

Economics Group

Special Commentary

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The Girl with the Draggin' W-2

"I always valued men and women equally, and I found that because others did not, good women economists were cheaper than men. Hiring women does two things: It gives us better-quality work for less money, and it raises the market value of women."

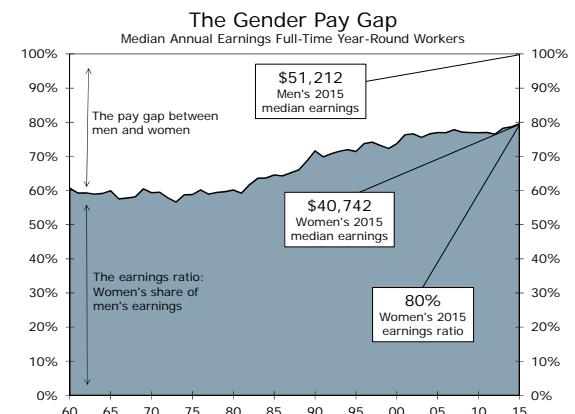
— Alan Greenspan

Women's labor market participation, experience, and education all mirror that of their male counterparts more closely than in any previous period and yet women still earn just 80 cents for every dollar earned by men. While this frequently cited figure is accurate, it is somewhat blunt in its measurement. Career choice, hours worked and other factors discussed in this report explain some, but not all of the difference. Research indicates that bias also plays a role and companies still have some work to do to ensure that women are compensated fairly.

Closing the gender pay gap should be more than just a social goal. For businesses, it is a way to boost profits and tap a deeper pool of talent. For the larger economy, narrowing the pay gap could draw more women into the workforce and increase labor force participation, an oft-cited factor in explaining below-trend GDP growth. Raising female participation and earnings would support income and spending, particularly for low-income households. *The Girl with the Draggin' W-2* is not looking for a handout. She seeks equal pay for equal work.

- Full-time working women are paid just **80 cents for every dollar earned by men** (Figure 1).
- Over the past 50 years, women have made significant gains, but **progress towards closing the pay gap has stalled over the past 15 years**.
- Women's labor force participation topped out around the same time and **remains 12 points below men's**.
- **Closing the wage gap could draw more women into the labor force**, benefitting both businesses and the broader economy.
- **Women spend 50 percent more time than men on housework and family care**, a factor that depresses their workforce participation rates and wages.
- On an encouraging note, **women are now out-achieving men educationally**. This bodes well for their future earnings and labor force participation rates.

Figure 1



Source: U.S. Department of Commerce and Wells Fargo Securities

Together we'll go far



The Girl with the Draggin' W-2

On many fronts, women are on more equal footing with men than at any time in history. Women hold public office, serve in combat roles in the military, and are ordained in many religious denominations. The same holds for women's progress in the labor market. Women's participation, experience, education and earnings all mirror that of their male counterparts more closely than in any previous period and yet women are still compensated at a significant discount. As we detail in this report, much of the difference can be explained. Addressing the rest of the pay gap may be the key to unlocking growth at the macro level and improving business profitability.

About 14 percent of the wage gap can be explained by less work experience.

Childcare costs have been growing twice as fast as household income.

Women's participation has stagnated.

The "Mommy Track" and Other Factors Behind Lower Participation

To break down the gender pay gap, we start by acknowledging that women have less experience in the workforce relative to men. However brief, greater time spent out of the labor force slows women's accumulation of job-specific skills for which employers naturally pay a premium. About 14 percent of the wage gap can be explained by women having less work experience.¹

The decision for women to work has not always been easy, as segments of the workplace have historically been less welcoming for women. After joining the workforce in increasing numbers from the late-1940s to the late-1990s, female labor force participation plateaued and remains more than 12 percentage points below that of men (Figure 2).

The gender participation gap varies widely by age (Figure 3). While female teenagers are just as likely to be in the labor force as males, the participation gap grows and peaks when women reach their 30s and are most likely to have young children. Although fewer mothers are exiting the workforce after having their first child relative to prior generations, childcare considerations clearly take a toll on the participation rates of mothers with young children (Figure 4). The cost of childcare has increased twice as fast as household income over the past 15 years.² Meaning, it often makes more sense for one parent (usually the woman) to stay at home with the children rather than work and have all or most of that paycheck consumed by childcare expenses.

