Labor & Employment Literature Watch

CRA Charles River Associates

May 2022

This newsletter contains an overview of recent publications concerning labor and employment issues. The summaries included below are provided by our labor & employment experts.

Pay equity and the gender pay gap

Over the past few years, gender pay equity has become an increasingly prevalent topic in the news, popular culture, and politics. Take, for example, the case of women's soccer; earlier this year, US Soccer and their female players reached settlement which included $24 million in back pay to current and former players.[1] Many states and localities have been adopting legislation to address gender pay equity in various ways. The Illinois Equal Pay Act of 2003 (IEPA), which prohibits employers from paying unequal wages to women or African-American employees performing the same or substantially similar work, was recently amended to require employers to proactively verify their compliance with pay equity laws.[2] Predictably, we have seen a large corresponding increase in the number of clients seeking economic analysis of pay equity on behalf of their clients, both large and small.

Economists have a long history of studying the gender pay gap, dating back to work in the 1960s by Jacob Mincer and Gary Becker when human capital theory was first established. Academic economists have both tracked the empirical gap between the earnings of men and women and expanded upon theoretical understandings of the mechanisms through which discrimination may play a part in labor market outcomes.[3] In this *Labor & Employment Insights* we will provide an update on where the literature surrounding pay equity and the gender pay gap is currently focused. Specifically, we will focus on the impacts of selection into jobs, gender differences in responding to sudden changes in the labor market, and COVID-19.

The Impact of Selection into the Labor Force on the Gender Wage Gap. Blau, Francine D., Lawrence M. Kahn, Nikolai Boboshko, and Matthew L. Comey. NBER Working Paper No. 28855, May 2021.

Available at **http://www.nber.org/papers/w28855**

The authors use a complex combination of empirical strategies to account for the way that selection into the labor force (i.e., which men and women decide to work and in which positions) and changes in this selection over time have impacted the gender wage gap in the United States since 1981. They find that

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[1] Das, Andrew. "U.S. Soccer and Women's Players Agree to Settle Equal Pay Lawsuit." The New York Times, February 22, 2022, https://www.nytimes.com/2022/02/22/sports/soccer/us-womens-soccer-equal-pay.html. Accessed April 26, 2022.

[2] Gurrieri, Vin. "5 Things To Know As Illinois Pay Transparency Law Kicks In." Law360 Employment Authority, March 17, 2022, https://www.law360.com/employment-authority/articles/1474872. Accessed April 26, 2022.

[3] A foundational, though highly academic, overview of this research can be found in Cain, Glen G., 1986. "The economic analysis of labor market discrimination: A survey," Handbook of Labor Economics, Volume I, in: O.Ashenfelter and R. Layard (ed.), Chapter 13, Elsevier.

the raw gap in wages declined by considerably more than what researchers who do not control for selection have found; that women's wage offers relative to men's have increased since 1981, even after controlling for measured covariates such as education and experience; and that substantial gender wage gaps remain in the labor market at large. It is important to understand that the estimation of firm-specific gender wage gaps (such as the pay-equity audits that a consultant would perform using a firm's own highly sensitive data) is much cleaner than estimating cross-firm gender wage gaps (such as the ones academic economists study using publicly available panel data). The generalized (and positive) takeaway from this paper is that prior academic works that have not accounted as carefully for selection issues have reported higher gender wage gaps than may actually exist; furthermore, without carefully controlling for selection into jobs, any progress made in closing the gender gap over time may be understated.

Gender Differences in Job Search and the Earnings Gap: Evidence from Business Majors. Cortès, Patricia, Jessica Pan, Laura Pilossoph, and Basit Zafar. NBER Working Paper No. 28820, May 2021.

Available at **https://www.nber.org/papers/w28820**

In this study, the authors evaluate data they collected on undergraduate students, the job offers they receive, and their job-acceptance behavior. They find that women accept jobs much earlier in their job search process than men, and that women who accept jobs later in the job search process experience a smaller gender wage gap than women who accept jobs earlier in the job search process. The authors suggest that this behavior is driven in part by gender difference in risk aversion; women are more likely to be risk averse than men, and men are more likely to be over optimistic, according to survey data on risk preferences and beliefs about future earnings. The findings of the study suggest that employers can reduce the gender wage gap at hire by allowing job candidates more time to decide on an outstanding job offer or by providing them accurate information about the job market.

Gender, Selection into Employment, and the Wage Impact of Immigration. Borjas, George J. and Anthony Edo. NBER Working Paper No. 28682, Revised June 2021.

