

## **THE ECONOMIC RATIONALES FOR NARROWING THE GENDER PAY GAP**

Prepared for the National Advisory Council on the Employment of Women

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### **Introduction**

The extent to which the gender pay gap represents inequities, and the approach that governments should take to improve the relative pay of women, are much debated within economics and public policy.

Notwithstanding these debates, the gender differences that lie behind the pay gap may be compromising the government goals of family well-being and economic performance. These linkages have been brought into focus by contemporary issues, including:

- The important role of women's earnings in achieving family and child well-being, as well as women's future earnings and independence
- The recognition that low pay contributes to lower female labour force participation rates, and that, in turn, being out of the workforce for substantial periods leads to greater difficulties in accessing sustainable employment in the future
- The stress of "work-life collision" experienced by households with children, and the need for better arrangements for work and childcare to enable parents to balance paid work and family responsibilities
- The drop in New Zealand fertility rates to below replacement level (without migration)
- Skill shortages, which have been identified as more severe in gender-segregated occupations, and as a serious impediment to economic growth
- A recognition that occupational downgrading, that is when someone is in a job which is below their level of skill and experience, can result from difficulties reconciling caring responsibilities with job demands
- The importance of shoring up labour force participation rates as the New Zealand population ages.

## **Outline of the Paper**

The first section discusses the factors that contribute to the gender pay gap.

The second section considers the aspirations of families and how these impact on labour force participation, work-life balance, and fertility, and summarises the rationale for family policies.

The third section considers gender equity issues that impact on business performance including skill shortages and occupational segregation, part-time work, low pay, pay equity, and human resource practices. It concludes with the rationale for a gender focus in economic transformation and productivity arenas.

## SECTION ONE: THE GENDER PAY GAP

### Trends in the Gender Pay Gap

The gender pay gap is one important indicator of gender differences in employment outcomes.

A commonly used measure of the gender pay gap in New Zealand is the gap between male and female average hourly earnings from wages and salaries. In the June quarter 2005, female average hourly earnings from wages and salaries were \$16.80, 85.8 percent of male average hourly earnings of \$19.58. The average hourly wages and salaries of Maori and Pacific women were substantially lower than those for women overall. Maori women's average hourly earnings were \$15.22 or 77.7 percent of average male hourly earnings and the average earnings for Pacific women were \$13.34 or 68.1 percent of average male hourly earnings. Pakeha women's average hourly earnings were \$17.34 or 88.6 percent of average hourly earnings for men. An ethnic pay gap also exists for men. Maori men earned an average of \$15.80 an hour, or 80.7 percent of the average male hourly earnings. The average hourly earnings of Pacific men were \$15.13, or 77.3 percent of average male hourly earnings (Statistics New Zealand, 2006: Table 10).

Both male and female part-time workers earn less than their full-time counterparts. In the June quarter 2005, women part-time workers earned, on average, 82.1 percent of the earnings of part-time men, and 76.7 percent of the earnings of full-time men (Statistics New Zealand, 2006: Table 6.07).

The gender pay gap narrowed substantially, from 72 percent to 78 percent, during the five year implementation of Equal Pay Act 1972 (Hyman, 1994:84). Since that time, the pay gap has narrowed unevenly and slowly (Taskforce on Pay and Employment Equity, 2004:23). The size of the gender pay gap varies for different age groups, and between men and women with qualifications, compared with those who do not.

### Why is there a gender pay gap?

#### *Discrimination*

Much analysis of the gender pay gap has focused on explaining the gap in terms of gender differences in human capital, i.e. the education, skills and experience men and women bring to their employment. Differences in human capital are regarded as a justified reason for pay differences, whereas differences in return to human capital are sometimes a consequence of discrimination.

The findings of pay gap studies on the extent of gender discrimination are debated, as are the "reasonable" explanations. For example, many studies find being a

married woman and/or working part-time are correlated with lower pay, but there remains the question of why these factors should reduce pay.

There is agreement that direct wage discrimination occurs when workers of equal productivity to an employer are paid unequally. In addition, the existence of non-wage labour market discrimination through unequal access to jobs, training, promotion and other human-capital enhancing factors, is generally accepted.

### ***Education and work experience***

Researchers have typically found that around one-third of the pay gap can be attributed to productivity-related factors such as education and length of past work experience (Dixon, 2000: 16). Relative increases in women's human capital compared with men's, through higher education levels and more time spent in the workforce, has contributed to the narrowing of the pay gap.

### ***Occupation and industry***

Occupation and industry, i.e. job characteristics, account for up to a third of the pay gap (Dixon, 2000: 16). Walby and Olsen's review of studies found that, in addition to occupational segregation and industry, other characteristics of the firm, region, attitudinal differences and differentials in commuting times also contribute to the gender pay gap (Walby and Olsen, 2002: 49). The assumption that the occupations and industries where men and women work are freely chosen is controversial, and the elements of indirect discrimination that contribute to gender difference in occupations will be discussed later in this paper. Also contributing to this part of the pay gap is lower average pay rates in female dominated occupations:

From the point of view of equal pay for work of equal value, proportions of the gender pay gap attributable to occupation/industry breakdowns are simply a starting point to be problematised (Hyman, 2001).

### ***Marriage, motherhood and part-time work***

Recent studies show that, in addition to the amount of time individuals have been in the workforce, interruptions to labour force participation, and working part-time, independently exacerbate the gender pay gap.

Pay gap studies have also found evidence of a motherhood and marriage wage penalty that has been variously attributed to a mix of human capital (work experience), job tenure, and lower pay rates in part-time jobs (Dixon, 2000: 17).

Several studies have found a bifurcation in the characteristics of mothers that work full-time and part-time. In one longitudinal study in the United States (US), low income mothers were more likely to work part-time, less likely to have qualifications, and worked in a narrower range of occupations. In contrast, the higher earning mothers were more likely to be qualified, work full-time and work for government. Job turnover was twice as high for the low income group (Lee, 2004). Another US

study found evidence of a widening pay gap between married women and other women, the “family gap”, that could only be partly explained by differences between the groups (Waldfogel, 1998).

### ***Impact of wage dispersion***

Studies have found considerable variation in the pay gap at different points on the earnings distribution. Some studies have drawn attention to the fact that the greater the wage dispersion is, the higher the pay gap is likely to be, due to the concentration of women amongst low earners. This point is captured by the “swimming upstream” metaphor used to explain how a widening dispersion of wages reduced the expected contraction of the gender pay gap in the US at a time when women’s earnings rose rapidly (Blau and Kahn, 1997). A corollary is that mechanisms that reduce wage dispersion, such as increases in the minimum wage, tend to narrow the pay gap as disproportionately more women than men are paid at or near the minimum wage.

Institutional factors make a difference to wage dispersion. The presence, and legitimacy, of trade unions and laws governing human rights, equal employment opportunities (EEO), industrial relations and minimum wages, all impact on wage dispersion. A narrower dispersion of wages may also be more likely to occur in countries where benefit provisions or restrictive labour market regulations exclude less productive workers from the labour market (Glaeser, 2005).

### ***Employment rates***

Olivetti and Petrongolo concluded that if Ireland, France and Southern Europe had similar female employment rates<sup>1</sup> to the US and the United Kingdom (UK), the gender wage gaps would widen and tend to match the higher US and UK levels. This is because, in the former group of countries, lower female employment rates are also associated with employed women having higher levels of education and experience on average, than the women not in employment (Olivetti and Petrongolo, 2005).