Figure 2

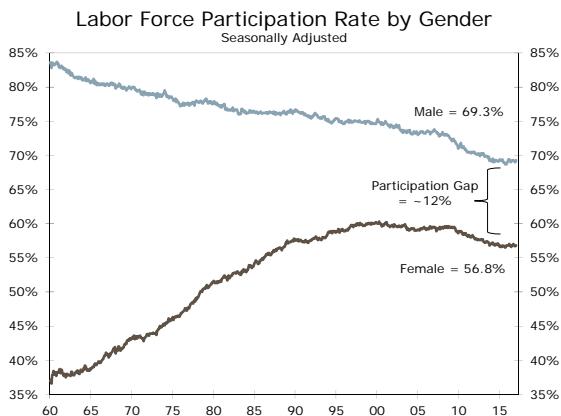
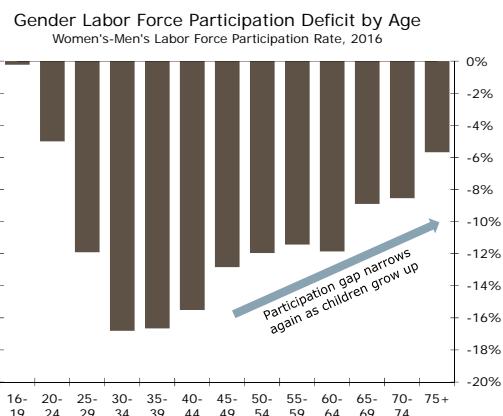


Figure 3



Source: U.S. Department of Labor and Wells Fargo Securities

Whether this is by choice or by social expectation, women still take on the greater share of childcare and household responsibilities. Women spend about 50 percent more time each day than men on housework and more than double the amount of time caring for children.³ These traditional social roles, the high cost of childcare and a lower level of earnings keep a larger

¹ Blau, Francine D. and Lawrence M. Kahn (2016). "The Gender Wage Gap: Extent, Trends, and Explanations." NBER Working Paper No. 21913, Jan. 2016. Estimates are for the wage gap in 2010.

² Between 2000 and 2015, the Consumer Price Index for child care and nursery school rose an average of 7.0 percent per year compared to a 3.5 percent average annual increase in the median household income.

³ American Time Use Survey, 2015. U.S. Bureau of Labor Statistics.

share of women outside the labor force even if they would like a job. In 2015, the number of women who wanted a job but were not currently looking due to childcare or family responsibilities was nearly four times greater than the number of men.⁴

Lower participation rates, in part, reflect more fluidity among women in the workforce. While women are increasingly the primary breadwinners in their household, for more than 70 percent of working married couples, men still out-earn women. With women more likely to be the secondary source of income, there may be less pressure to find a job or remain employed. As such, women are less likely to join the labor force; rather than being “pushed” by financial need or social expectation, a subset of women are able to wait for the “pull” of a suitable job opportunity. As a result, women to some extent serve as a “swing” source of labor and a second source of income.

For more than 70 percent of working married couples, men earn more.

Who's Got Time for a Career with Multiple Jobs and Housework?

Of course, for many households, that second income is vital and participation is required. Balancing financial needs and/or the desire for a career, alongside household and family responsibilities, leads to a higher share of women working part time. Fewer hours worked also contribute to the lower levels of cumulative experience that explains a portion of the wage gap.

Although most choose to work part time, a consistently greater share of working women report being under-employed compared to men. Like all under-employed workers, limiting working hours restricts the acquisition of skills and experience that are vital to career advancement and earnings growth. Having to piece together multiple jobs rather than a single full-time job can also limit career advancement (as well as access to employer-sponsored benefits), and we note that a higher share of women work more than one job to make ends meet.⁵

Even for women who are considered employed full time, on average they tend to work fewer hours than full-time working men each week (40.7 hours vs. 43.5 hours in 2015). Here again, household and family responsibilities seem to factor into the employment experience of women; married mothers employed full time still spend roughly an hour more per day on housework and family care than married fathers (Figure 5).

