

Labour Markets: Wage Differentials

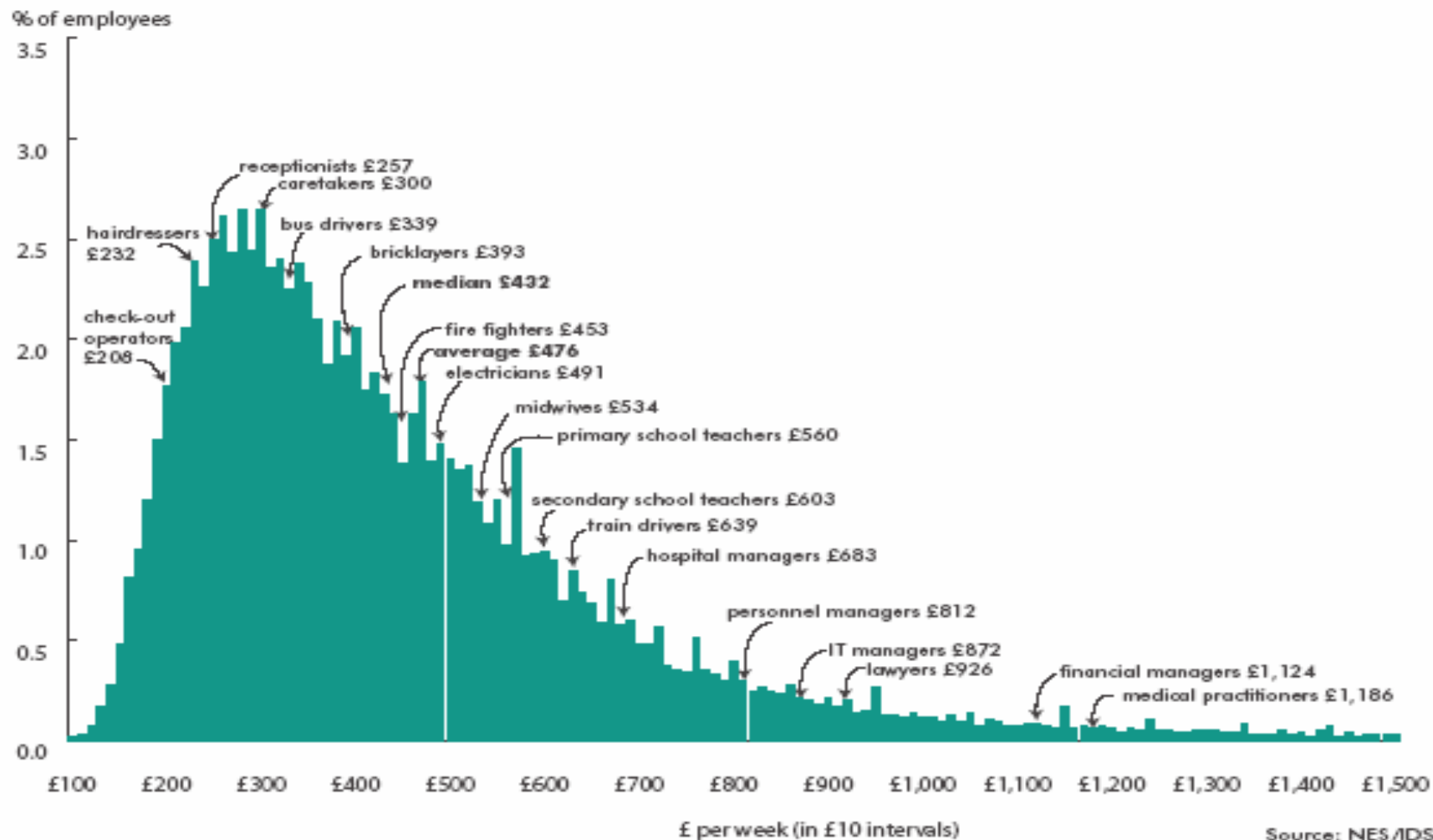
A2 Economics Presentation
2005

Key Areas to Cover

- Differentials in different occupations;
 - Between men and women
 - Between skilled/unskilled workers
 - Across ethnic groups – labour market discrimination
- Explain wage differentials in terms of a variety of contexts
 - Productivity
 - Educational qualifications and environment

The Distribution of Wages in the UK (April 2003)