## **The Gender Pay Gap in New Zealand**

Dixon (2000) undertook the most detailed analysis of the gender pay gap in New Zealand, using data from the Household Economic Survey and Household Labour Force Survey Income Supplement. Her analysis of the gender pay gap changes between 1984-1988, and the further analysis of the narrowing of the gap between 1997-2003 (Dixon, 2004), took a human capital inspired approach and use Blinder-Oaxaca decomposition techniques. This approach is focused on individual attributes, and Dixon notes data limitations do not enable robust analysis that takes into account firm-level, societal and institutional factors (Dixon, 2000: 23). Appendix Two discusses some of the more technical issues and debates around the

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<sup>1</sup> Employment rates refer to the proportion of the working age population in employment, that is, they are neither unemployed nor out of the workforce.

wage statistic chosen to measure the gap, and assumptions underpinning the decomposition of the pay gap.

Dixon's analysis concluded, from a number of different approaches, that four variables; education, past work experience, occupation and industry, accounted for between 40-80 percent of the gender wage differential, leaving 20-60 percent not accounted for. Proxies for skill (educational attainment and experience) accounted for 30-60 percent, and occupation and industrial distribution 20-40 percent. Dixon commented:

Although a large proportion of the contemporary male-female gap in average hourly earnings can be attributed to these differences in measured skills and job characteristics, that should not be taken to imply that the 'explained' portion of the gender pay gap is fair, efficient or justified (Dixon, 2000: 9).

Dixon found that mothers in the 25-29 and 30-34 age groups earn substantially less per hour than women without dependent children, with sole mothers have the lowest average hourly pay (from 1997-98 IS). For these women, wage regression (holding constant difference in age, educational qualification and marital status) showed the hourly earnings penalty for one child is around - 7 percent and for two or more children - 10 percent. Sole mothers in waged employment were estimated to experience wage penalties that were 1.5 times larger than those experienced by partnered mothers. When experience levels were imputed into the equations to account for the time mothers take out of the workforce, however, hourly earnings penalties reduced to insignificant levels in some cases. Dixon cautioned against drawing firm conclusions given the limitations of the data and methods used.

Dixon did not, however, find evidence in New Zealand of mothers in part-time work being paid less than similarly skilled and experienced mothers in full-time work, although this has been reported in a number of qualitative studies. Twenty percent of women in an Equal Employment Opportunities Trust online survey reported they returned from parental leave to a lower level job (EEO Trust, 2005). A study of 42 mothers with one employer found that of the 43 percent who had resigned, 33 percent returned to lower level positions, 40 percent to positions at the same level and 27 percent had a change of career (Mason, 2000). Bryne (2002) who studied women combining paid work and parenting, similarly found examples of occupational downgrading, even for some women returning from parental leave, as a consequence of restructuring and technological change.

The judgments involved in separating out discrimination from the other factors that have led to women and men largely working in different occupations, and having different patterns of paid and unpaid work, are highlighted by two New Zealand pay gap studies that came to quite different conclusions about discrimination.

Alexander, Genc and Jaforullah (2004) concluded from four years of Income Survey data (1997-2000), and controlling for productivity characteristics including age,

household type, qualifications, occupational class, marital status and location, that there was evidence of significant ethnic and gender wage differentials. They acknowledged that part of these differentials were related to disadvantage in accessing employment, i.e. less time in work and more breaks from work, but regarded this as being part of the discrimination picture.

In contrast, a study of the public sector found that productivity related factor accounted for almost all the gender pay gap within that sector (Gosse and Ganesh, 2004). This study accepted occupational segregation as an explanatory variable. It found that there was no gender bias in how job size points were translated into salaries. It did not, however, address the issue of gender bias in job sizing which is a key contention of pay equity advocates.

### **The Gender Pay Gap in the United Kingdom**

Walby and Olsen's analysis of the UK gender pay gap drew on British Household Panel Survey longitudinal data from 1990-1999. The authors recognised discrimination as one element in the "unexplained" portion of the gender pay gap, but identified indirect discrimination, such as constraints facing part-time workers, as key to the differences in women's and men's skill acquisition and progress once in the workforce.

The table below summarises Walby and Olsen's findings.

#### **The United Kingdom Pay and Productivity gap (Walby and Olsen, 2002: 11)**

<b>Component</b>	<b>Women's levels compared with men's</b>	<b>Percent of gap</b>
Full-time employment experience	-7.7 years	26
Interruptions due to family care	+3.2 years	15
Part-time employment experience	+4.1 years	12
Education	-0.3 years	6
Segregation	.34/.70*	13
Discrimination and other factors associated with being female		29

\* This is an index of the extent to which women and men work in male-dominated occupations and shows that women work in occupations that are 34 percent male whilst men work in occupations that are 70 percent male.

What is striking here is that differences in employment experience account for nearly 40 percent of the gap, with interruptions to labour force participation accounting for a further 15 percent, compared with only 6 percent of the gap being attributed to differences in women's and men's education and skills. This suggests wastage or obsolescence of skills, that is, what happens after women join the workforce, is key to both using skills fully, and ensuring continued access to skills over working life.

## **SECTION TWO: FAMILY WELL-BEING AND THE GENDER PAY GAP**

### **The Imperative for a Focus on Gender Equity**

Neoclassical economists, amongst others, have tended to view gender differences in employment outcomes, including pay, as largely resulting from optimal decision-making within households. Partnered women have been seen as less attached to the labour force and their labour supply as more sensitive to wage levels and household income than men's, because they are substituting between unpaid home production and paid work. Historically, this has also been seen as the reason why women invested less than men in education (Mincer, Polachek, Becker).

This assumed specialisation of fathers as "breadwinners" and mothers as "homemakers", however, does not reflect social norms today. This paper contends that policies and practices that do not take account of the wide diversity of aspirations within both the female and male populations are, in effect, barriers to heterogeneity and the aspirations of the growing numbers of women and men who seek to balance their work and family goals.

A survey of 1,128 New Zealand parents in 2004, found considerable diversity in views about working and responsibilities for children, and around gender roles.

Two-thirds of parents (69 percent of men and 60 percent of women) indicated that they would prefer to have a job even if they had a reasonable living income without one. Fifty-nine percent preferred both parents to be in paid work, with about half of these parents considering one parent should have a less demanding job. Thirty-nine percent of parents preferred a family where only one partner has a job, with this being a more common preference for men (43 percent) than women (36 percent).

Of those who preferred both parents to be in paid work, and one parent to be in a less demanding job, 56 percent said it doesn't matter which parent has the less demanding job, of the remaining 44 percent, 37 percent believed that females should have the less demanding job, and only 4 percent thought men should have the less demanding job (Ministry of Social Development, 2006: 11, 14).

### **Labour Force Participation and Aspirations**

The labour force participation of mothers has been rising with each successive cohort. Today, the overwhelming majority of mothers are in employment, with many of them in full-time jobs.

Notions of marriage and dependence have changed. The expectation of lifetime income sharing, that previously enabled mothers to confidently withdraw from the workforce, is less common. Divorce has increased, and post separation financial settlements tend to provide ongoing support for children, but not former partners.

Aspirations are changing. Nearly all respondents in the New Zealand Work, Family and Parenting Study (94 percent) agreed that housework and childcare should be equally shared when both parents are in paid work. Of those households with both partners having equally demanding jobs, however, equal sharing of housework only occurs in 32 percent of cases (Ministry of Social Development, 2006: 15, 16).

