

The wage gap in Australia, what it costs us, why it's still here and will it ever go?

Rebecca Cassells, Senior Research Fellow, NATSEM.

As well as being a fundamental ethical right, equal opportunity for women when it comes to income, wealth and employment, enhances women's social and economic security which in turn enhances their personal freedoms, and can have many flow-on effects such as a reduction in reliance on government benefits and a reduction in child poverty rates. NATSEM has developed a substantial body of research over the past 2-3 years which has focused on analysing the division between Australian men and women in relation to employment, income and wealth. One key area of enquiry has been research related to the gender wage gap in Australia (Cassells et al. 2008; Cassells et al. 2009a; Cassells et al. 2009b).

Persistent gender wage gaps are not only damaging to individuals and families, but evidence has also shown that these wage gaps can affect a country's growth rate. NATSEM recently undertook research for the Office for Women, investigating the key determinants of the gender wage gap in Australia, and its effect on economic growth. Very few international studies have sought to quantify the effect of the wage gap on the economy, and this research is the first of its kind for Australia. The research involved a sound knowledge of issues relating to the gender wage gap within Australia, critiquing existing statistical techniques, reviewing the abundance of literature surrounding these themes, and developing and enhancing existing methodologies in order to achieve robust and statistically correct results. Both a macroeconomic and microeconomic model were constructed in order to measure the effect of a sustained wage gap on the Australian economy, and to derive the key determinants of the gender wage gap.

We found that simply being a woman is the major contributing factor to the wage gap in Australia, accounting for 60 per cent of the difference between women's and men's earnings. Quantifying these result revealed that if the effects of being a woman were removed, the average wage of an Australian woman would increase by \$1.87 per hour, equating to an additional \$65 per week or \$3,394 annually, based on a 35 hour week.

Other key determinants of the gap that were identified and quantified were industrial segregation (25 per cent), labour force history (seven per cent), under-representation of women with vocational qualifications (five per cent) and under representation of women in large firms (three per cent).

Using rigorous macroeconomic modelling techniques, selected on the basis of a critical evaluation of several methodologies, we found that the gender wage gap has a substantial effect on Australia's economic performance, measured in terms of GDP per capita, and that the value of reducing the gap is substantial. We found that eliminating the whole gender wage gap from 17 per cent to zero, could be worth around \$93 billion or 8.5 per cent of GDP, with the negative impact of the gender wage gap on Australia's macroeconomic performance stemming primarily from the disincentive to work more hours associated with women's earnings being lower than men's.

In other research, we have focused on analysing the gender wage gap for our youngest workforce generation (Gen Y), and the change in the decomposition of the wage gap for this generation when followed over time, using longitudinal data (Cassells et al. 2008). It is often this generation that holds the highest hopes for breaking through the glass ceiling and finally seeing an end to gender wage gaps. The results from this research are still being finalised, but preliminary results suggest that the wage gap is almost non-existent for this cohort at the beginning of their working years, but slowly widening as they move throughout their working lives.

In order to provide a backdrop to issues surrounding gender division, research from a high profile, comprehensive report on women, produced for AMP will also be presented (Cassells et al. 2009). This research highlights the changes women have faced over the past decades, moving from the role of caregiver only, to caregiver and breadwinner, and the implications of this shift. We found large gaps still exist for Australian women in employment (both participation and occupation), wealth (especially superannuation) and earnings (in terms of life-time earnings and gender wage gaps). Our estimates of life-time earnings of Australian men and women found a gap of around \$1 million dollars, widening considerably when children and education are controlled for.

This amalgamation of research into wage gaps and gender division that is closely related to the wage gap, including employment, superannuation and wealth, will enable a stock-take of how far Australia has progressed in this area, and provide valuable insight into whether we are likely to move further towards bridging and perhaps eventually closing these divisions.

References

Cassells, R., Vidyattama, Y., Miranti, R., & McNamara, J., (2009b), 'The impact of a sustained gender wage gap on the Australian economy', Report to the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs (FaHCSIA)

Cassells, R., Miranti, R., Nepal, B. & Tanton, R., (2009a), 'She works hard for the money', AMP.NATSEM Income and Wealth Report No. 22.

Cassells R, Daly A, & McNamara J (2010) 'The Gender Wage Gap for Generation Y Australians', Forthcoming. Previous versions of this paper have been presented at the Australian Conference of Economists and the Feminist Economics Conference, Torino, Italy.