



The Equal Pay Day Scam

Guest: Mark Perry

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Mark Perry is a professor of economics at the University of Michigan, and holds a joint appointment at the American Enterprise Institute. He is the creator and editor of one of America's most popular economics blogs, Carpe Diem.

WOODS: Before we get into the meat of what you've been writing on this subject, I want you to tell us a little bit about what's going on today with regard to the president's executive orders related to equal pay. After all, this is Equal Pay Day, which is why we're doing this program today, of course, and it's why he chose today to launch a couple of initiatives on his own accord.

PERRY: That's right, Tom, every year this organization called the National Committee on Pay Equity—or I think they have been doing this since the 1990s—promotes what they call “Equal Pay Day,” that generally falls sometime in April, and it's based on this myth that women earn 23 percent less than men. So Equal Pay Day today, on April 8, would represent the day into 2014 that the average woman would have to continue working to make the same average salary as what a man made back in 2013. So they do this every year to promote [awareness of] this gender pay gap. Obama is using today, Equal Pay Day, to announce two executive orders. One, I understand, will be requiring all federal contractors doing business with the federal government to report to the Department of Labor to provide detailed compensation, salary, and wage data for all of their employees of the contractors based on race and sex. I guess that could be used then to determine whether or not there's any gender pay gap within the organizations who are doing contracts for the federal government. Then there's another executive order that has something to do with no retaliation against employees that are either reporting their salary or trying to find out the salaries of other workers. Again, with the idea that there's a pay gap, and that Congress won't pass legislation, so the president is issuing two executive orders today, I guess in his attempt to try to address or close what he perceives as a pay gap.

WOODS: Well, here's an interesting item that you've been reporting on: it turns out that the president himself, in his own White House, has a pay gap, if we interpret that term the way he wants it to be interpreted for all private employers. There is a pay gap between men and women at the White House. Apparently this was brought up the other day with Jay Carney if I'm not mistaken. How did he handle this claim?

PERRY: I haven't seen the full transcript because I got calls from two reporters right away. But yesterday at a press briefing, Jay Carney I guess was reporting that Obama would use today, Equal Pay Day to issue these executive orders, and then three different reporters, including one from the *Wall Street Journal*, one from Fox News, and one from another organization, were asking him to explain why the White House itself has this 12 percent pay gap, and that was based on a report that I have done based on information that they release every year on White House staffers. I was able to do a detailed analysis by gender, and for 2013, and reported on the American Enterprise Institute blog on several occasions over the last four or five months that the White House pays women on average \$0.88 for every dollar that they pay men. I haven't seen the full transcript, but I guess what Jay Carney said was that for the same position they pay men and women the same, but again, that has always been my point: that within any organization you're going to find wage

differentials based on gender that probably have nothing to do with discrimination. So I don't think the White House is discriminating against women. It's just that there might naturally be more entry-level women working in lower-paid positions and more men with more experience working in higher-paid, higher-level positions. So I am not convinced that there's any discrimination at the White House, but if they are finding a 12 percent pay gap, lots of other organizations, including federal contractors, might find 12 percent pay gaps that have nothing to do with discrimination. So it does seem at least disingenuous that the White House is requiring federal contractors to report wage information by gender when they themselves don't really report it. I had to dig into the data to find the 12 percent pay gap, and so they've got their own pay gap, but then I guess they're going to be criticizing other organizations for having some pay gap.

WOODS: Well, you're right that of course the point here is not to claim that Obama hates women, and that's why he's not paying them as much. It's to show that this kind of disparity seems to occur all over the place, regardless of your good intentions or bad intentions or whether people like women or don't like women. Now, we'll get into in a moment what may actually be the cause of this. But right away, especially in an economy like this, with razor-thin profit margins, to claim that women are earning only 77 percent of what men are earning is wildly implausible on the face of it. As soon as you hear that sort of claim, why do you instinctively say, "That's got to be wrong"?

PERRY: Well, sure, because then any profit-seeking employer—on one hand we accuse companies of only being worried about the bottom line and only being worried about profits, but then on the other hand we're accusing at least some of them of overlooking an instant opportunity to be able to save 23 percent on their labor costs by hiring lower-paid women or either firing all the men. So if companies could save 23 percent on their labor costs, which is most companies' main cost, then they would just automatically hire only women and hire no men and save 23 percent. But then that of course would bid up the wages of women. So yeah, to suggest a 23 percent pay gap, and then it's all based on discrimination would just be inconsistent with reality in the fact that companies are always looking for ways to save money and would do that naturally if they really could hire a female engineer for \$77,000 instead of a male engineer at \$100,000.

WOODS: Mark, I think there's a fundamental equivocation at work when people talk about this pay gap—that women are earning 77 percent of what men are earning, and then it's just left hanging there. I want to insert the words "for doing the same work?" Do they actually mean that a woman with comparable experience doing job X that a man does is getting paid 77 percent of what a man does, or are they saying that in the aggregate, if we look at all the aggregate earnings of women, and we compare them to the aggregate earnings of men, and then we do a per-capita division, we find that one is 77 percent of the other?