A substantial minority of families, however, are not achieving their preferred pattern of paid and unpaid work. A third (35 percent) of household where both parents were in paid work would prefer only one parent to be in paid work and 46 percent of households where one parent was in paid work would prefer both partners to be in paid work (Ministry of Social Development, 2006: 12). This tendency for a higher proportion of couples to prefer both partners to work than occurs in reality is also true in many other countries and Jaumotte (2003) found in Europe that mothers wanted to be in work to a greater extent than they are. Callister speculates that the reasons for unmet preferences are likely to include a lack of affordable and quality childcare, insufficient flexibility in jobs, and a lack of sharing of unpaid work in the home (Callister, 2005:7).

The dilemma facing families, and women in particular, is heightened by the long working hours of the fathers of young children. In New Zealand, employed fathers of dependent children work an average of 48 hours a week. In the OECD, only fathers in the UK work longer average hours. At the same time, an EEO Trust on-line survey indicated that 80 percent of fathers would like to spend more time with their children (Callister, 2005:14, 15). It is not known why fathers work such long hours and whether these would reduce if the average hours worked by mothers increased.

Part of the story is likely to be about maximising family income. Because men earn more on average than women, and the full-time "ideal worker"<sup>2</sup> is still the assumption within most workplaces, family incomes tend to be higher in the short-run if women, rather than men, take on responsibilities for childcare. A review of the gender pay gap in Western Australia identified research that found that while young Australians rejected the male breadwinner and female homemaker model, their aspirations for more equal sharing of work and family were undermined by women earning lower incomes (Todd and Eveline, 2004:21).

For individual couples, the long working hours of fathers will typically increase the direct costs to mothers of women engaging in work as their partner will not typically be available to share elements of care such as being home for children after school.

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<sup>2</sup> The notion of the "ideal worker" is someone who "obtains relevant career credentials, moves immediately into employment and works long hours with few interruptions for periods of years or even decades" and as the group who "access rewards such as high pay, promotions and status", in contrast to non-ideal workers who choose part-time employment (Drago et al, 2004, citing Joan Williams).

## **Penalties from Quitting Work**

This gendered division of labour in the short-term, however, leads to couples and women in particular, having lower lifetime earnings, due to the negative impact on future earnings of leaving the workforce.

Mothers who interrupt their labour force participation experience lower wages and lower levels of future productivity. One UK study estimated that, women lose over 50 percent of lifetime earnings as a result of quitting the labour market to have children, with this loss composed in almost equal parts of lost years at work, reduced hours after returning to work and lower hourly earnings as a result of quits (Joshi and Davies, 1992 cited in Rubery et al, 1999:21).

Somewhat ironically, but consistent with the hypothesis that employers regard full-time, full year workers as "ideal", men who take a break from employment experience less of pay drop. Gregg found that women who return to employment after a years absence receive a wage on average 16.1 percent less than their former job, compared with men whose pay dropped an average of 6.5 percent and married people experience a greater drop than single people (Gregg, 1998, cited in Walby and Olsen, 2002:27). Similar pay issues are likely to be experienced by middle-aged people (mainly women) who reduce their labour force participation to meet their caring obligations.

Some evidence also suggests that men are less likely to be seen as needing consideration for family responsibilities in the first place. The Work, Parenting and Family study, for example, found that 45 percent of women, but 39 percent of men, agreed strongly that their supervisor cared about the impact of work demands on their personal and family life (Ministry of Social Development, 2006:25).

From an economic point of view, the impacts of quitting work are sufficiently large that, for many women, entering into debt to fund childcare in anticipation of future higher earnings should theoretically be a good investment. Yet evidence suggests that immediate financial gain, that is the net return from employment once childcare costs have been set against a mother's net earnings, is the usual factor determining return to work post maternity leave. The net return is affected not just by wage rates, but also the direct costs of childcare as well as the tax and benefit policies, such as Working for Families, that impact on family incomes.

These factors are likely to be a key part of the explanation as to why so many families do not have their preferred working arrangements. On the one hand, some mothers may return to work full-time when parental leave expires because they do not want to face the penalties of quitting, and do not have alternatives such as returning part-time, and/or taking a longer period of leave. For those who do quit, disappointing and often low-paid job prospects, particularly if they wish to work part-time, flexible hours and/or close to home, as well as the costs of childcare and reductions in family support, may make taking on work uneconomic, and deter them

from re-joining the workforce. These pay-related issues are discussed further in the next section.

### **Fertility Issues**

Women are having fewer children and having their first children at older ages and New Zealand's fertility rate, as in most developed countries, is now below replacement level (without migration).

The inability of some families to adapt to changed aspirations and norms in ways that meet the well-being of family members, and the longer-term interest in population regeneration, has been explained in terms of household economic bargaining. Partial specialisation in household production reduces women's earning power in the market and hence their bargaining power relative to their husbands. The reduced propensity for couples to have children has been explained as a form of "prisoners dilemma" where the incentives facing individuals mean the desired outcome cannot be achieved:

Even if having a child would increase the utility of both spouses and result in a net welfare gain for the family, the decision may not be in favour of having a child if this can only be accomplished by disrupting the working life of one spouse, realistically the wife, such that her bargaining position would be significantly reduced. The new outcome may reduce her welfare below the status quo level and she will not agree to the decision to have a child. Although, in principle, the spouses could fix the future distribution and agree that they will not re-negotiate, in practice the contract is not enforceable. The woman stopping market work makes her contribution immediately and the loss of earnings is irreversible, while the husband is to contribute when the additional welfare benefits have already been obtained. If he breaks the contract then and asks for renegotiation, he can gain additional benefits (Rubery et al, 1999:8).

The drop in fertility across developed countries is an emerging issue of economic importance. The OECD warns of a fertility trap of lower birth rates and low growth in the future as working age populations decline and countries face higher costs of larger older populations (Mortvik, 2005).

### **Childcare and Parental Leave**

Apart from some international studies that suggest small negative effects of maternal employment for very young children, both parents working is compatible with child well-being. High quality parental care, high quality early childhood education and higher family incomes for poor families are the key factors that positively affect children's development (Ministry of Women's Affairs, 2004).

A large literature examines how responsibilities for children, barriers to alternative care arrangements, and assumptions in workplaces about the need for jobs to be full-time, limit the aspirations, education and labour market choices available to women, and mothers in particular.

Women with children who live in poor households face greater barriers to labour force participation after having children, and long-term risks of poor earning potential. In poorer households, costs such as childcare and transport, as well as the difficulties in securing suitable arrangements, and lower earning potential on average, contribute to lower levels of labour force participation. International evidence suggests these women are also more likely to be vulnerable to depressed wages due to constraints on both hours and the location of work. On the other hand, higher earning women, if they have children at all, are becoming more and more likely to return to work after maternity or parental leave. In the US, married women's labour supply behaviour is becoming much more like men's (Blau and Kahn, 2005).

Countries that have implemented work-friendly family policies (maternity leave, child care etc) have had better success in closing the gender pay gap (Waldfogel, 1998) and in maintaining fertility rates (Mortvik, 2005; Jaumotte, 2003). Attitudes that keep men at work and women at home make it difficult for parents of both sexes to combine family life with other priorities, particularly gainful employment, but also education, and this in turn holds down the birth rate.

