctuated between -0.8% and 2.2% between 2015-2017
- The pay gap for women aged 30-39 has fluctuated between 0.6% and 2.0% between 2015-2017
- The Equal Pay Day campaign calculates the pay gap to be five percentage points higher, or 55% higher, than the ONS's official figure, by including outlier salaries of high earners
- Outlier salaries (i.e. FTSE 100 CEO salaries) are no more typical of average male earnings than they are of average female earnings, skewing the result away from like-for-like comparisons
- The only region with a negative gender pay gap (Northern Ireland: -3.4%) has been omitted from the Equal Pay Day report
- The majority of the gender pay gap can be attributed to a 'motherhood' pay gap, which sees women take substantial time off work, often returning to do fewer hours
- The Government's new requirements for gender pay gap reporting are likely to cause more confusion about wage differentials, and may have perverse consequences for employers trying to hire young women

Breaking Down the 9.1%

The 9.1% pay gap for full-time workers has decreased 0.3% since 2016; the lowest calculation of the pay gap since the ONS survey first started in 1997.⁵ The part-time pay gap has also decreased since 2016, from -6.1% to -5.1% in 2017. While both pay gaps are shrinking, women have seen stronger growth in their earnings than men over the past twenty years: "an 86% increase compared with 66%".⁶

The ONS breaks the pay gap down into age brackets, revealing a negligible pay gap for men and women between the ages of 22 to 39. The median, hourly wage gap for women aged 22-29 in full-time work is 2.2%, and 2.0% for women aged 30-39.⁷

The wage gap for these age groups has been fluctuating over the past few years. While figures from 2016⁸ and 2017 show men earning slightly more than their female counterparts, calculations from 2015 found women aged 22-29 earning 0.8% more than men, and women 30-39 earning 0.6% less than men.⁹

The Equal Pay Day Myth

The Equal Pay Day campaign, run by the Fawcett Society, is billed as the day "women effectively stop earning relative to men"¹⁰ each year. Fawcett calculates the 2017 pay gap for full time workers at 14.1%¹¹ using the mean of ONS data. By using the mean rather than the median, Fawcett promotes a figure that is five percentage points higher, or 55% higher, than the official figure used by the ONS to portray the wage gap.

Fawcett says it uses the mean to take "into account the fact that more men than women are earning higher wages at the top".¹² But outlier salaries (i.e. FTSE 100 CEO salaries) are no more typical of average male earnings than they are of average female earnings. By including these salaries, this calculation moves further away from comparing male and female salaries like-for-like. It cannot be used to gauge whether women are receiving equal pay for equal work.

Fawcett breaks down the pay gap by age and region at the end of their Equal Pay Day report. Northern Ireland is the only region not shown on the list (though it is included in the calculation in the UK average). Notably, Northern Ireland is also the only region with a negative gender pay gap: -3.4% when measured as a median¹³. Even when measured as a mean, the pay gap is 2.9%, a clear outlier amongst the other, included figures.

Explaining the Gender Pay Gap

A major contributor to the gender pay gap is motherhood: specifically, women taking time out of work to have children, and often returning into part-time work, which tends to be less-well paid than full-time work¹⁴ and has fewer advancement opportunities. This translates into lower earning potential over the course of a woman's career, particularly when compared to men and women who have remained in the workforce and pursued full-time careers.

The 'motherhood factor' helps to explain the pay gap increase over the age of 39, especially as women are waiting longer to have their first child.¹⁵

It also helps to explain why there are fewer women in leadership roles and in the top salary quartile (though evidence from the United States suggests that the women who are in CEO roles earn more than men¹⁶).

There is an important distinction between the 'gender pay gap' and 'lower wage progression'. The Institute for Fiscal Studies report from August 2016, cited by Fawcett, found that motherhood contributed to "lost wage progression for women"; yet the same study found women who take time off work and return part-time saw "no immediate hourly wage drop on average."¹⁷

While the decision to work fewer hours will impact further career opportunities and earnings, this is not unique to women or mothers. Moving from full-time work into part-time work will decrease potential earnings, but should not be conflated with a gender wage gap.