Figure 4

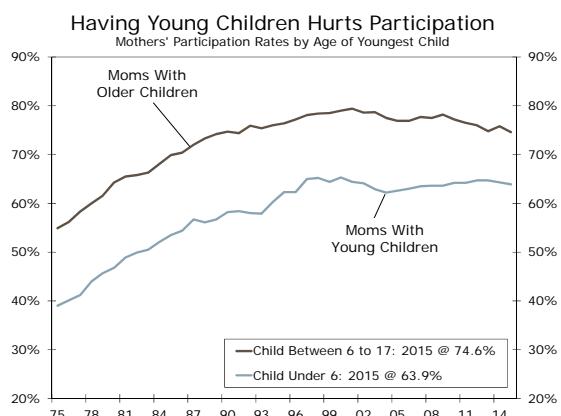
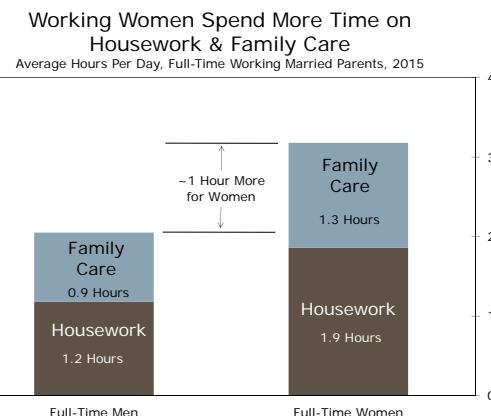


Figure 5



Full-time working married moms still spend an hour more per day on housework and childcare.

Source: U.S. Department of Labor and Wells Fargo Securities

⁴ In 2015, 25.2 percent of women who were not in the labor force but wanted a job reported not looking for work due to childcare or family responsibilities. In comparison, only 6.8 percent of men met these criteria, according to data from the U.S. Bureau of Labor Statistics' Current Population Survey.

⁵ In 2015, 5.3 percent of working women held multiple jobs compared to 4.5 percent of men. The gap widens when looking specifically at never-married workers (6.2 percent for women vs. 4.2 percent for men) and widowed, divorced or separated workers (5.9 percent for women vs. 4.3 percent for men).

Differences in industry and occupation account for half of the wage gap.

Educational attainment reduces occupational differences.

Women account for nearly 40 percent of management jobs.

Lowering Occupational Gender Barriers for Women...And Men

Differences between professions in which men and women work are the largest cause of the gender pay gap. While it is well known that certain jobs tend to be disproportionately male/female (e.g., men are five times more likely to be engineers while women are nine times more likely to be receptionists), it is less known that these gender differences in industry and occupation account for half of the wage gap.⁶

Industry and occupational differences between genders can be attributed to an array of factors, such as employment trends, educational attainment, individual preferences and even social expectations. Employment data show that women have generally secured jobs in occupations that have registered the most rapid growth over the past three decades (Figure 6). From 1985 to 2016, net payroll growth was the fastest among managers and professionals and, over this period, women's representation in these occupations saw the largest increase. Educational attainment also plays a role in the distribution of men and women among occupations. Research suggests that, in general, the higher the level of educational attainment, the smaller the occupational differences between genders.⁷

Figure 6

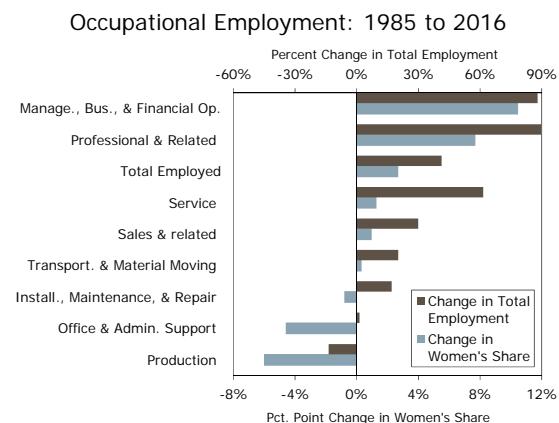
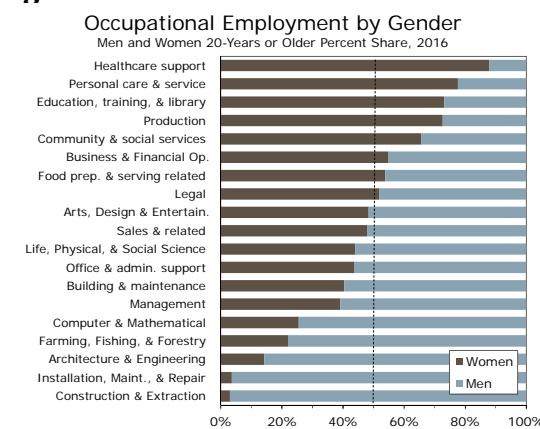