In recent decades, it is the countries where there has been a focus on women being homemakers that are having the sharpest reductions in fertility. A recent survey by the United Nations found the larger the proportion of the population that agreed "a man's job is to earn money; a woman's job is to take care of home and family", the lower the birth rate. Other OECD analysis has found that countries with higher birth rates also had more work-friendly family policies (Mortvik, 2005).

There are several economic rationales for supporting government policies that fund maternity and/or parental leave, childcare and out of school care.

One rationale is that children are "public" or "merit" goods and that government should take responsibility for childcare for the same reasons that it funds education (Folbre, 1994). Associated arguments include returns to scale, and quality assurance, from government involvement compared with the transaction costs and quality risks in setting up private arrangements. Evidence that some parents opt for low quality care, including informal and insecure arrangements, as a way to make ends meet is a further rationale. A more recent argument is that, without substantial government intervention, there will be an underproduction of care, as evidenced by declining fertility in developed countries where government support for childcare and parental leave is limited.

A further rationale is the desire to avoid the family poverty that arises when parents, and sole mothers in particular, face real barriers accessing sustainable jobs and cycle between marginal employment and unemployment.

Another set of arguments stem from examinations of the barriers to women's labour force participation in the context of maintaining economic growth with an ageing population. Maintaining an employment connection is a protective factor for mothers, and this has been a key influence in the provisions of both paid and unpaid parental leave in New Zealand. Maternity leave provisions typically increase women's labour force participation (Ruhm and Teague, 1995). International comparative studies have found the positive effects of greater labour force participation tend to outweigh the costs of up to 20 weeks of paid parental leave (Jaumotte, 2003).

Paid parental leave is relatively new in New Zealand and preliminary finding from an evaluation indicate mothers have high rates of return to employment. Early analysis of a representative sample of women who had babies between 1 December 2004 and 31 May 2005 found that 75 percent of the mothers surveyed had worked for at least six months prior to the birth of their baby, and, of the mothers who had not returned to work, 84 percent planned to return to work in the future with half planning to return in six months.

By stimulating higher labour force participation, paid parental leave and other work-friendly family policies, produce measurable benefits for firms. Kingsmill's review of pay and employment equity in the UK found clear evidence of family friendly policies increasing the return rates from maternity leave. She cited evidence from one finance firm that had increased their maternity return rate from 75 per cent to 85 per cent, and thereby made business savings of £2 million per annum (Kingsmill, 2001).

Childcare has been shown to benefit children and subsidies for childcare produce labour force participation benefits too. There is a positive relationship between lower childcare costs and labour force participation, although there are different views on the size of the effects. Studies have also found that childcare subsidies stimulate full-time employment more than part-time employment (Jaumotte, 2003:10, 13). The Ministry of Social Development's Living Standards Survey shows that high costs of early childhood services in New Zealand also present an access barrier for some parents.

Jaumotte argues for childcare subsidies to reduce the effective tax burden on mothers thus removing the distortions to their labour supply that she argues is why women's employment rates are lower than women would like them to be. Further arguments for childcare subsidies are that women cannot borrow against future earnings to finance childcare and as insurance against higher welfare spending in those cases where the absence of affordable childcare leads to withdrawal from the labour market or marginal attachment.

Reducing barriers to women's labour force participation has also been raised as a rationale for longer school hours as short school hours have also been identified as a constraint to mothers taking on full-time employment (Jaumotte, 2003:15)

## **Income**

The most important component of income is pay, and will be discussed in the next section.

The design of tax and benefit policies also matter. New Zealand adheres to the principle of taxation being neutral to couple status. The design of family support, however, does impose high effective marginal tax rates on increases in joint family earnings for low and middle income parents. Rates are even higher if childcare costs are included in the equation. In effect, this is most likely to impact on mothers as they are more likely than fathers to change their hours of work. While trade-offs between family income support and labour market incentives are, to some extent, inevitable, the provision of an incentive for couple-headed families to be dual rather than single earners could go some way towards redressing the problem of high effective marginal tax rates.

## **Conclusions**

Household decisions appear not to be achieving optimal decisions around work patterns and having children and caring for them, and therefore compromise the the wellbeing of both partners and the children in the present and the future, as well as fertility rates. Policies that enable parents, and mothers in particular, to reconcile employment with childcare responsibilities may also reduce the financial risks, to individuals and government, that are associated with marriage failure.

In addition to the frequently documented case for childcare subsidies, there is an emerging rationale for government to support greater equity within households through incentives for men to take parental leave. Despite statutory entitlements in New Zealand and other countries, few fathers actually access parental leave, thus reinforcing traditional gender roles within the family and perpetuating differences in labour market outcomes. The OECD has recommended that part of parental leave be available to fathers on a 'use it or lose it' basis (OECD, 2004).

### **SECTION THREE: ECONOMIC PERFORMANCE AND THE GENDER PAY GAP**

A scarcity of workers will increase incentives for women to be in paid employment. Unless workplace conditions are responsive to families, these incentives will add to the downward pressure on fertility, thus accelerating the process of population ageing (Population and Sustainable Development, 2003:8).

#### **The Imperative for a Gender Equity Focus**

Shoring up labour force participation and workforce productivity are key elements in achieving government's economic transformation goals.

For businesses, many of the action areas identified in the Workplace Productivity Challenge (The Workplace Productivity Working Group, 2004) could be enhanced by a gender equity focus. A pursuit of gender equity would contribute to the goals of building leadership and management, creating productive workplace cultures, investing in people and skills, organising work, and measuring what matters.

On the government expenditure side, managing the costs of an ageing population will require attention not just to the costs of older people, but also to expenditure on younger generations. Productivity advances through improving skills and maximising skill utilisation will generate efficiencies in the expenditure geared to the working age population, such as maximising returns from investments in education and training, and containing unemployment, low wages and the costs of welfare supports for working age people. For individuals, enhanced skills and better skill utilisation should, in turn, translate into improvements in pay rates and well-being.

The literature on improving worker productivity has tended to take a simple lifecycle approach that assumes school education is followed by further education or skills training and then skills enhancement within the workplace. This approach is based on the "ideal worker" assumption that fits with the male "breadwinner" and female "homemaker" assumptions that have dominated past thinking about family policy. Its relevance is diminishing in a world of higher levels of female participation in the labour force, increasing skill obsolescence, higher levels of self-employment and contracting, higher migration, and growing disparities in unemployment and wages between the skilled and unskilled.

A key message from recent studies in the UK and the European Union is that occupational segregation, occupational downgrading, and discrimination in the labour market, are not just bad news for women's pay, but also lead to lower productivity (Kingsmill, 2001; Rubery et al, 1999; Walby and Olsen, 2002). New Zealand evidence, while less robust, concurs with this analysis.

## **Skill Shortages, Education and Training**

For occupations with a strong gendered divide, employers continually select from an artificially reduced pool of talent by drawing from one half of the available population. At a time of skill shortages, it is important that we look at ways to expand the pool of talent so that everybody's skills are utilised to the full (Women and Equality Unit, Department of Trade and Enterprise, UK).