Fawcett claims the "important factors" for determining the gender wage gap are "discrimination, undervaluing roles predominantly done by women, dominance of men in best paid positions and unequal caring responsibilities"¹⁸; but no mention is made of career choices or compensating differentials.

Women have been found to favour flexible working conditions, shorter hours, and jobs more conducive to a well-rounded lifestyle; while men are more likely to do jobs "associated with unsocial hours, physical danger, and working outside or in isolated conditions."¹⁹ Such condition variations will result in compensating differentials in pay.

Assessing the Gender Pay Gap

It is possible to produce a variety of statistics when calculating the gender pay gap. In the month of November 2017 alone, reported pay gap figures have ranged from 14.1% to 54%; the former achieved by Fawcett calculating the mean instead of the median, and the latter achieved by Adzuna, a search engine company for job ads. Adzuna used its own 'ValueMyCV machine learning algorithm' to estimate the average earning potential of men and women in different regions, based on their qualifications; these estimates were then assumed to be data.²⁰

This range of calculations and statistics makes it difficult to assess the current state of affairs for women in the workplace. The new requirements for large businesses to publish their gender pay gaps are likely to add to the confusion and may cause perverse incentives. For example, the requirement to report the "proportion of males and females in each quartile of the organization's pay structure"²¹ could make employers reluctant to hire female university graduates into junior roles.²² Employers will be penalized for giving young women entry level jobs, when the proportion of women in the bottom pay quartile is published without additional context. This could affect graduate recruitment, particularly the hiring of young women.

Conclusion

What remains missing from the gender pay gap debate is data which examines the progression of men and women's careers on a like-for-like basis.

While major causes of the gender pay gap revolve around motherhood, the reasons for disparity of pay, especially amongst top earners, are more complex than a simple calculation of the mean or median salaries of workers.

Calculations for the gender pay gap should move closer to the ONS's controls for outlying factors. But without controlling for job, background, education, years of work experience, and contributions made by the employee to his or her organization, it is not possible to draw conclusions about equal pay or employer discrimination.

References

- 1 ONS Annual Survey of Hours and Earnings: 2017 provisional and 2016 revised results
<https://www.ons.gov.uk/employmentandlabourmarket/peoplein-work/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>
- 2 ONS (2017)
- 3 The Annual Survey of Hours and Earnings data are taken from tax records (HM Revenue and Customs Pay As You Earn records)
- 4 ONS (2017)
- 5 ONS (2017)
- 6 ONS (2017)
- 7 ONS (2017)
- 8 <https://www.ons.gov.uk/employmentandlabourmarket/peoplein-work/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults#gender-pay-differences>
- 9 <https://visual.ons.gov.uk/what-is-the-gender-pay-gap/>
- 10 <https://www.fawcettsociety.org.uk/equal-pay-day>
- 11 <https://www.fawcettsociety.org.uk/equal-pay-day>
- 12 <https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=2aea3562-bfd8-414d-99be-86f81161dffd>
- 13 PROV Work Geography Table 7.2 Gender pay gap 2017 <https://www.ons.gov.uk/employmentandlabourmarket/peoplein-work/earningsandworkinghours/datasets/annualsurveyofhoursandearningsasgenderpaygaptables>
- 14 Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn? Public pressure for government regulation of pay IEA Discussion Paper No. 73. London: Institute of Economic Affairs <https://iea.org.uk/wp-content/uploads/2016/08/And-how-much-do-you-earn-PDF-1.pdf>
- 15 Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn?
- 16 "Comparing median compensation packages of S&P 500 leaders who held the job for a year, 21 female CEOs received a median of \$13.8 million compared to the \$11.6 million median earned by the 382 male CEOs last year."
<https://www.forbes.com/sites/karinagness/2017/05/31/new-report-women-ceos-make-more-than-men/#47b1e6762da9>
- 17 <https://www.ifs.org.uk/publications/8428>
- 18 <https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=2aea3562-bfd8-414d-99be-86f81161dffd>
- 19 Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn?
- 20 <https://www.adzuna.co.uk/blog/2017/11/02/the-gender-pay-gap-explained/>
- 21 <https://www.gov.uk/government/news/gender-pay-gap-reporting>
- 22 <https://www.theguardian.com/education/2017/aug/28/university-gender-gap-at-record-high-as-30000-more-women-accepted>