Figure 7



Source: U.S. Department of Labor and Wells Fargo Securities

While the legacies of gender sorting in the labor market cast a long shadow, women have made substantial strides in several key occupational categories in recent decades. The share of women in management, business and financial occupations has grown considerably over the past 30 years, rising roughly 10 percentage points from 34 percent in 1985 to 44 percent today. Notably, the percentage of women in management occupations alone has also risen, reaching nearly 40 percent in 2016 (Figure 7). Still, women remain underrepresented in higher-level roles, with females accounting for just 16 percent of C-suite positions⁸ and only 4.6 percent of S&P 500 CEOs.⁹ This contributes to women's underrepresentation among the nation's top earners, with just 9.5 percent of females claiming that title.¹⁰ Moreover, women's concentration in management varies considerably by industry, with females holding management roles in lower-paying fields. It bears noting that stereotypes and gender barriers have limited job options for both men and women. The share of male registered nurses has more than tripled since 1970, but men remain less than 12 percent of total employment.

⁶ Blau and Khan (2016). Blau and Khan found that occupation and industry accounted for 32.9 percent and 17.6 percent of the gender wage gap, respectively.

⁷ Wootton, Barbara (1997). "Gender Differences in Occupational Employment." *Monthly Labor Review*.

⁸ Author calculations based on Korn Ferry analysis of top 1,000 U.S. companies by revenue in June 2016. C-Suite positions include CEO, CFO, CIO and CMO.

⁹ Catalyst. "Pyramid: Women in S&P 500 Companies." New York: Catalyst, September 19, 2016.

¹⁰ Ibid. Top earners are defined as the 5-7 executives whose earnings companies are required to disclose.

Even in female-dominated fields, men tend to earn more. Among full-time working men and women in the same nursing fields, male nurses make about 10 percent more than female nurses on average.¹¹ In fact, men earn more in nearly every occupation category (Figure 8). Moreover, when you compare jobs that require similar skills and education, but contrast by gender, the earnings discrepancies become apparent. For example, the median earnings of janitors (mostly male) is roughly 30 percent higher than the median earnings for maids and housecleaners (mostly female). When women move into male-dominated fields, research shows that the pay in those jobs drops relative to other occupations.¹² In other words, as women become more prevalent in a profession, the work in that field, and therefore the earnings, get devalued.

Men earn more in nearly every occupation.

If Not for Education, Pay Gap Would Be Even Bigger

Differences in educational attainment, a reflection of workers' skills, can help to explain variations in pay. Lower educational attainment was once a contributing factor to the gender wage gap, but in recent years has become an advantage for women. The pay gap would be roughly 6 percent *larger* if it were not for the fact that women are now out-achieving men educationally.¹³

In 1991 the share of young women enrolled in college surpassed the enrollment rate for young men, and the gap has widened over time (Figure 9). This trend has shifted the gender balance at U.S. universities; women now account for the majority—56 percent—of the 10.5 million students enrolled in four-year undergraduate programs as of Fall 2015. The recent strides made by young women have put the share of total women with a college degree on par with men, with one-third of both the male and female populations holding a bachelor's degree or higher.