Distribution of gross weekly earnings for full-time employees, April 2003



Data from the New Earnings Survey

Average gross weekly pay (£)

Highest paid

Directors and chief executives of major organisations	2,301
Medical practitioners	1,186
Financial managers and chartered secretaries	1,124
Solicitors and lawyers, judges and coroners	926
Marketing and sales managers	889

Lowest paid

Kitchen and catering assistants	228
Waiters and waitresses	218
Bar staff	218
Launderers, dry cleaners and pressers	218
Retail cashiers and check-out operators	208

¹ Full-time employees on adult rates, whose pay was unaffected by absence. Certain occupations have been excluded due to the small size of the sample.

Source: New Earnings Survey 2003, Office for National Statistics

Explanations for Wage and Earnings Differentials

- **Compensating differentials**
 - Higher pay as a reward for risk-taking, working in poor conditions and having to work unsocial hours
- **Differences in accumulated human capital**
 - Wages and salaries should help to compensate people for making an investment in education
 - There is an opportunity cost in acquiring qualifications - measured by the current earnings foregone by staying in full or part-time education. The private rate of return on achieving A-levels or a university degree should be sufficient to justify the investment made

Wage Differentials (continued)

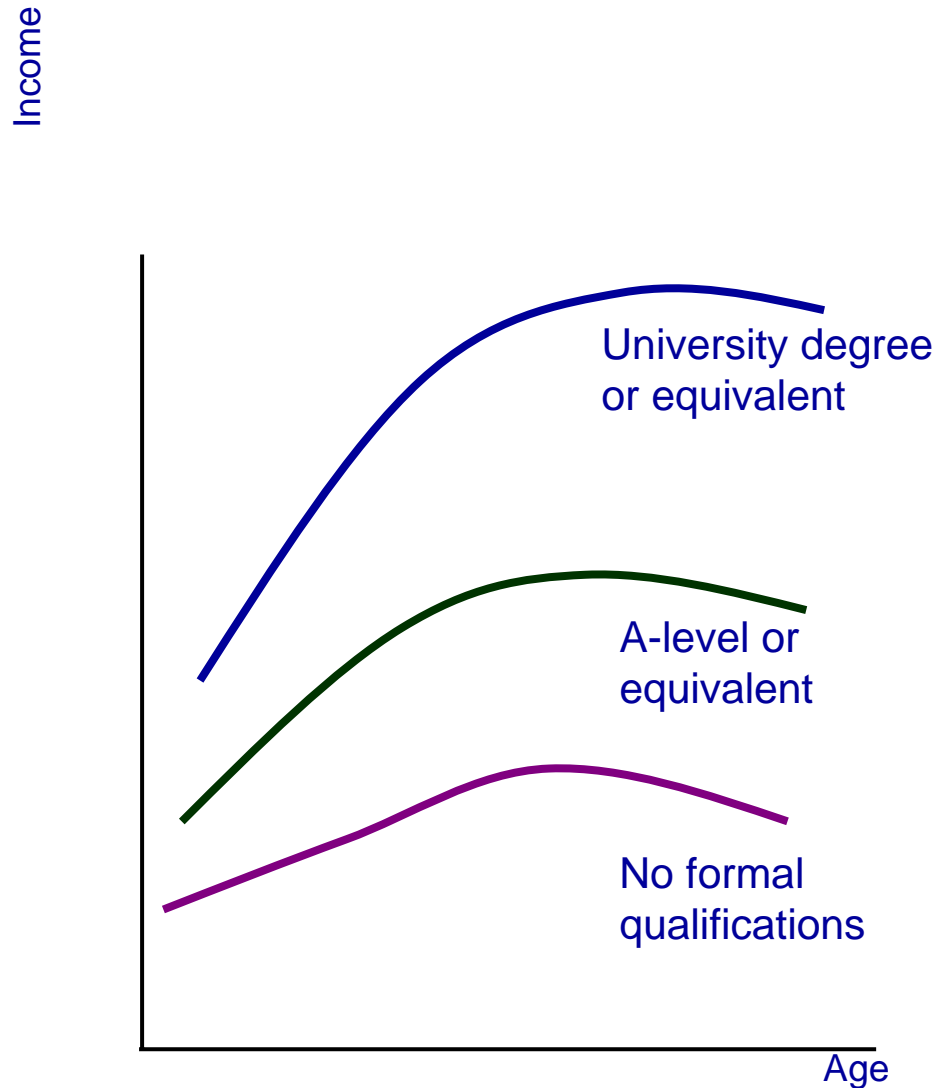
- Differences in productivity and revenue creation
 - MRPL theory suggests that workers whose efficiency is highest and ability to generate revenue for a firm should be rewarded with higher pay
 - City economists and analysts are often highly paid not least because they can claim annual bonuses based on performance
 - Top sports stars can command top wages because of their potential to generate extra revenue from ticket sales and merchandising
- Employer discrimination
- Trade Union protection and collective bargaining
 - Many workers in low paid jobs do not have trade unions acting on their behalf to protect them from the power of employers