PERRY: Well, yeah, that's right. It's just average wages, usually for full time. Although even full time, as we can talk, about doesn't necessarily always mean the same thing for men and women. Full time means anything over 35 hours a week. But yeah, all they are doing when they report this \$0.77 on the dollar or 23 percent wage gap is comparing averages for all full-time workers. Again, if we look at the White House and just compare averages for full-time men and full-time women, we naturally find pay gaps that have nothing to do with discrimination but could be explained by dozens of other important factors and variables that explain earnings differential by gender.

WOODS: I think, though, the average person who doesn't follow this as closely as a policy analyst does thinks that the debate is about women not earning as much as men for doing the same work, and yet 50 years ago we had the Equal Pay Act of 1963, which I'm pretty sure made it illegal to have differential pay for the same work for men and women. So that issue has been resolved. But that does leave the question, though, of where this 23 percent gap is coming from, after all. And it is worth digging into the numbers and disaggregating the numbers a bit to try to come up with a good answer, and you've done that. You've come up with a variety of answers. There's one big answer, but let's look at some of the, maybe the less obvious answers. Let's look first of all at the question, as you mentioned a moment ago, of hours worked. Are we in fact comparing apples with apples when we talk about men who work full time and women who work full time?

PERRY: Well, right, according to the Bureau of Labor Statistics, which reports wage and salary data every

year or on a very regular basis, they consider full time to be 35 hours or more per week. But once we look into that and dig in, they even say on their website that men are more likely than women to have a longer work week. So for example, 26 percent of full-time men worked 41 or more hours per week in 2012, the most recent year that we have data for. And that compares to only 14 percent of women who worked 41 or more hours per week. So men were almost twice as likely as women to work 41 hours or more per week. And then if we look at the full-time workers that work only 35 to 39 hours per week, well then women are more than twice as likely than men to work a shorter work week. So 12 percent of women worked 35 to 39 hours per week in 2012, while only five percent of full-time men were working 35-39 hours per week. So once we just control for and look at full-time workers that are working 40 hours a week, then at least according to BLS data, women only earn 12 percent less than men once we just look at only workers who are working 40 hours a week, and so that's where, again, just controlling for hours worked will often explain some of the raw or unadjusted wage gap.

WOODS: Now, you have an item in your piece that surprised me. I had not realized this was one of the variables at work, but simply when you look at the question of age, this helps us to understand some portion of the gap. Can you explain that, or what might be causing that?

PERRY: Yeah, and in fact the BLS didn't report this, but another wage study a couple of years ago reported that if you look at single men and single women who are young, in their 20s, never married, no children, so you control for variables like marriage and motherhood and fatherhood that could have an effect on earnings, and then look at the younger group, the younger cohort group—because among that group, you know, women now are doing much better in college and have more bachelor's and master's degrees—so if you look at young men, young women, single, never married, no children, for that group, women in many studies make more than what men make or I think the way I had reported it here, let's see. I had shown some data from the Bureau of Labor Statistics that young workers 20-24 or the group 25-34, that among those workers that then generally women make about only 10 percent less than men. Then again, if you control for other things like college education and so on, then it could be the case that women make more than men. So I think once we combine all age groups together, that's where you're going to find some wage differentials, but if you look at younger men and younger women and especially before they're married and have kids, then often the wage differential is almost zero for that group.

WOODS: And that really gets to the key difference between men and women that is relevant to understanding this alleged wage gap, and that is the question of the differential effects of marriage upon women as versus upon men. Right? What kinds of differences are there? They should be obvious, but the fact that we even have to have this conversation means they must not be obvious.

PERRY: (laughs) Yeah, and in fact, I think one way to think about it is that the wage gap, to the extent that there is one, is usually between married men with children working full-time and married women working full-time with children. That's where you do find wage differentials because of the different family roles that men and women play. For example, in the Bureau of Labor Statistics data, if you look at married men and married women and look at couples that have children under six years old, one or more, that then for that group then women make 82 percent of what men make or make 18 percent less. That shouldn't be so surprising, either, that for an 18 percent pay gap when we're looking at married men with children and married women with children, that just would be explained by the differences in family roles. Women are more nurturing, they can breastfeed and men can't. They spend more time looking after the children. So we wouldn't expect the same wages to exist when we look at married men and married women, especially once we introduce marriage and children into the equation. That's when we could find some natural differences in pay that would be explained by voluntary choices that men and women make.