Figure 8

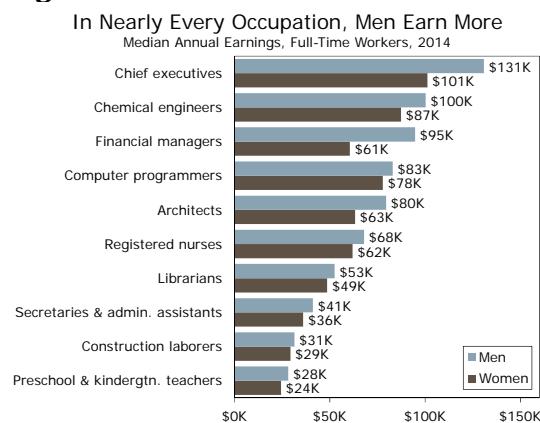
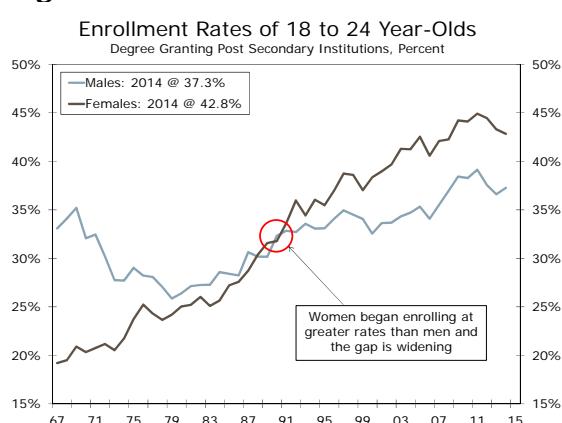


Figure 9



Women make up the majority of undergrad enrollment.

Source: U.S. Department of Labor, U.S. Department of Education and Wells Fargo Securities

Sizeable Portion of the Pay Gap Remains Unexplained

Recall the statistic cited in the introduction that the average full-time working woman earns roughly 80 cents to the dollar of a full-time working man—or \$10,470 less annually. While this figure is accurate, it is a somewhat blunt measurement that obscures a complex issue. As we have detailed in this report, the differences surrounding men and women's time in and out of the labor force, industry/occupational choice and education all contribute to the gender pay gap. A portion of the gender wage gap, however, remains unexplained. When controlling for a host of

¹¹ Christin, Liana (2013). "Men in Nursing Occupations." American Community Survey Highlight Report. U.S. Census Bureau.

¹² Levanon, Asaf, Paula England and Paul Allison (2009). "Occupational Feminization and Pay: Assessing Causal Dynamics Using 1950–2000 U.S. Census Data." The University of North Carolina Press.

¹³ Blau and Kahn (2016).

Women are less likely to ask for a raise and more likely to be perceived negatively if they do.

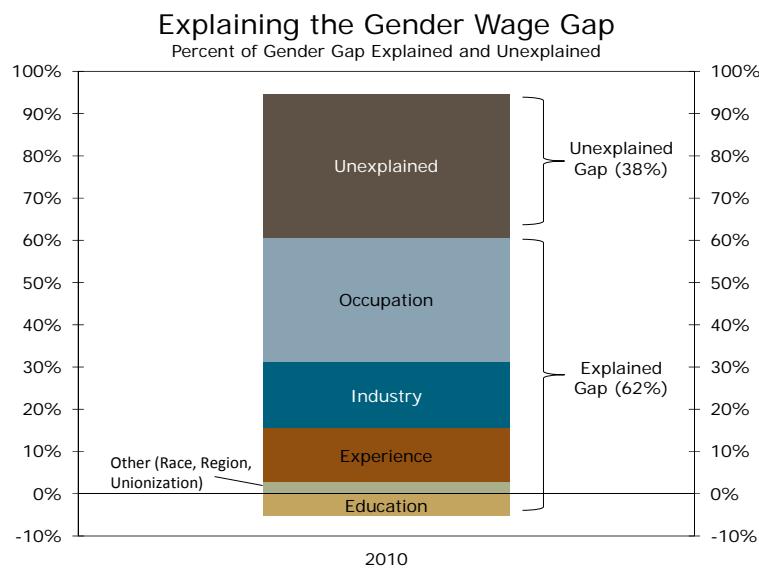
38 percent of the pay gap remains unexplained.