Labour shortages and pay

- In industries where there are shortages of skilled labour, excess demand drives average wages and earnings higher
- Specific and scarce skills makes the available labour supply less elastic
- Good examples include booming pay levels in ICT and the construction industry



The Return to Acquiring Human Capital



Wage Premiums

- Literacy - achievement at NVQ level 1 - 16%
- Numeracy - achievement at NVQ level 1 - 26%
- GCSEs - 21% over non-qualified
- A levels - 17% over GCSEs
- With a degree - 28% over A levels
- Graduates - 66% over non qualified
- Level 3 is threshold above which earnings exceed national average
- Unskilled earn 30% less than national average
- Women aged 30-44 - premium of degree holders over level 3 is 110% - highest in the OECD

Monopsony and Wage Determination

- A monopsony producer has significant buying power in the market for their inputs, be they raw materials and components or labour inputs
- A monopsony employer is that they might use their buying-power to drive down wage rates
- The monopsonist faces an upward sloping labour supply curve - to attract more workers in their industry, they must pay a higher wage rate – so the average cost of employing labour rises with the number of people taken on

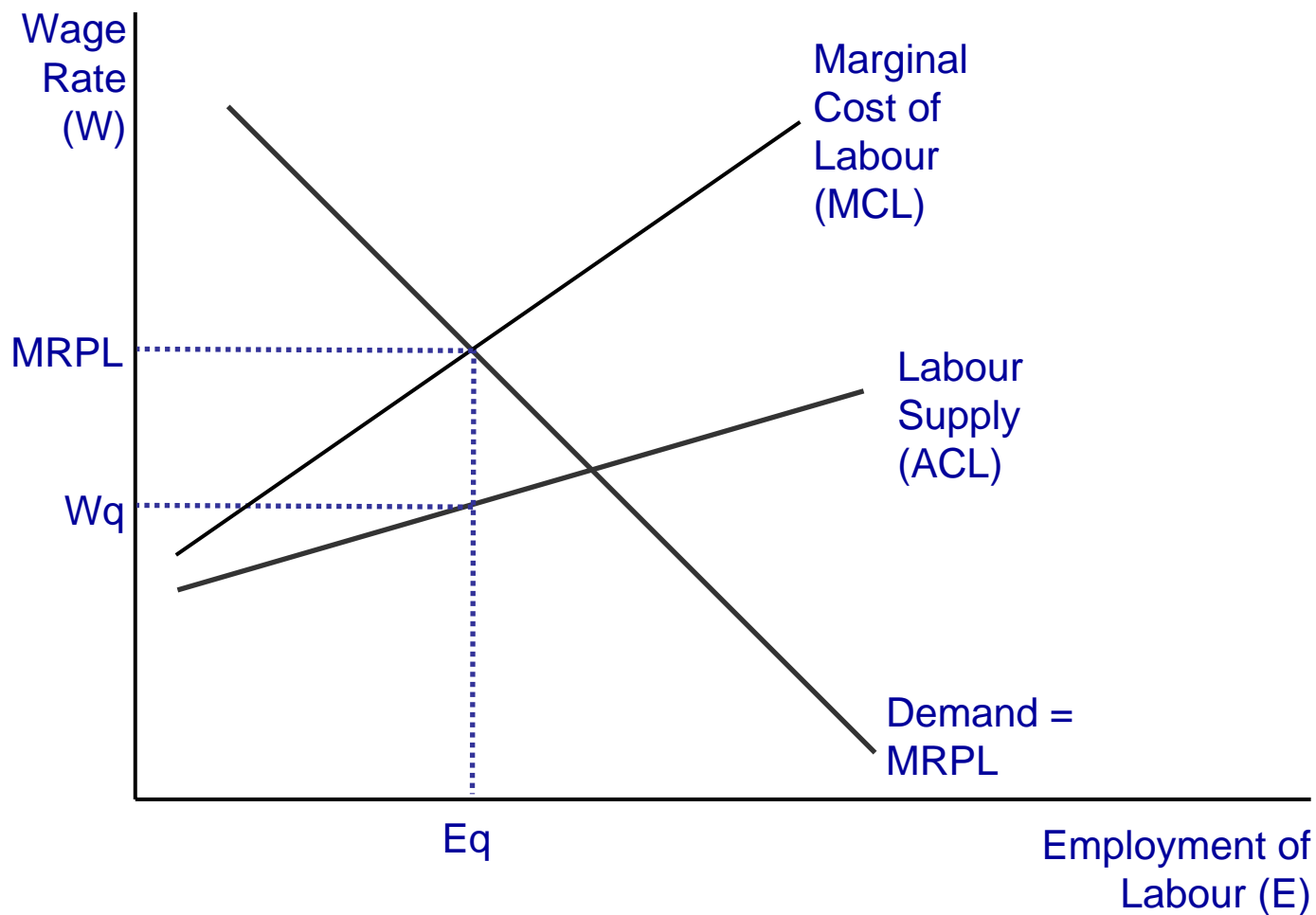
Monopsony and Wage Determination

- Because the average cost of labour is increasing, the marginal cost of extra workers will be even higher
- The profit maximising level of employment is where the marginal cost of labour equates with the marginal revenue product of employing extra workers
 - Extra workers are taken on
 - The monopsonist can employ these workers at an average wage rate of W_q – a pay level below the marginal revenue product of the last worker