Skill shortages constrain the production of goods and services, and therefore economic growth. Attracting and retaining staff becomes more difficult when only a portion of the workforce is available for an occupation, and this is evidenced by segregated occupations being more likely to experience persistent skill shortages. For example, all of the 16 trades, and most of the 10 professions, deemed as experiencing skill shortages in recent Department of Labour assessments were male or female dominated occupations (Department of Labour, 2005). The Department identifies "a genuine skill shortage" as occurring where there are insufficient job seekers with the required skills. This tends to be a more common occurrence in male dominated occupations, such as the building trades. Alternatively, "recruitment and retention difficulties" occur where there are sufficient numbers of skilled individuals but they are unwilling to take up employment at the current levels of remuneration and conditions of employment. Recruitment and retention difficulties are more prevalent in female-dominated occupations, such as hairdressing and nursing, suggesting remuneration is an additional factor.

Women's education choices, level of participation in the labour market, and the jobs they do, have traditionally been seen as reflecting personal preferences and representing rational choices, particularly around sharing paid and unpaid employment within households (O'Neill and O'Neill, 2005).

The persistence of skill shortages has signalled a need to explore why occupational segregation seems almost intractable despite price signals and employment laws prohibiting discrimination. Gender segregation in New Zealand is changing very slowly in with nine of the 10 most common occupations for women being the same in 2001 as they had been in 1991 (Else and Bishop, 2003). Less than 10 percent of the recruits to the government's flagship Modern Apprenticeship programme have been women, and the programme has not impacted at all on gender segregation within the traditional trades.

An examination of the difficulties in breaking down segregation in the UK found that while many employers were open to placing both women and men in non-traditional occupations, there are barriers earlier in life.

Career education and work experience placements were found to be strongly segregated by gender, reinforcing gender stereotypes about work. Interviews with students, however, found a significant proportion of both boys and girls were open to considering non-traditional work, with over 70 percent agreeing that more jobs

would be done equally by both sexes in the future (Equal Opportunities Commission, 2005). Within the professions, women's narrower range of subject choices at school carries through into their lower representation in technological fields. The UK review of women's employment and pay concluded that the key to tackling the concentration of women in lower paying occupational sectors is to focus on education and influencing the aspirations and assumptions made in childhood and early adulthood (Kingsmill, 2001).

The Workforce Productivity Challenge identified a need to strengthen links between education and training providers and employers' skill needs (The Workplace Productivity Working Group, 2004: 70).

People not in work also need attention. Currently, policies that support retraining or confidence-building for people who are not in employment are focused on people in receipt of an income maintenance benefit. This excludes those at-home parents, mainly mothers, who have an earning partner. There are high costs to individuals and the welfare system from workers whose employment is intermittent and low paid, and thus economic and social benefits from providing these carers with opportunities to revitalise their skills or retrain, and re-enter the labour force in jobs where they can be their most productive.

Female-domination of some occupations is reinforced by two other gender factors. Firstly, female-dominated jobs tend to be low paid, and remain low paid for a number of inter-related reasons, and this deters the entry of men into those jobs. Low pay and its implications for productivity in female dominated jobs is discussed further in the sections on part-time work, pay equity and low pay.

Secondly, the expressed preferences of mothers, in particular, for part-time work, and the concentration of this work in a small range of industries and occupations. Moss also argues that women prefer workplaces with a balance of men and women, as they use work place diversity as a proxy for a non-discriminatory environment. He argues this preference creates enduring occupational segregation even in the face of legislation against discrimination and women's increased labour force participation (Moss, 2004). This suggests a need to gender-proof leadership and management cultures not just in mixed workplaces, but also in male-dominated ones.

### **Part-Time and Flexible Jobs**

In New Zealand, 36 percent of employed women work part-time, compared to the OECD average of 19 percent. Despite the high proportion working part-time, only 61 percent of parents in the Work, Family and Parenting study had permanent part-time work available in their current job, and this was more available to women (78 percent) than men (44 percent) (Ministry of Social Development, 2006: 29, 30).

International and New Zealand evidence points to workers with caring responsibilities, primarily women, being over-represented in occupations that are

part-time, female-dominated, and low paid (Else and Bishop, 2003; Francesconi and Gosling, 2005; Manning and Petrongolo, 2005; Lee, 2004; Jaumotte, 2003).

A growing body of evidence points to poorer skill utilisation within the part-time workforce compared to that occurring for full-time workers. There is increasing interest in why workplaces fail to provide jobs at the appropriate level to workers who take time out of the workforce, need flexible hours, or wish to work part-time.

The uneven distribution of part-time work and flexible work arrangements across industries and occupations, and their concentration in lower paid and lower ranked jobs reinforces occupational segregation, both within occupations and firms (vertical) and across different occupations (horizontal).

In New Zealand, in three of the top 10 occupations for women, the majority of women are employed part-time; sales assistant (54 percent), cleaner (78 percent) and caregiver (60 percent). The predominance of lower skilled jobs, as well as jobs where skills are not recognised or undervalued, within these female dominated occupations combines to reinforce lower hourly pay rates. Conversely, few men in male dominated occupations are employed part-time (Else and Bishop, 2003).

In the UK, part-time workers are likely to have lower-level or no educational qualifications, and are on average more likely to work in the distribution, hotel and catering industries, and in school and higher education. They are also more likely to be in relatively low-level occupations and in sales occupations (Francesconi and Gosling, 2005).

International evidence associates working part-time with occupational downgrading. The Equal Opportunities Commission in the UK concluded from a study on part-time work that about one-third to a half of part-time workers are working in jobs below their potential. The longer people are in part-time work, the lower their wages are likely to be, even if they return to full-time work. In addition, both female and male part-time workers receive 40 percent less training than their full-time counterparts (Francesconi and Gosling, 2005).

Thus, the concentration of women in poorly paid part-time work is recognised as a significant factor in the scale and persistence of the gender pay gap. It is a loss in productive potential where part-timers do not receive training to enable them to progress in jobs and where mothers, in particular, take on jobs for which they are over-qualified because the hours and/or location enable them to balance work and family responsibilities. There is also evidence of market failure, due to employers having a monopolistic or wage setting position in regard to certain part-time jobs. One reason this particularly affects mothers is because their other responsibilities restrict their geographical mobility as well as their hours of work and as a result have fewer employment options.

Another UK study found:

It is not the high concentration of mothers in poorly paid part-time jobs that causes the low average pay of part-timers. The story appears to be rather the opposite. Mothers tend to be poorly paid because they take part-time jobs ... it is the type of job done rather than her parental status, which makes a woman badly paid ... relevant features of part-time jobs include their low-status occupations, their tendency to be in small private firms, and to involve a shorter journey to work (Joshi and Paci, 1999, p.106, 109, 137).

Walby and Olsen cite a further study which found that training is concentrated towards 'traditional' workers; that agency and contract workers receive considerably less training; and those in lower occupational groups get less training than those in higher occupational groups. Their analysis of part-time work in the UK concludes that the construction of part-time work contains a legacy of historic discrimination against married women in the workforce and that the concentration of the part-time workforce in low skill, low paid and low-productivity sectors is not inevitable (Walby and Olsen, 2002: 25-41).

Being in part-time work entails a greater risk of not advancing within one's career, and not being able to switch back to full-time work. Australian research found that part-time employees often find it difficult to increase their hours to full-time, and that it was harder for women working part-time to increase their hours to full-time than for men working part-time; they attributed this to employers being more likely to regard men as "ideal workers" even when they are working reduced hours. The study also found both men and women working full-time faced a similar level of difficulty in reducing hours and that both women and men professionals and managers had more difficulty retaining their jobs on a part-time basis than other occupational categories (Drago et al, 2004).