characteristics, 38 percent of the earnings gap is still unaccounted for (Figure 10).¹⁴ Some of the unexplained shortfall may be due to discrimination. While explicit pay discrimination has become much less common, research suggests implicit/unconscious biases (e.g., working mothers can be perceived as less committed, female students in the sciences can be viewed as less competent) persist and can prevent women from entering better-paying occupations.¹⁵

Other characteristics also play a role. Women are four times less likely to ask for a raise compared to men; when they do ask, women typically request 30 percent less¹⁶ and are viewed more negatively than men for asking.¹⁷ In addition, women are more likely to have mentors at work, but men are 46 percent more likely to have a sponsor—a senior leader who advocates on his behalf and directly helps in obtaining promotions and/or raises.¹⁸

A wage-penalty for needing to work more flexible hours is another factor. Employers may be increasingly comfortable with employees working from home from time to time or leaving the office early only to log back in after the kids are in bed, but that flexibility comes at a cost. Women, given their greater likelihood to be single parents or the primary caregiver, often require more flexibility.¹⁹

Figure 10



Source: Blau & Kahn 2016 and Wells Fargo Securities

¹⁴ Blau and Kahn (2016). Authors control for experience, industry, occupation, education, region, race and unionization. In 2010, the 38 percent of the gender wage gap totaled \$0.09 per dollar. A 38 percent portion of the wage of the gap in 2015 would total \$0.08 per dollar.

¹⁵ Correll, Shelley J., Stephen Benard and In Paik. (2007). "Getting a Job: Is There a Motherhood Penalty?" *American Journal of Sociology*, 112 (5): 1297-1338.

Moss-Racusin, Corrine A., John F. Dovidio, Victoria L. Brescoll, Mark J. Graham and Jo Handelsman (2012). "Science Faculty's Subtle Gender Biases Favor Male Students." *Proceedings of the National Academy of Science (PNAS)*, 109 (41): 16474-16479.

¹⁶ Babcock, Linda and Sara Lashever (2003). "Women Don't Ask: Negotiation and the Gender Divide." *Princeton University Press*.

¹⁷ Bowles, Hannah Riley, Linda Babcock and Lei Lai (2007). "Social Incentives for Gender Differences in the Propensity to Initiate Negotiations: Sometimes It Does Hurt to Ask." *Organizational Behavior and Human Decision Processes*, 103: 84-103.

¹⁸ Hewlett, Sylvia Ann, Melinda Marshall and Laura Sherbin (2012). "Sponsor Effect 2.0: Road Maps for Sponsors and Protégés." *Center for Talent Innovation*.

¹⁹ Goldin, Claudia (2014). "A Grand Convergence: Its Last Chapter." *American Economic Review*, 104 (4): 1091-1119.

One Way to Fix Lower Growth: Close Gender Gaps

Lower GDP growth has been a significant issue facing the economy since the 2008-09 recession, and slower growth in the labor supply is part of the problem. On that basis, there is an economic case to be made for closing the gender wage gap. As women's earnings were improving relative to men's in the 1970s-1980s, the opportunity cost of sitting on the sidelines rose.²⁰ Therefore, further convergence in the pay gap, achieved by paying women more, might help to lift female labor force participation and support growth in the labor supply.

The importance of the opportunity cost between formal (conventional job) and non-market work (housework and child-rearing) for women is highlighted in the rising labor force participation rates for women as education, and therefore earnings, increases (Figure 11). Put simply, more education leads to higher-paying jobs and higher pay pulls people off the sidelines. Higher earnings and more education also encourage women to extend their careers later in life.²¹ On that basis, further gains in education among women would likely increase the labor supply and boost economic growth.

Closing the remaining participation gap and drawing more women into the workforce would support both economic growth and real household incomes. As shown in Figure 12, family income was greatly enhanced over the past 40 years by more women—particularly mothers—entering the workforce.²² Considering that 83 percent of single-parent households are headed by women, closing the earnings gap could support the economic mobility of future generations by providing more financial resources for those children to climb the economic ladder later in life.