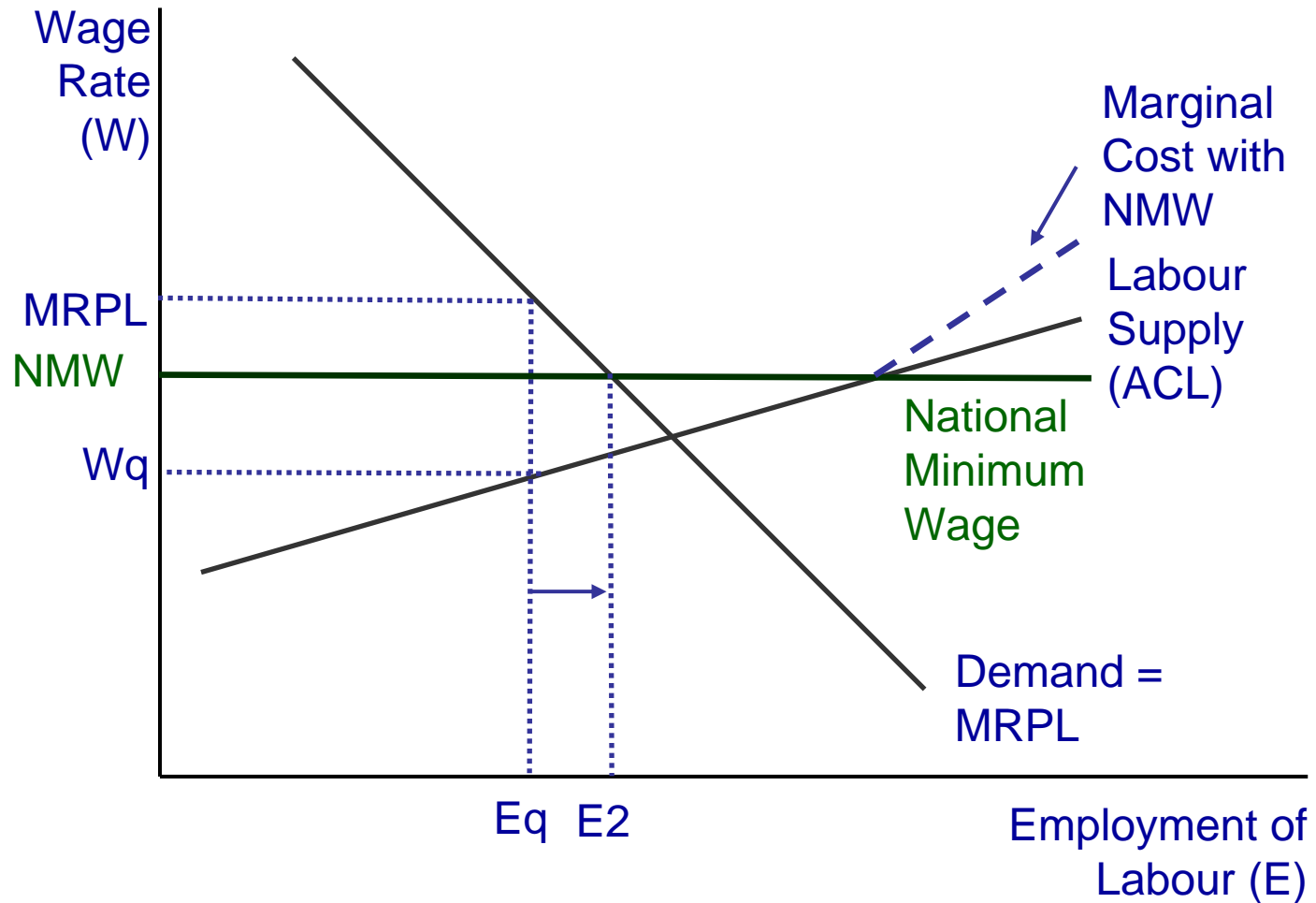
Wages and Employment Under a Monopsony

- A monopsony producer has significant buying power in the labour market when seeking to employ extra workers
- A monopsony employer may use their buying-power to drive down wage rates

Monopsony in labour markets



Wages and Employment Under a Monopsony



The Gender Pay Gap

2003

Gross hourly earnings:

by sex and whether working full-time or part-time

(£ per hour)

	Males		Females	
	part-time	full-time	part-time	full-time
2003	8.82	12.88	7.78	10.56

The Gender Pay Gap in 2004

- According to the Office of National Statistics
- In 2004, women's median hourly pay was 85.7 per cent of men's, compared with the 85.4 per cent recorded in April 200
- Median weekly earnings of full-time employees in 2004 for women (£358) were 77.5 per cent of those for men (£462)
- Women's weekly earnings (including overtime) were lower than men's, partly because they worked around two hours fewer per week
- The gender pay gap is measured by the median hourly pay of full-time employees, excluding overtime
- Pay medians are affected by the different work patterns of men and women, such as the proportions in different occupations and their length of time in jobs

Explaining the gender pay gap

- **Human capital:** i.e. there are differences in educational levels and work experience between males and females. Breaks from paid work, including time to raise a family, can impact on women's level of work experience
- **Part-time working:** a significant proportion of women work part-time and part-time work typically pays less well than full-time jobs
- **Travel patterns:** on average, women spend less time commuting than men with the result that they will have a smaller pool of jobs to choose from

Explaining the gender pay gap