McPherson argues that better recognition of those who want to work part-time is key to improving productivity as the availability of part-time work attracts mothers who would not work full-time. She cites evidence that part-time work can be successfully undertaken by senior managers and professionals - a US study found that providing part-time work options to highly educated, high income working mothers meant around a quarter stayed in work because of the part-time option and that legislative provisions create an entitlement to work part-time in some jurisdictions. As the age at which women have children increases, there is a need for part-time work at more senior levels so they can maintain their productivity (McPherson, 2005).

Yet, the conceptualisation of the "ideal worker" as full-time underlies the dangers for women if they predominate in part-time work, even if this fits better with parental aspirations. Where part-time work entails a wage penalty, job insecurity, and little training, it risks marginalising women in these jobs. The Equal Opportunities Commission in the UK has raised concerns about the "mummy track" where it is

mothers rather than fathers who take up flexible arrangements. Jaumotte cites mixed evidence on the consequences of part-time employment; while it sometimes leads to full-time work but also that it increases the probability of working part-time in the future and increases the probability of leaving the labour force.

The OECD has recommended that New Zealand create an entitlement to part-time work for parents with very young children. The UK introduced a right to request flexible work arrangements several years ago, which places the onus on employers to justify why they cannot allow a parent to work part-time (OECD, 2004).

This issue is not trivial. The treadmill of low income, insecure work and spells out of work, appears to be a very real risk for less skilled female parents who work part-time and may go some way to explaining the difficulties of female sole parents moving out of the benefit system altogether. In the New Zealand context, the concentration of less educated women as sole parent beneficiaries, and of Maori and Pacific women within this group, creates a danger of cementing ethnic and gender disparities within their families.

### **Low Pay**

A common theme within discussions on improving productivity is the importance of lifting skills, and consequently raising wage levels, to preserve New Zealand's international competitiveness. In New Zealand, women, particularly Maori and Pacific women, are over-represented amongst the low paid.

Pay levels, discussed further in the section on pay equity, are determined within a social as well as economic context. The role of trade unions, human rights and minimum wage laws, government policies and compacts, impact on the wages of particular groups and wage dispersion generally. Internationally, there is large variation in wage dispersion that cannot be explained through differences in productivity. Nor does evidence support the view that a wide wage dispersion is necessarily better for economic growth.

Low pay rates can also provide disincentives to invest in capital and thereby compromise capital's potential contribution to productivity growth. As noted by Hall and Scobie (2005):

Capital intensity in New Zealand has not been increasing as fast as in Australia for nearly 25 years. Between 1995 and 2002, lower capital intensity explains 70 percent of the difference in output per hour worked. Whereas the cost of labour relative to capital has been rising in Australia, it has fallen by 20 percent in New Zealand between 1987 and 2002 ... It is to be expected that New Zealand enterprises would therefore tend to adopt less capital intensive production methods.

Hyman (2006) points out that there is some reverse causation from low earnings to low labour productivity via low capital intensity. Thus employers may be reacting to low wages by under-capitalising, and substituting cheap labour, especially at the lower end of the market, thus exacerbating any lower productivity and limiting future returns to these workers.

In addition to the tendency for female domination to depress wages in an occupation, there is a growing body of evidence that suggests penalties to women's pay also reflect a depression of wages due to monopsony<sup>3</sup> or monopsony-like labour markets, where people who need to work restricted hours and/or are constrained in how far they can travel, can only gain employment in a limited range of jobs.

Monopsony-like conditions can lead to depressed wages in industries where the combination of a dominant funder and competition amongst providers in a market where set-up costs are low, leads to the service-providing firms being price takers. An examination of the wages of homecare workers in New Zealand found that the government purchasers effectively set prices. This study also found that the homecare workers' own predilection to care for others meant that many workers topped up minimal and under-described service by providing extra, without pay, to their vulnerable clients (Burns et al, 1999: 20-22, 41).

### ***Impacts of low pay on family well-being***

There has been limited exploration of the impacts of low pay on women's well-being, labour force participation, lifetime earnings and workforce productivity. Given the disparities between "work rich" and "work poor" households, low paid women are likely to be concentrated in lower income and beneficiary households.

As noted above, low paid women are less likely to have qualifications and unqualified mothers have much lower labour force participation rates than qualified mothers, as the latter group has the most to gain financially from returning to work (Johnston, 2005: 17). These depressed hours of employment will, in turn, reduce the opportunities for these women to develop skills at work, and will lessen prospects for substantially improving their pay in the future. This has been found to be the case in the US where a longitudinal study has found that women are much less likely to move out of low paid work than men and make up 90 percent of the persistent low wage earners (Hartmann, 2004).

### ***Minimum wage interventions***

The widening wage dispersion has added force to arguments to use the minimum wage or a living wage as a tool to improve pay, and thus narrow the gender pay gap, as women are over-represented amongst the lowest paid. Minimum wage adjustments would also increase the relative share received by Maori and Pacific

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<sup>3</sup> Monopsony refers to a situation where an employer has sufficient power in the market to maintain pay and conditions below efficient competition levels.

workers who are over-represented amongst those paid at or near the minimum wage and narrow the ethnic pay gap.

The orthodox economist view that minimum wage increases necessarily reduces employment levels has been challenged by empirical studies in New Zealand and elsewhere (Card and Krueger, 1995; Chapple, 1997). Part of the explanation of why employment does not necessarily reduce in the wake of an increase of the minimum wage lies with efficiency wage theory, whereby minimum wage increases can decrease turnover and increase in worker satisfaction, hence productivity. Card and Krueger also argue that minimum wage increases can “shock” firms into adopting better management practices.

Card and Krueger contend that a minimum wage increase may lead to an increase in employment in situations where the previous wage rate was too low to fill all vacancies, such as occurs where employers are in a monopsony position and have sufficient power in the market to maintain pay and conditions below efficient competitive level through restricting numbers employed. As discussed earlier, this phenomenon is likely to be common where women’s employment options are limited by the restrictions caring responsibilities place on their hours of work and mobility.

Empirical evidence on the impact of minimum wage adjustments on employment is based on modest increases only, and there is no suggestion that larger increases could occur without some compensating contraction of employment which would, in turn, leave some lower paid workers out of a job and worse off.

Impacts on the gender pay gap of minimum wage adjustments can equally be expected to be modest. Dixon concluded that increases in the real value of the minimum wage in New Zealand comprise a fraction of 1 percent of the total contraction of the gender pay gap between 1997 and 2003 (Dixon, 2004: 16).

If employment levels are sustained while there is an upward adjustment of a minimum wage or living wage, government will also benefit from a reduced call on welfare payments and increases in tax revenues from income and spending.

### **Pay Equity and the Recognition of Skills within Female Dominated Occupations**

The concentration of women’s employment into a narrow range of occupations contributes to the gender pay gap (Anker, 1997; Equal Opportunities Commission, 2001; Report of the Taskforce on Pay and Employment Equity, 2004; UK Women and Work Commission 2005).

As discussed earlier, pay rates are affected by social as well as economic factors and, historically, there is little dispute that lower pay rates for women than men developed from assumptions that men were the breadwinners and supported families, whereas women’s earning were supplementary or “pin money”.