Figure 11

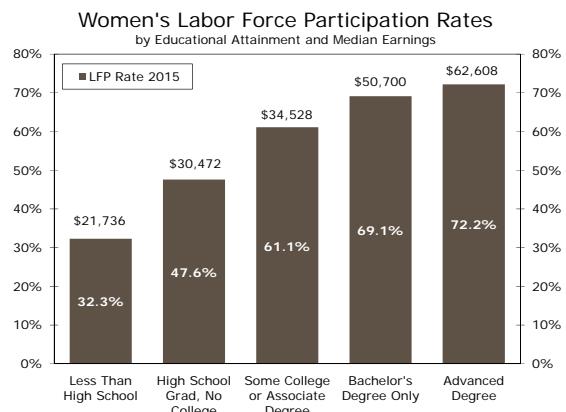
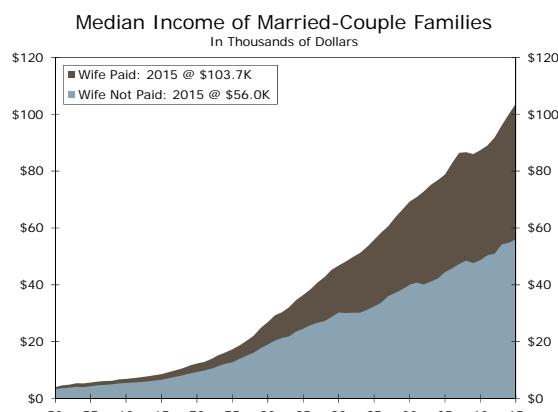


Figure 12



Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

The Business Case for Gender Diversity

Beyond boosting broad economic growth and mobility, businesses could benefit directly by helping women achieve more equitable labor market outcomes—particularly in terms of earnings. Since women take home less pay than men and lower-income households have a greater propensity to spend incremental income, closing the gender pay gap could boost consumer spending.

There is an economic case to be made for closing the gender wage gap.

Closing the earnings gap could support the economic mobility of future generations.

Family income has been greatly enhanced by more women entering the workforce.

²⁰ Other reasons for the rise in female participation rates through the 1990s included improvements in household technology, more control over family planning, rising education and changing social attitudes towards women and work.

²¹ The share of women age 65 and over who are employed has risen from 7 percent in 1985 to 15 percent in 2016, with employment rates rising as educational attainment increases.

²² Urahn, Susan (2012). "Pursuing the American Dream: Economic Mobility Across Generations." *The Pew Charitable Trusts*.

**Having more
women in senior
leadership roles
boosts sales and
profits.**

Individual company performance also stands to benefit from women being on more equal footing with men. Having a greater number of women on corporate boards has been linked to stronger company performance²³ as well as better corporate oversight.²⁴ Similarly, having more women in senior leadership roles²⁵ and a gender-diverse workforce more broadly boosts a company's bottom line through higher sales and higher profits.²⁶ By including more women in management positions, diversity of thought and decision making improve. Company leadership is better able to identify with women and develop products and services that meet the needs of half of the U.S. consumer base. At the same time, a more inclusive work environment can reduce employee turnover and its associated costs.²⁷

The Girl with the Draggin' W-2 is not looking for a handout. She seeks equal pay for equal work. When she does better, we'll all do better.

²³ Carter, David, Frank D'Souza, Betty J. Simkins and W. Gary Simpson (2007). "The Diversity of Corporate Board Committees and Firm Financial Performance." Oklahoma State University Working Paper, Department of Finance.

²⁴ Adams, René B. and Daniel Ferreira (2009.) "Women in the Boardroom and Their Impact on Governance and Performance," *Journal of Financial Economics*, vol. 94 (2009): p. 291-309.

²⁵ Noland, Marcus, Tyler Moran and Barbaba Kotschwar. (2016). "Is Gender Diversity Profitable? Evidence from a Global Survey." The Peterson Institute for International Economics, Working Paper Series, WP 16-3.

²⁶ Badal, Sangeeta. (2014). "The Business Benefits of Gender Diversity." *Gallup Business Journal*.

²⁷ Center for Advanced Human Resource Studies. (2010). "Paving The Path to Performance: Inclusive Leadership Reduces Turnover in Diverse Work Groups." CAHRS ResearchLink No. 3. Ithaca, NY: Cornell University, ILR School.

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