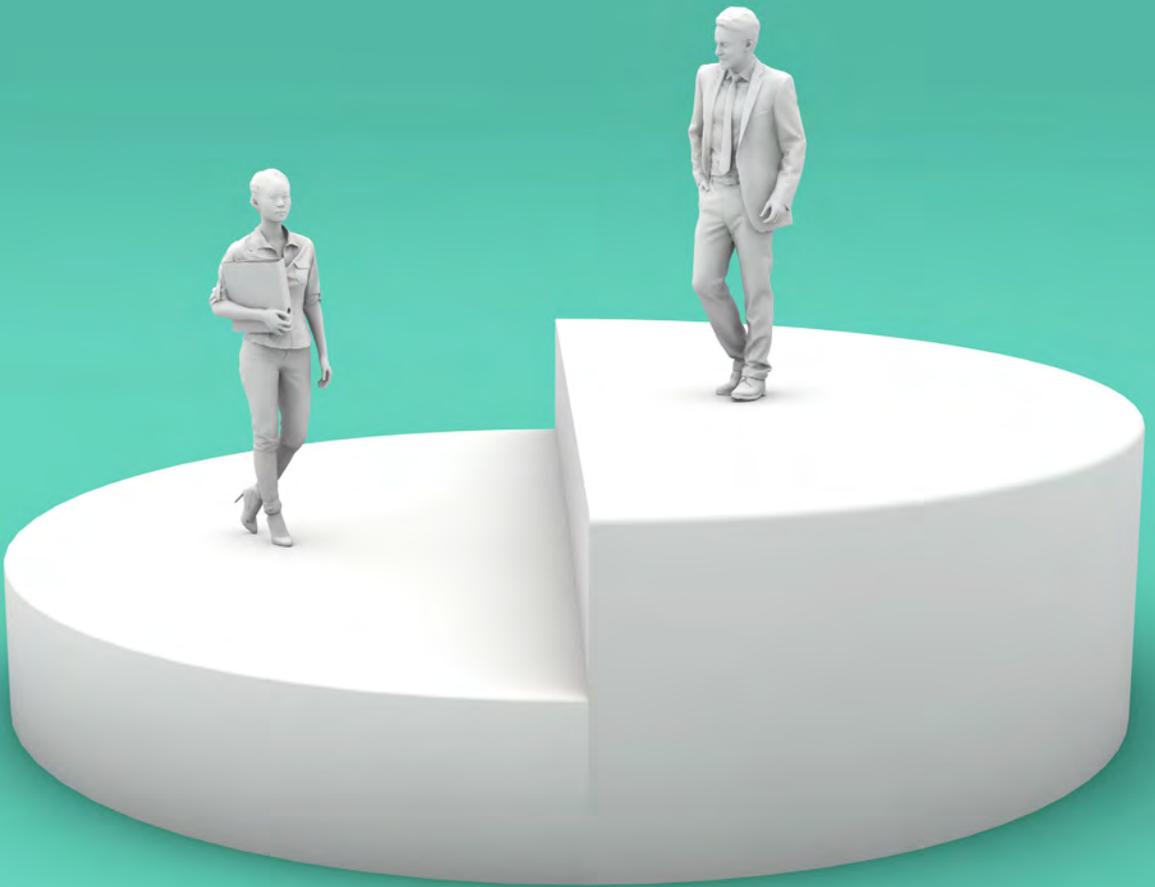


HIDDEN A-GENDER?



If women are cheaper to hire than men, why don't businesses just hire women?

STEVEN LANDSBURG casts an economist's eye on the gender pay gap...

Alice has just heard that on average, women (in the US) are paid 77 cents for every dollar earned by equally skilled men.

Bob, who has just completed his first course in economics, explains to Alice that this is impossible. If it were true, he says, profit-maximising firms would clamour to hire cheap women instead of expensive men, and men would be unemployable until the wage rates equalised.

Alice, who has a little more experience in the real world, observes that the people who run corporations are not always single-minded rational profit maximisers. Therefore, it's perfectly possible for discriminatory wages to survive.

Cheryl, who has studied more economics than Bob and worked in industry longer than Alice, points out that they're both right and both wrong. Corporate managers routinely overlook small profit opportunities, but rarely pass up large ones. So the right question to ask is: If Alice is right, how big is the profit opportunity that Bob is pointing to?

Pure logic can't answer this question. But a little back-of-the-envelope calculation can point to the most probable resolution.

We'll need some numbers. First, the workforce is currently roughly about 50% female.

The next number is one you're less likely to have at your fingertips. Corporations pay out roughly 2/3 of their revenue in employee compensation. The remaining 1/3 goes to stockholders and bondholders.

The next number is one I wasn't sure of myself until I googled it: to a very rough approximation, the total value of the bond market and the total value of the stock market are equal. So, for our back-of-the-envelope purposes, we can assume that of every £300 that comes in, about £200 goes to the employees and the remaining £100 is split equally, with £50 going to the bondholders and £50 to the stockholders.

Now suppose Alice is right about that 77% bit. Then employers face the opportunity to fire half their workforce (the men) and replace them with women who are 23% cheaper. That's a saving, on average, of 11.5% per worker. Instead of paying your workers £200, you're now paying them 89.5% of that, or £179 – a saving of £21. All of that goes to the stockholders. (After all, where else could it go?)

Bottom line: instead of earning \$50 for each \$300 of corporate revenue, the stockholders now earn \$71. That's a 42% increase. The company's stock is now 42% more valuable.

That's huge. A corporate manager who raises the company's stock price by 42% in a single stroke is on the road to a brilliant career. If Alice is right, corporate managers everywhere are seeing that opportunity and choosing not to grab it.

Might there be a manager here and there who chooses to ignore such opportunities? Absolutely, and Bob is wrong to deny it. But might such laziness be as widespread as it would have to be to sustain what Alice claims is a 23% wage differential? That's too implausible to take seriously.

Notice that the numbers really matter here. If our calculation had come out with a number like 2% instead of 42%, then Alice's theory would have been at least plausible. At 42% it's not.

This leaves unanswered the question: What does account for gender gaps in wages?

The answer surely is a conglomeration of a great many factors, possibly including differences in training, differences in interests, differences in wage negotiation tactics, differences in career choices, differences in priorities, and, yes, discrimination.

We've determined that discrimination can't account for a 23% wage gap or anything close to that. Might it still be a significant contributing factor? The evidence, pro and con, could fill a book – a different book, because this book is largely about other things.

The further evidence that will be collected and analysed in the next couple of years will probably be enough to fill a second volume. People are working on this. They're making progress, but they're not done yet.

Often, progress takes the form of ruling out some inference that seems plausible on the surface, or recognising that what seems obvious is not always true •

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