These gendered views on “worth” and “need” continue to play out today with women undertaking more unpaid and voluntary work than men, and, as a group, being more likely to work in occupations involving the arguably undervalued emotional and caring skills. The implementation of equal pay legislation in the 1970s lifted female wages scales to those of men’s, but did little to address pay differences in female dominated occupations where few or no men worked.

There are debates about the degree of pay inequity that remains today, and how achievable pay equity is in a deregulated environment where a variety of pay systems operate, only some of which bear a strong relationship to productivity<sup>4</sup>. From an economic perspective, however, any occupations with pay rates below their “worth” or productivity are inefficient and send out the wrong price signals and lead to a misallocation of resources.

The principle of pay equity is that female dominated occupations should receive the same pay rates as male dominated occupations involving equivalent qualifications, skills, and effort. Internationally, pay equity has been pursued on an individual, within workplace, multiple workplace or national basis, depending on the industrial relations and legal environment. Pay equity investigations often, but not always, establish an upward adjustment in the pay for the female dominated occupation based on comparison with male dominated jobs involving equivalent education and skills, and working conditions.

Pay equity aims to fully articulate the work involved in female dominated occupations. Another aspect of pay equity is to address the lack of recognition of the full range of skills and responsibilities, and the lack of reward available, due to the typically compressed wage scales in female dominated occupations.

Where occupations are undervalued, “productive potential” tends to be constrained as a consequence of both inadequate recognition of qualifications, and limited access to training or career paths. The establishment of autonomy along with pay parity for midwives is an example of a productivity gain to society through the recognition that midwives had the skills to practice autonomously (Iversen, 2004).

The potential productivity gains that come from worker mobility and a learning culture within organisations was recognised by the Workplace Productivity Working Group (2004: 78). Additional opportunities for productivity growth would come from acknowledging the gendered nature of occupational segregation and the limited advancement pathways available in many women’s jobs. As Kingsmill noted:

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<sup>4</sup> Where individual output can be easily measured, pay is more likely to be linked to output; where measurement is difficult, pay related to time and collective bonuses will be common; where labour markets are strongly occupational or professional, pay differentials between trainees and skilled staff become more important; where enterprises have strong internal labour markets, age and length of service gain prominence to reward loyalty (Lazear, 1995).

One of the UK's financial institutions discovered that on conducting a pay review the headline figure had shown a substantial gap in average pay between full-time men and women ... On a closer examination of the evidence it was discovered that the headline pay gap had arisen because women were concentrated in the lower grades, primarily the "staff" grade which covered many of those working in local offices. Over 80 percent of those employed at this grade were women, giving rise to concerns that a high proportion of women were remaining static within the organisation while the men moved through to higher grades. This presented a business problem both because it was felt that many of the women were operating below their potential and thus depriving the company of valuable skills and expertise, and that such stasis at a single grade impeded the promotion opportunities for those below them in the organisation.

Kingsmill concluded, however, that despite evidence of positive initiatives, and the litigation risks in the UK for businesses that did not pay attention to pay and employment equity, there was a need for the government to take additional actions to ensure pay and employment equity (Kingsmill, 2001).

### ***The costs of implementing pay equity***

Internationally, pay equity investigations of female dominated occupations continue to find evidence of undervaluation. Nevertheless, one of the counterarguments to the rationale for government addressing wage distortions and lost productive potential, through establishing a framework to implement pay equity, is the short and long term costs to the economy of doing so.

There is no case study of pay equity implementation that replicates New Zealand's social, political and industrial conditions. Costs would also be affected by the type of mechanism used to implement pay equity as well as the speed of roll out, the short and long-term costs do not appear to be significant.

An assessment of the economic impacts of introducing pay equity in New South Wales, however, suggested implementation of pay equity was manageable. It estimated a fairly modest contraction of national GDP and employment, and a small increase in consumer prices in the short-run, and a slight rise in national GDP in the long-run as pay equity measures lead to a more capital intensive economy. The study looked primarily at impacts on prices and production and did not consider broader impacts on matters such as recruitment and retention, impact on labour force participation and the efficiency of the education spend. It also identified a range of further work including an assessment of the possibility that pay equity measures may lead to increased labour efficiency (Centre for Regional Economic Analysis, 1998). Evidence on occupational wastage in female dominated occupations, discussed earlier, provides a further economic argument for pay equity.

A robust analysis of the costs of pay equity also needs to take into account the costs of no change in policy that accrue from female dominated occupations being concentrated at the lower end of the wage spectrum.

### ***Funding issues***

The Taskforce on Pay and Employment Equity recognised that the nature of many women's occupations means they are often directly or indirectly dependent on the budgets of government agencies. In addition to government being the sole or largest funder for many female-dominated organisations, the sheer numbers of the workforce in many of these government-funded female dominated jobs, means even small pay increases can have quite large budgetary implications and implicitly involve what can be difficult political trade-offs with expenditure on service expansion. This is evident in the current debates over the wages of rest home workers, for example.

What this means is that government has both an opportunity to gain the most from the potential productivity increases that flow from implementing pay and employment equity, but is also faced with the most direct costs in sectors where government typically fully funds or largely funds the service, such as education, health, and care and where funding increases are typically expected to generate a higher level of service.

While the literature suggests some productivity gains can be expected to flow from pay improvements, they are likely to occur in the longer term as they depend on organisational responses to the changed price signals.

### **Human Resource Practices**

There's talk of family-friendly workplaces and flexible hours. But there are many jobs where, if women want to foot it with the men, they too have to, have to be seen to – work 12-hour days and be totally dedicated ... Talented and committed women who don't want to burn out, and who want to have children, they get the message that they can't foot it. They're at a loss. That's the real glass ceiling. It's often written off as 'choice' but that's not good enough ... We need to make it admirable for everyone to have a *life* as well as a job, instead of valuing the single-minded candidates for cardiac arrest because of their 'ambition'. Do we want the world to be run by people – men or women – who don't know that? (Kim Hill in Else, 1996:123, 124).

### ***Discrimination***

While less common than in the past, and less important as a cause of the gender pay gap, investigations into firm behaviour continue to find evidence of gender discrimination in wages and opportunities (Jones and Torrie, 2004; Ransom, 2005; Dickens, 1994). Evidence also suggests that employers may pay more attention to

glass ceilings than sticky floors<sup>5</sup> and that some forms of flexible work may suit individual employers, but not be good for the economy as a whole (Walby and Olsen, 2002: 46).

Discrimination is also perpetuated by stereotyping which, in turn, can create self-fulfilling prophecies. For example, if employers believe women do not have the attributes for a job, women are unlikely to choose education or training for that job area; and if employers always assume it is women, rather than men, who carry childcare responsibilities, women will be unable to shed or share these (Rubery et al, 1999: 7).

### ***Vertical segregation***

Barriers to women's promotion largely stem from the lower value and status attributed to female dominated occupations, as well as the lesser access of part-time workers to training, lessen promotion prospects. Within workplaces, female dominated occupations often do not have clear pathways to management or other higher level positions. The Taskforce on Pay and Employment Equity and Loughlin (1999) identified similar barriers in the New Zealand public service, and the public health and public education sectors to those found in other jurisdictions.

Much literature on women and work also draws attention to women's lack of confidence in being assertive about promotion, compared with men. This apparent lack of confidence can often be linked back to factors that undermine their sense of place and entitlement. Within primary schools, Jones and Torrie found that women were deterred from applying to be principals because of a perception of a community belief that principals should be male (Jones and Torrie, 2004a: 11). Workplace culture, in particular the culture of long work hours, such as that commented on by Kim Hill above, has also been shown to deter woman from applying for promotion.

