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Why do women still earn less than men?

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The earnings gap that exists between men and women is a widely discussed and debated topic. The Bureau of Labor Statistics recently reported that median weekly earnings for women who usually worked full time in 2012 were 82.8 percent of what their male counterparts earned. Although women have narrowed the gap considerably over the last several decades—in 1979, women's weekly earnings were just 62.3 percent of men's—the question of why women continue to earn less than men remains a concern among policymakers, employers, and the general population. In "A grand gender convergence: its last chapter" (American Economic Review, April 2014), economist Claudia Goldin, who has conducted extensive research on women's labor market issues and published numerous scholarly articles on the topic, assesses the existing research on the "earnings gap" and provides data from her own work to support her argument for how the gap might be eliminated entirely in the future.

Since at least the beginning of the twentieth century, there has been what Goldin calls a "grand convergence" in gender roles in society, with women making major strides toward political and economic equality. Several decades of research have shed much light on the issue of labor market disparities between women and men, with many studies showing that the earnings gap is narrower in some occupations or when the researchers "control" for certain variables that tend to drive earnings, such as education, work experience, and total time spent in the labor force. In other words, among women and men with similar "human capital" characteristics, the earnings gap narrows substantially and in some cases nearly disappears.

Nevertheless, earnings differences between women and men persist, and researchers have suggested a number of explanations for the disparity. As Goldin notes, the research on this issue has produced an "explained" portion of the gender earnings gap and a "residual" portion, the latter often called "wage discrimination"—women earn less simply because they are women. The part of the gap that can be explained relates primarily to human capital investments. In the past, men tended to have more education, training, and work experience than women, which partly explains why they earned more. But women have made substantial advances in each of these areas. About half of all current law and medical students, for example, are women, and among students enrolled in programs in the biological sciences, pharmacy, and veterinary medicine, women actually outnumber men. As women have increased their human capital and enhanced their labor market potential, their earnings have risen relative to those of men, thus narrowing the gap. In certain occupations, women with comparable levels of education and work experience earn nearly as much as men. In general, however, women's earnings continue to lag those of men—that is, even after adjusting for differences in education and work experience, the earnings gap remains.

In her summary of the existing research on the gender earnings gap, Goldin argues that while many of the studies' explanations have considerable merit, a residual (unexplained) portion of the gap remains. A number of studies have shown, for example, that women tend to have less ability in bargaining and are not as competitive as men; hence, they accept lower earnings than their male counterparts. Other studies have argued that employers have different hiring and promotion standards for women because they are more likely than men to leave the job (or to leave sooner than men, on average). But these studies do not explain why women with no children earn more than those with children, other things equal. They also do not explain why the economic penalties for time out of the labor force or for working fewer hours per day or week than men vary radically for different occupations.

As Goldin argues, there are wide disparities within some occupations while others have achieved relative equity, and this is the key to eliminating the gender earnings gap. In some occupations, such as that of pharmacist, the earnings gap is small and the penalty for working fewer hours or taking time out of the labor force is low. In other occupations, particularly those categorized as “business” occupations, the gap is large and the penalty is high. In general, science, technology, and health occupations have relatively more flexibility in the workplace than business and other occupations, especially concerning the number of hours worked each day or week, the particular hours worked, and the economic penalties workers pay for taking time off from work.

As the author points out, the earnings gap is much smaller for young women and men at the beginning of their careers, especially among college graduates with comparable levels of training and experience. Then, as people age and enter into marital and family relationships—and women become more likely to temporarily leave the labor force—the gap widens sharply. It finally begins to narrow again as workers age and move beyond the childbearing years. Since women disproportionately pay a penalty for working fewer hours or for taking time off from work, the solution to the earnings gap is for all occupations and industries to adopt workplace practices that are more flexible around these issues.

What needs to happen, according to Goldin, is for the entire economy to move in the direction of greater “temporal flexibility” in the workplace, especially with regard to how workers’ time is allocated and how they are compensated; the achievement of this will “require changes in the structure of work” so that the costs associated with increased flexibility are reduced. This has already occurred in many occupations and sectors. Among pharmacists, for example, women and men earn nearly equal pay on a per-hour basis, after adjusting for differences in human capital characteristics. Many firms in health care, retail sales, banking, and real estate have also shifted toward greater flexibility, with women and men becoming better substitutes for one another, despite their different temporal demands. In addition, self-employment has declined in many of the traditional professions, which has led to a reduction in the premium paid for working unpredictably long hours in those occupations. Although there will always be certain jobs for which temporal flexibility is not an option, if employers had less incentive to reward people for working long hours or being “on call” and more incentive for allowing their employees greater flexibility, the earnings gap between women and men could be eliminated, at least in most sectors of the economy.