Available at **https://www.nber.org/papers/w28682**

The authors look at the impact of an influx of immigrant labor into a market by studying the increase in foreign-born workers in France since 1976. Economists expect an influx of labor to cause a decrease in wages as supply of workers exceeds demand in markets where immigrants seek to work. The raw data show that men's wages are lowered sizably by increases in immigrant labor while women's wages are not lowered by similar increases. The authors show that this gender differential in wage changes is caused by differences in how native men and native women respond to the increase of labor supply in their chosen market. While native men tend to stay in the labor market despite decreasing wages, native women with the lowest wages tend to leave the labor market, mitigating the overall decrease in wages among employed native women (i.e., the wages of native women who remain in the workforce do not change as much as men's wages). Overall, native women as a group end up bringing home less money because so many of them exit the workforce. From this article, we can gather more broadly that women are more likely to leave the labor market in reaction to decreasing wages as compared to men.

The Gender Gap in Earnings Losses After Job Displacement. Illing, Hannah, Johannes F. Schmieder, and Simon Trenkle. NBER Working Paper No. 29251, September 2021.

Available at **https://www.nber.org/papers/w29251**

This working paper studies the impact of job loss or displacement on men and shows that losing a job results in large, persistent earnings losses. Consulting economists rely on this literature to estimate damages resulting from wrongful termination. The impact of job loss on women is harder to estimate as women tend to react differently to job loss. Using data from Germany, the authors find that women's earnings losses are about a third higher than men's following a mass layoff, in part because women are more likely to choose part-time or marginal employment rather than another full-time position following

job loss. Parenthood magnifies this gender gap; men with young children have lower earnings losses than average, while women with young children have much higher earnings losses than average. According to the analyses within this study, women's reactions to job loss vary to those of men, in ways that increase the market-wide gender wage gap.

From Mancession to Shecession: Women's Employment in Regular and Pandemic Recessions. Alon, Titan, Sena Coskun, Matthias Doepke, David Koll, and Michèle Tertilt. NBER Working Paper No. 28632, April 2021.

Available at **https://www.nber.org/papers/w28632**

The authors study global data on the gender gap in employment and show that, while recessions in general tend to impact men's employment more than women's employment, the pandemic recession of 2020 had the opposite impact, with women's employment showing larger declines than men's employment in most countries, including the US. They find that policy choices, e.g., school closures and furloughing policies, across countries played a part in determining the gender-specific impacts of the recession on labor force participation. Further, and of interest to employers, they find that flexibility in the ability to work from home has a large impact on the gender gap, allowing more women to remain in the workforce.

The Evolving Impacts of the COVID-19 Pandemic on Gender Inequality in the U.S. Labor Market: The COVID Motherhood Penalty. Fairlie, Robert W., Kenneth Couch, and Huanan Xu. NBER Working Paper No. 29426, October 2021.

Available at **https://www.nber.org/papers/w29426**

The authors use the most recently available monthly Census data for the period from 2017 through the end of 2020, to analyze the impact of COVID-19 on gender differences in labor market participation. Using a combination of modern statistical techniques, they find that the gender gap in labor market participation and hours worked widened for certain groups of women. In particular, women with school-age children experienced increased childcare responsibilities, i.e., "the COVID motherhood penalty," as school-age children transitioned to distance-learning from home rather than in-person learning at school. The gender gap in labor participation was lower among populations with the ability to telework and the more highly educated. The authors conclude that women's disproportional lost opportunities for career advancement and any loss of skills correlated with their absence from the workforce during this time could have long-lasting impacts on the labor market outcomes of women.

Actionable conclusions for employers:

1. It is imperative to conduct careful research with the most accurate and appropriate data and methodology for the task to identify and track gender wage gaps. This is because on average, women engage differently with labor markets than men, and accounting for these average differences in research leads to more accurate conclusions.
2. Employers can reduce the gender wage gap at hire (which carries forward as a gender wage gap as these employees advance through their careers) by allowing job candidates more time to decide on outstanding job offers and providing more information on how their specific job offers fit into the context of the broader job market.
3. Maintaining the ability to work remotely, or altering other traditional workplace practices that make it easier to work full-time while also parenting a school-aged child (i.e., offering onsite childcare or flexible schedules), is likely to improve the gender wage gap over time because women's careers are more likely to be interrupted by unexpected childcare duties than men's.

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*The editor would like to acknowledge the contributions of **Sara Muehlenbein**.*

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