

“The Gender Pay Gap: 2018 Briefing”

Summary

The official calculation for the 2018 gender pay gap is at a record low of 8.6% for full-time workers, with a negligible gender pay gap for women aged 22 – 39. This gap increases later in life, with evidence from the United States that the bulk of the pay gap is a result of time taken off to raise children.

Calculations that put the pay gap above 8.6% are achieved by moving further away from like-for-like comparisons between typical men and women in the workplace. The Equal Pay Day campaign relies on a figure 5.1 percentage points higher (or nearly 60% greater) than the official figures by using the mean rather than the median of the Office for National Statistics data, thereby giving more weight to the highest earners.

Furthermore, claims that it will take more than 50 years to close the gender pay gap use an even higher starting point, assume a slower rate of progress than has recently been achieved, and fail to take account of likely changes as different cohorts move through the age distribution.

Is There a Gender Pay Gap?

The Office for National Statistics (ONS) Annual Survey of Hours and Earnings places the 2018 gender pay gap at 8.6% for full-time workers, in favour of men, and -4.4% for part-time workers, in favour of women.ⁱ In other words, women working full-time earn, on average, 8.6% less per hour than men, and those working part-time earn 4.4% more.

These figures are calculated by using the median hourly earnings of full-time and part-time workers, excluding overtime.ⁱⁱ Using the median rather than the mean avoids skewing the figures towards a relatively small number of very high earners. Calculating hourly earnings and excluding overtime helps to control for the fact that men tend to work longer hours than womenⁱⁱⁱ, which is often also 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)^{iv}.

While the ONS breaks down salaries into hourly earnings, the calculations do “not show differences in rates of pay for comparable jobs”^v. As such, the 8.6% and -4.4% 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.

Breaking Down the 8.6%

The 8.6% pay gap for full-time workers has decreased by 0.5 percentage points (pp) since 2017 and is the lowest pay gap on record, since the ONS survey first started in 1997^{vi}.

The decrease in the pay gap has accelerated since the previous year, when the gap closed by 0.3pp from 2016 to 2017.^{vii}

The part-time pay gap has also decreased since 2017, from -5.3% to -4.4%.^{viii} 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%”^{ix}.

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 1.3% - down from 2.2% in 2017 - and for women aged 30-39 it is only 0.8% - down from 2.1% in 2017.^x

The wage gap for these age groups has been fluctuating over the past few years. While figures from 2016^{xi} 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.^{xii}

This year, women aged 30 to 39 and 40 to 49 years “have witnessed the most significant narrowing in the gender pay gap since 1997.”^{xiii}

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”^{xiv} each year. Fawcett calculates the 2018 pay gap for full time workers at 13.7% using the mean of ONS data.^{xv} By using the mean rather than the median, Fawcett promotes a figure that is 5.1 percentage points higher (or nearly 60% greater) 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”.^{xvi}

But outlier salaries (such as 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 certainly cannot be used to gauge whether women are receiving equal pay for equal work. In sum, there are very good reasons why the ONS uses the median rather than the mean.

Fawcett breaks down the pay gap by age and region at the end of their Equal Pay Day report. Last year, Northern Ireland was the only region not shown on the list^{xvii} (though it is included in the calculation in the UK average). Notably, Northern Ireland was also the only region with a negative gender pay gap for full-time workers: -2.4% when measured as a median.^{xviii} Even when measured as a mean, the pay gap was 2.7%, a clear outlier amongst the other, included figures.

This year the society has not publicly released its pay gap report ahead of Equal Pay Day, so it is not possible to know what information has been included. Either way, the concept is highly misleading. The clear implication is that, after this day, men are being paid for their work, whereas women are not. But as the ONS repeatedly says, pay gap data are not a measure of the difference in pay between men and women for doing the same job.

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 work^{xix} 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.^{xx} 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 men^{xxi}). Other evidence from the US found that the hourly wages of mothers are approximately 5% lower (per child) than the wages of non-mothers; this is mainly due to time taken out from employment and education.^{xxii}

There is an important distinction between the ‘gender pay gap’ and ‘lower wage progression’. The Institute for Fiscal Studies report from August 2016 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.”^{xxiii}

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 has previously claimed 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”^{xxiv}; 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.”^{xxv} Such condition variations can result in compensating differentials in pay.

It is also well-known that family and caretaking obligations fall primarily on women, which can result in a higher gender pay gap. Simply being married, regardless of children, can lead to this discrepancy, because of the division of responsibilities between couples.^{xxvi} The evidence also confirms that the bulk of housework falls primarily on women.^{xxvii}

Assessing the Gender Pay Gap

It is possible to produce a variety of statistics when calculating the gender pay gap.

April 2018 saw the introduction of gender pay gap reporting measures for UK companies with over 250 employees. It requires businesses to publish figures for hourly pay, bonuses, and pay quartiles as standalone statistics, but without context (such as job or age breakdown).

This influx of new gender pay gap data - ranging from negative gaps, to gaps exceeding 60% - fails to provide any meaningful insight into equal or fair pay for men and women in the workplace.^{xxviii} The requirement to measure pay gaps across entire organisations (rather than between comparable roles within organisations), as well as the omission of necessary data, renders the majority of the findings meaningless.^{xxix}

This range of calculations and statistics makes it difficult to assess the current state of affairs for women in the workplace and can lead to perverse incentives. For example, the requirement to report the “proportion of males and females in each quartile”^{xxx} of the organization’s pay structure could make employers reluctant to hire female university graduates into junior roles. Employers are 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.