- **Occupational segregation:** women's employment tends to be concentrated in certain occupations. There is continued under-representation in higher paid jobs within occupations – the so-called "glass ceiling" effect.
- **Employer discrimination:** Work by the LSE calculates that up to 42% of the gender pay gap is attributable to direct discrimination against women
- **The effects of monopsony power:** Females may be relatively geographically immobile (because they are tied to their husbands' place of employment) and may be paid less than a competitive wage by a monopsonist employer

Explanations for the Gender Pay Gap (1)

- Human capital: differences in educational levels and work experience
- Breaks from paid work which impact on women's work experience
- Part-time working: a large proportion of women work part-time (often to balance family commitments) this is a major contributor to the gender pay gap.
- Travel patterns: on average, women spend less time commuting than men
 - They will have a smaller pool of jobs to choose from
 - It may also result in lots of women wanting work in the same location (i.e. near to where they live) which will result in lower wages for those jobs

Explanations for the Gender Pay Gap (2)

- Occupational segregation: women's employment is concentrated in certain occupations (60 per cent of working women work in just 10 occupations)
 - Occupations which are female-dominated are often the lowest paid jobs
 - Under-representation in higher paid jobs within occupations - "glass ceiling" effect.
- Other factors which affect the gender pay gap including:
 - (i) appraisal systems, reward systems and retention measures
 - (ii) wage-setting practices
 - (iii) employer discrimination affecting the perceived productivity / marginal revenue product from female employees