CHAPTER 5

FAMILY LABOR MARKET INCENTIVES:
MEN AND WOMEN WORKING FOR PAY¹

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1. INTRODUCTION

By now the facts governing gender labor market outcomes are well known: Women earn less than men, work in different occupations, and major in less market oriented fields. Over the life cycle, women's wages rise less quickly, but are fairly comparable at least initially when both men and women start working. Being married is associated with lower wages for women, but higher wages for men, yet single men and women fare almost equally. Children exacerbate the male-female wage gap, so that wage differentials are higher among married men and women the greater the family size. Husbands and wives typically have large wage differences in families with large child age disparities than when families are completed in short periods of time. Finally, women commute less to work, work fewer hours, and tend to be more intermittent in the labor force than men. Indeed many of these patterns date as far back as written records.²

Public interest in gender differences has spurred an increasing amount of legislation and court cases. In the U.S. there has been the Equal Pay Act of 1963, Title VII of the 1964 Civil Rights Act (equal opportunity), affirmative action for federal contractors (Executive Orders 11246 of 1965 and 11365 of 1967), and the landmark Gunther case in the Supreme Court in 1981, opening the door to comparable worth. Britain has had its Equal Pay Act of 1970, and Sex Discrimination Act of 1975. In addition in 1983 as a result of pressure from the European Community, the Equal Pay Act was amended to permit comparable worth — evidence that in Europe as a whole there is increasing attention paid to gender issues. Yet from the early sixties when this legislation was enacted until
1980 very little has changed for women. In 1980 women still earned less than 70% of male wages, and still were in jobs far lower on the occupational ladder, just as they were in 1960.

Perhaps because of this "lack of progress" many have argued in favor of yet more legislation. However, relying on only twenty years of data may be very misleading, for just in the last few years alone, two new developments have emerged regarding sex differences. First, recent trends since 1980 have indicated a narrowing of male and female wages (Polachek 1990; and O'Neill and Polachek 1991) and occupational structures (Beller 1984). Second new data have surfaced indicating a narrowing of the gap prior to 1960 (Goldin 1984; Smith and Ward 1989; Goldin 1990). Still though, these trends are misinterpreted by many.

Any good theory explaining sex differences must be encompassing enough to explain all the trends. This paper runs through the current theories. However, the problem is that most theories concentrate on explaining only one aspect of gender differences, and as such, fail to account for recent trends or the demographic patterns. As we shall see only one theory -- the human capital model -- is consistent with all the demographic patterns. In addition it serves to link trends in life time labor force participation to labor market outcome measures. Given the power of this theory, we concentrate on human capital.

2. LABOR MARKET OUTCOME EXPLANATIONS

The basic question is why do labor market outcomes differ so much by gender. Many theories attempt an answer. We explore their merits.

2.1 Occupational Segregation

To date most theories are motivated by two labor market outcomes: persistent aggregate male-female wage differentials and unequal male-female occupational distributions. Though the degree of occupational segregation has been diminishing, the wage gap has been relatively constant at least for the U.S. between 1960 and the late 1970s with women earning roughly 62 cents on the dollar (Table 5.3).³

On the basis of women's inferior performance for these two indicators of economic success, early theories hypothesized a link between the two outcome measures. This theory with roots dating to Edgeworth (1922) and Rathbone (1917) has become known as the occupational segregation hypothesis and advocated by Bergmann (1974, 1988, 1989) and others (Treiman and H. Hartman, 1981; Gregory and Duncan, 1981). The claim is that certain occupations are set aside predominantly for women while men are free to choose their occupations. As a result women are forced into menial occupations thereby increasing their supply in "female" jobs thereby depressing their wages. The supply to male occupations is diminished causing wage increases for men. Sometimes known as the "crowding hypothesis" because women are crowded into a smaller number of occupations, occupational segregation is consistent with both a lower wage rate for women and a