Closing the Gender Pay Gap

The Trade Union Congress has claimed^{xxxi} that the current rate of progress means that it will take another 55 years for men and women to achieve pay parity. This assumes that it is desirable for the gap to be closed completely, and that equality of opportunity should result in equality of outcomes, regardless of different choices that men and women make freely. But the calculation is also hard to square with the evidence.^{xxxii}

To arrive at the 55 year figure, the TUC appears to be using the average pay gap for full-time and part-time workers combined (which is currently 17.9%). This is not comparing like-with-like because more women work part-time, where average hourly pay (for both men and women) is lower. In other words, this gap could only be closed by many more women choosing to work full-time, which they may not want to do. The TUC also assumes a slower rate of progress in future than has recently been achieved.

It makes more sense to focus, like the ONS does, on full-time earnings. In the past year alone, the gender pay gap for those in full-time employment has narrowed from 9.1% to 8.6%. If it keeps falling at 0.5 percentage points per year, it will be closed in 18 years. Even if you take the average annual improvement over the last few decades, it will be closed in roughly twenty years: the pay gap was 17.4% in 1998 and 12.6% in 2008, meaning it is falling by at least 4 percentage points per decade.

What’s more, this is not even the right approach for calculating how quickly the gap might close, because it fails to take account of changes as different cohorts move through the age distribution. According to the ONS, the pay gap for those under the age of 39 is already ‘insignificant’ and has narrowed ‘markedly’ for those between the ages of 40 and 49.^{xxxiii}

Even if these gains are only partly maintained, the replacement of older women (where the gender pay gap is currently largest) by these younger generations should mean that the average gap will be closed much more rapidly.

The evidence of a negligible gender pay gap amongst young women suggests that the gap will be much smaller within 20 years, as today’s under-39s replace today’s 40s-60s age bracket.

This is also why it is misleading for the Fawcett Society to claim that “without significant action women starting work today and in decades to come will spend their entire working lives earning less than men”.^{xxxiv} The reality is that women ‘starting work today’ already face a negligible pay gap. If men or women do subsequently earn a lot less, it is most likely to be because of choices they freely make, especially decisions to take time out of the labour market.

A 2016 report from McKinsey^{xxxv} estimated that a £150 billion gain in GDP might come from closing the gender pay gap. But this finding is not explicitly about gender - the increase in GDP mainly comes from people working longer, which isn’t

clearly in itself a good thing. Both men and women could opt for longer working hours and more years spent in work, but this decision will not be the right one for all persons in the workforce.

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, which places this year's pay gap at a record low. 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.

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ⁱ<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2018>

ⁱⁱ<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2018>

ⁱⁱⁱ<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>

^{iv} The Annual Survey of Hours and Earnings data are taken from tax records (HM Revenue and Customs Pay As You Earn records)

^v ONS (2018)

^{vi} ONS (2018)

^{vii} ONS (2017)

^{viii} ONS (2018)

^{ix} ONS (2017)

^x ONS (2018)

^{xi}<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults>

^{xii}<http://webarchive.nationalarchives.gov.uk/20171102124649tf/> <https://visual.ons.gov.uk/what-is-the-gender-pay-gap/>

^{xiii} ONS (2018)

^{xiv} ONS (2018)

^{xv}<https://www.fawcettsociety.org.uk/equal-pay-day>

^{xvi}<https://www.fawcettsociety.org.uk/news/fawcett-comments-on-new-ons-data-for-gender-pay-gap-britain>

^{xvii}<https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=2aea3562-bfd8-414d-99be-86f81161dffd>

^{xviii}<https://www.fawcettsociety.org.uk/Handlers/Download.ashx?IDMF=2aea3562-bfd8-414d-99be-86f81161dffd>

^{xviii} REVISED Work Geography Table 7.2 Gender pay gap 2017

^{xix}<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/annualsurveyofhoursandearningsashegenderpaygaptables>

^{xix}<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/annualsurveyofhoursandearningsashegenderpaygaptables>

^{xx} 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-doyou-earn-PDF-1.pdf>

^{xx} Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn?

^{xxi} Bourne, R. and Shackleton, J.R. (2016) And How Much Do You Earn?

^{xxi} "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."

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^{xxii}<https://www.forbes.com/sites/karinagness/2017/05/31/new-reportwomen-ceos-make-more-than-men/#47b1e6762da9>

^{xxii}<https://www.forbes.com/sites/karinagness/2017/05/31/new-reportwomen-ceos-make-more-than-men/#47b1e6762da9>

^{xxii} Staff, J. and Mortimer, J.T., (2012) Explaining the Motherhood Wage Penalty During the Early Occupational Career, Demography

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^{xxiii}<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3272159/>

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^{xxiii}<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3272159/>

^{xxvii}<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/womenshouldtheresponsibilityofunpaidwork/2016-11-10>

^{xxviii} Andrews, K (2018) The Gender Pay Gap Reporting Measures, IEA briefing paper <https://iea.org.uk/publications/the-gender-pay-gap-reporting-measures/>

^{xxix} Andrews, K, (2018) The Gender Pay Gap Reporting Measures

^{xxx} <https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>

^{xxxi} <https://www.tuc.org.uk/news/%E2%80%9Cnegligible%E2%80%9D-decrease-gender-pay-gap-nothing-celebrate-warns-tuc>

^{xxxii} TUC gets its results by using a measure of the gender pay gap that fails to allow for different working pattern (i.e. not the one the ONS favours) and a slower rate of fall than has occurred in recent years.

^{xxxiii} ONS (2018)

^{xxxiv} <https://www.fawcettsociety.org.uk/news/fawcett-comments-on-new-ons-data-for-gender-pay-gap-britain>

^{xxxv} <https://www.mckinsey.com/featured-insights/gender-equality/the-power-of-parity-advancing-womens-equality-in-the-united-kingdom>