WOODS: And of course, the very fact that biologically women are the people who have the babies and they know if they want to bear children that their careers, if they have any, will be interrupted for a period of years or perhaps interrupted repeatedly, this knowledge is going to influence the types of fields they enter in the first place. There will be some fields that you simply can't afford to leave for years at a time, because your knowledge will be out of date by the time you try to jump back in again. So there are some professional fields that are high paying that would be ruled out immediately, whereas to the contrary there

are a lot of low-paying jobs that happen to be very flexible in this regard and also happen to be very flexible in terms of hours worked: for example, being a schoolteacher means you can be home roughly when your kids get home, so you're going to see a lot of women in that field. You're going to see a lot of women in secretarial jobs, not because stereotypes brainwash them into becoming secretaries or schoolteachers but because this works with the way their lives unfold.

PERRY: Yeah, that's exactly right. Often it's the number of years of continuous experience that are important for career advancement, and if you have a five- or ten- or fifteen-year gap in your work experience and, like you say, in certain fields like, I don't know, tax accounting or computer programming, the 15-year gap out of the workforce completely would put you at a severe significant disadvantage once you decide to reenter the workforce after having children. So yeah, so women, often knowing that they might have children or maybe even more than one child, would be looking at careers that give them flexibility and opportunities to work flexible hours that—because they know that that's important to them. I mean, this might be a strange thought experiment but one way to think of it is to think that if men could biologically get pregnant and if men could biologically breastfeed, then the careers and jobs and training that they would look for would be much different than the way it is now then when they don't get pregnant. Like you're saying, women often will value flexibility in careers more than men, and so that's why they could be drawn to, let's say, nursing instead of being a physician, or a schoolteacher and things like that. So that would be another way to explain the gender pay gap, based on career choices and the difference in family roles between men and women.

WOODS: Mark, do you remember back in the 1980s when feminists seemed to at least implicitly acknowledge this, that women had good reason to be in particular fields? So instead of trying to dissuade women from becoming schoolteachers or secretaries or whatever, they tried to devise something called “comparable worth” that would try to calculate, using various inputs, what the objective contribution to society of various occupations was so that then they could impose the proper wage and salary structure on all the jobs in the economy to make sure that women were being paid appropriately. Maybe a schoolteacher is just as valuable as a chemist, but in our free-market economy the chemist is getting paid more, but is worth a comparable amount. You remember this? Is there any possibility that that's going to come back?

PERRY: Well, you know, that's interesting. I hadn't thought about that for a while, but yeah, I do kind of now remember that yeah, to put some worth, I guess it would be kind of like imposing value on different roles in the labor market, which always gets a little tricky because then you're relying on government officials or bureaucrats or somebody from on top imposing what they perceive to be comparable worth. So I don't know that that's been discussed much lately. They are more talking about, Paycheck Fairness Act, and Lilly Ledbetter and things like that. So I think there are other ways that they are looking at trying to adjust the pay gap. But I think it is just instructive to know that within the Obama White House there is a pay gap that could just be natural and not anything that needs to be addressed, and so I hope that brings some public awareness to this whole debate and issue.

WOODS: Well, I think it all boils down to the economist's favorite Latin phrase, *ceteris paribus*, all other things equal. If you compare apples with apples and oranges with oranges, you find that basically there isn't a pay gap. Thomas Sowell used to do this when he would look at ethnic and racial groups around the world or in the United States. He would point out that if you look at black married couples, college educated versus white married couples, college educated, the black married couples actually earned slightly more. So when you compare apples and apples, these differences in income that lead to so much hand-wringing among fashionable opinion molders seem to disappear.

PERRY: Well, that's right. Of course, in economics we explain this in the first couple of weeks of Principles of Macro, or Principles of Micro, and it's a guiding force and condition for any kind of scientific analysis. I think anybody with just a limited amount of training in either statistics or economic theory or economic logic would immediately see through the fallacy of the 23-percent wage gap and then attributing almost all of that to gender discrimination. The fact that we've got a president who is promoting this myth of the \$0.77 on the dollar, and even the *Washington Post* fact checker, I think, called him out on that and said that's

mostly untrue. But I think just a little bit of scientific knowledge or knowledge of logic or statistics would allow us to easily see through this, and that once you start controlling, and that's what I did in that blog post that we're talking about is kind of go through one factor at a time and then show how age, marital status, hours worked, all of those factors can really then explain some of the wage differential, and so again, we need to compare apples to apples. Obama, the progressives, Equal Pay Day, it's all based on comparing apples to oranges, and so that's where I think we really need a greater awareness and more education.

WOODS: Well, just to wrap up and refer to Thomas Sowell one more time: he once said something along the lines that one bumper sticker can have so many fallacies that it takes volumes to disprove. But unfortunately people, for Public Choice reasons, tend to form their political opinions on the basis, in effect, of bumper stickers, and so then we have to go and unpack what's being claimed in these bumper stickers and show that the reality is that it's not true. Thankfully, your post on this doesn't take up several volumes, so you can just sit there, and in five minutes you can understand exactly what's going on. So you have done a very important service for us, and I appreciate your time today. Thank you very much.

PERRY: Thank you, Tom. Happy to do it anytime.