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Reducing gender wage inequality increases economic prosperity for all: Insights from Australia[☆]

Tom Kennedy^a, Maria Rae^b, Alison Sheridan^a, Abbas Valadkhani^{c,*}^a UNE Business School, University of New England, Armidale NSW 2351, Australia^b School of Humanities and Social Sciences, Deakin University, Burwood VIC 3125, Australia^c Department of Accounting, Economics and Finance, Swinburne University of Technology, Hawthorn VIC 3122, Australia

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ABSTRACT

This paper extends the debate about redressing persistent gender inequality in Australia by examining the relationship between labour productivity and the wage gap in all states and territories (1986–2013). It is a critical case study as Australia's widening gender wage gap is contrary to other developed nations. Using four different estimation methods, we find that reducing the gap by 10% can boost per capita output up to 3%. To check the robustness of our findings, we also control for the effects of both physical and human capital. Our results suggest there exists a strong business case for eliminating the gender wage gap. Given the tangible benefits to both equity and efficiency, such a goal should be of paramount importance for policy makers.

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1. Introduction

Four decades on from when laws aimed at tackling gender income inequality were introduced, men continue to earn significantly more than women in Australia. Despite the more than 40 years of international policy attention to the continued inequality experienced by women in the paid workplace, income inequality persists (Pettit and Hook, 2012; Rubery, 2015). On average, women earn less than men in all Organisation for Economic Co-operation and Development countries (OECD, 2015a).

While we have seen female labour force participation rates increase in Australia from 48.2% in June 1986 to 58.8% in 2016 (Australian Bureau of Statistics, 2016), the overall gender pay gap for full-time employment remains high at 19.1% (WGEA, 2016). Gender inequality is multidimensional. It is not sufficient to increase female labour market participation rates to achieve gender pay equality. In their analysis of 21 countries, Pettit and Hook (2012) demonstrate how policies that facilitate inclusion of women in the labour market often compromise greater gender equality in other areas, such as wage inequality caused by occupational segregation. For example, using the 2004 and 2011 British Workplace Employment

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* Corresponding author.

E-mail addresses: tom.kennedy@jpmorgan.com (T. Kennedy), maria.rae@deakin.edu.au (M. Rae), hosbusiness@une.edu.au (A. Sheridan), abbas@swin.edu.au (A. Valadkhani).

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Relations Surveys, [Davies et al. \(2015, 537\)](#) found that “there is no evidence that gender segregation is significantly less in high-performance workplaces than in workplaces taking a more traditional route”.

As [Todd and Preston \(2012\)](#) report from their analysis, women’s increasing participation rates in the labour market have not redressed the occupational segregation that has dogged the Australian labour force, which continues to see women’s employment in traditionally feminized (and lower paid) occupations and in less than full-time roles. One of the main reasons behind the persistence of the gender wage gap is the limited success in efforts to change masculinist organizational cultures, attitudes and behaviours, such that women are still overrepresented in undervalued industries and occupations ([Todd and Preston, 2012](#); [Peetz, 2015](#)).

While it is no doubt critical to discover why, how and where pay discrimination continues, we argue that it is equally important to diverge from this valuable literature to address a consequential question that arises from this field of research: how do gendered wages influence society’s per capita income? If eliminating gender inequality unequivocally lifts productivity and hence the standard of living in a society, policy makers should then come under greater public scrutiny as to why men and women are not paid the same. Therefore, we seek to understand what impact wage disparity has on the economy as a whole, proxied by per capita income.

Exploring the effect of the gender wage gap on GDP has been problematic because most of the literature has focused on covering a large number of dissimilar countries over a short time span. Such studies encounter myriad problems, including data heterogeneity, incomparable measurement standards, and political and cultural differences ([De Dominicis et al., 2008](#)). [Booth \(2016\)](#) finds cultural factors to be particularly important in explaining gender differences in economic preferences and performance, while [Cooray and Potrafke \(2011\)](#) and [Cooray \(2012\)](#) similarly conclude that culture and religion are influential in explaining gender inequality in education. In this regard, single-country studies are advantageous in that data are compiled using the same collection standards and methodologies, with the same statistical agency often responsible for collecting data across the entire sample period. Single-country studies also eliminate most of the social, political, cultural and institutional intricacies that are notoriously difficult to control in multi-country investigations ([Frank, 2009](#)).

Given this backdrop, the availability of high quality time series data makes Australia a particularly interesting case to examine the effects of gender wage inequality on GDP. The purpose of this article is, for the first time, to undertake a single-country study of the gendered wage–income nexus in Australia using panel data for all eight states and territories during the period 1986–2013. The aim of this paper is to provide empirical evidence of the effect gender inequality has on per capita income in order to inform future policy considerations in tackling wage disparity. Australian gender income inequality is now considerably above the OECD average of 15.5% in 2013, which is a stark turnaround from the early 2000s, when the gender wage gap was narrower than most OECD countries. In 2013, the OECD ranked Australia as the 11th most unequal nation based on income inequality between genders, worse than the United States, United Kingdom and Germany ([OECD, 2015a](#)).

2. Changing policy approaches to gender income inequality

Women’s unequal labour representation and gender pay inequality have attracted public policy attention for the past 40 years. Early arguments for the need to redress gender inequality were framed within a social justice perspective. Proponents of this approach argued for the importance of any benefits being more equally shared across society. In Australia, the Equal Pay for Equal Work decision of 1969 and the Equal Pay for Work of Equal Value decision of 1972 were the first steps taken to close Australia’s gender wage gap ([Watson, 2010](#)). However, these equal pay cases only had limited success in narrowing gender wage gaps given they failed to address other structural drivers of wage inequality, such as gender-based occupational segregation ([Borland, 1999](#); [Watson, 2010](#)).

Continued human rights and social justice activism throughout the 1970s led to anti-discrimination¹ and affirmative action legislation² being enacted in the 1980s. The combination of the legislation, prohibiting discrimination on the basis of sex and prompting private sector firms with more than 100 employees and the public sector to be proactive in enabling equality, was designed to support a more balanced sharing of benefits across society. However, a lack of traction on the social justice argument with employers saw the momentum for change slow by the early 1990s ([Strachan et al., 2007](#)). This was not unique to Australia ([Kirton and Greene, 2010](#); [Rubery, 2015](#)).

Throughout the 1990s, in a climate of growing neo-liberalism, claims for the efficacy of the free market gained increasing influence on public policy ([Hancock, 1999](#)). In this context, we saw the evolution of the business case for increasing women’s participation rates. Proponents of the business case purport that increasing women’s participation in the workplace contributes to organizational performance with the focus clearly being on the benefits to the firm ([Kramar, 1998](#)). A common argument for the business case is that employing women widens the labour pool and, by including their different

¹ The relevant legislation includes the *Sex Discrimination Act 1984* which prohibits discrimination on the grounds of sex, marital status, pregnancy and family responsibilities, and the *Human Rights and Equal Opportunity Commission Act 1986* which prohibits discrimination in employment on the basis of race, colour, sex, religion, political opinion, national extraction, or social origin, age, criminal record, sexual preference, physical or intellectual disability, impairment (including HIV infection) and trade union activity; and various State anti-discrimination Acts.

² *Affirmative Action (Equal Opportunity for Women) Act 1986*, which was changed to the *Equal Opportunity for Women in the Workplace Act 1999* and then to the *Workplace Gender Equality Act 2012*.

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