### ***Business responsiveness to gender equity issues***

A tighter labour market has focused businesses more on reducing the costs of turnover, absenteeism and unmotivated workers. Empirical evidence on the contribution workplace culture and management practices have to the efficiency and productivity of business units has increased the understanding that the pursuit of equal opportunities can benefit firms. Transparency and equity in pay systems have been found to be an important motivating factor for employees (Sirata, Mischkind and Meltzer, 2005). The Sheffield Institute of Work Psychology findings that indicators of people management are strongly correlated with variations in productivity and profitability and are a better predictor of company performance than strategy, technology or research and development is part of a growing body of research that points to the importance of good human capital management practices (Kingsmill, 2001).

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<sup>5</sup> A sticky floor refers to being stuck at the bottom of a wage scale.

While there are benefits for firms, there are also costs. A Department of Labour literature review identified benefits for business including; improved retention, broader recruitment pool, lower turnover and hence recruitment and training costs, reduced absenteeism, reduced worker stress, improved loyalty and an improved corporate image. Costs identified include equipment to facilitate working from home, costs of extra space at work, costs of covering temporary absences and reduced morale of employees who do not benefit (Department of Labour, undated).

While some businesses are taking action on elements of employment equity such as implementing work-life balance policies, developing pathways to enable a greater range of staff to progress to higher level jobs and encouraging diversity, these efforts are uneven across industries, firms and occupations, and selective in terms of the issues that are addressed.

In addition to prejudice and discriminatory attitudes, market features have a role. Professional and technical workers are more likely to access work-life balance policies than lower skilled workers, larger firms are more likely to have policies than smaller firms and, in an Australian study, firms in the retail, construction and hospitality sectors were found to be the least likely to offer work-life balance policies (Department of Labour, undated).

From an economic perspective, employers do not capture all the gains from family friendly policies, so reliance on businesses alone will lead to shortfalls and possibly policies that vary overtime depending on the economic cycle. Requirements that employers provide services that are only taken up by an identifiable group of workers could, in the absence of regulatory oversight, result in trade-offs with wages. Hakim (2002) argues that part of the pay gap is likely to be due to women being prepared to discount their wage rate because they place a greater weight than men do on non-wage benefits such as flexible hours and leave. Walby and Olsen's examination of the case to improve women's position in the labour market stresses that business initiatives on their own will not necessarily be comprehensive and address all the issues that are evident when looking at the "whole economy" case.

What is worrying, however, is the apparent invisibility of EEO issues and policies within New Zealand businesses, despite the growing diversity of the workforce. There are still very few women in management positions. This suggests that many businesses do not have the information to recognise even the most obvious business case for family friendly policies. The Workforce Productivity Working Group also paid little attention to the needs of a diverse workforce or the role of work-life balance and employment equity in raising productivity. A review of EEO in New Zealand that assessed progress since 1990 concluded that:

For the most part, labour market outcomes for women, people with disabilities, Maori, and Pacific peoples have not improved greatly during this period ... When the New Zealand case is benchmarked against other countries and their EEO policies, it becomes clear that, on a number of indicators of EEO policy effort,

New Zealand now lags behind Australia, Canada, the United States, and the United Kingdom ... over the past decade or so, little has happened to open up greater employment opportunities for traditionally disadvantaged groups (Mintrom and True, 2004).

Rubery, et al (1999) argues that EEO policies are falsely assumed to just be socially worthwhile, and to be a constraint on economic growth and development. They put forward the proposition, that it is gender segregation and the gendered organisation of work that is a fundamental constraint on the development of a flexible and cohesive society, and that the social protection and equal opportunities are key to short circuiting cycles of exclusion and poverty such as those as evident for low wage women.

They argue that it is time to reconfigure EEO as an investment, rather than consumption, and to draw attention to the two main ways in which EEO policies contribute to productivity and modernise labour markets and welfare states. These are by:

- Improving efficiency and realism in the policy making process through abandoning old models of male breadwinner households and thereby enhancing the quality of living of women, men and children as well as enhancing a country's comparative advantage by ensuring more effective utilisation of human resource potential
- Increasing flexibility and decreasing individual and social risk. This occurs through reducing specialisation within couple households and therefore reducing the concentration of the risks of marriage breakdown for women. In workplaces too, decreased occupational segregation and gendered roles make it easier to be innovative and to reorganise jobs to achieve more productivity.

### **Summarising the Rationale for a Gender Focus in Economic Transformation**

There are direct costs to employers of occupational shortages. Costs also accrue to government as a consequence of the high levels of occupational wastage, where people train but do not remain in an occupation, as well as the unemployment, welfare and support costs for low–middle income working families attributable to sub-optimal occupational choices. Costs of occupation wastage in New Zealand appear higher for female dominated occupations (Department of Labour, 2005), and unemployment rates are now higher for women than men, and particularly for Maori women.

There are advantages to individuals, firms and government if there is optimal use made of the skills of working age people, including making more effective use of the spend on tertiary education. The potential for occupational segregation to hold back economic growth is not an easy issue to tackle as the causes are complex and deep rooted. Exposure to a broader range of job options at school does appear to be

important, however, to opening doors beyond the stereotypes of gender, race and class.

As women's education achievements and labour force participation rates both increase, the rationale for ensuring women maximise their use of skills, regardless of whether they take a break from employment or choose to work part-time, continues to strengthen.

There is a strong gender divide around part-time employment and extent of loss of potential productivity, and wages, is unknown. As in the UK, part-time work and broken labour force participation almost certainly translate into lower levels of well-being for the individuals and families concerned.

Low pay rates do nothing to improve productivity or well-being, and evidence suggests they may be counterproductive and a form of wage discrimination where they result from employers or funders having a monopsony position.

Accompanying the appropriate valuation of occupations, through pay equity implementation, by the recognition of responsibility or autonomy, and the opening of pathways for female occupations within professions, firms and industries, will improve productivity. Flow on effects for firms include improved morale and cost reductions due to easier recruitment and more retention. Women and men in these occupations benefit from improved pay.

Direct benefits to government will flow through from less occupational wastage and higher wages will also flow through to increased tax revenue, a reduced need for targeted assistance such as family support and possibly more labour force participation.

While some employers are taking positive steps to build a work environment that maximises workers' productivity and opportunities for advancement, regardless of their caring responsibilities, such practices do not appear to be widespread. This suggests that barriers to increasing productivity like skill shortages may get worse unless there is a concerted effort, involving employers and government, to improve and make better use of the skills of all of the workforce, not just those in full-time jobs.

## **Conclusions**

The Taskforce on Pay and Employment Equity in the Public Service and Public Health and Education Sectors identified three key workplace factors impacting on the gender pay gap in New Zealand:

- The jobs that women do, in terms of both their occupations and positions within occupations
- How jobs are valued, including the valuation of female intensive occupations

- How jobs are organised, especially in relation to family responsibilities (Taskforce on Pay and Employment Equity, 2004:27).

As the Taskforce noted, the fact that, on average, women are paid less than men, reinforces the pattern of mothers rather than fathers, taking on the major caring role and therefore opting to work part-time. Women's predominance in part-time work, in turn, limits their access to better paying jobs and positions as part-time work is more readily available in lower paid occupations and positions.

Many economists and policy makers still regard the labour market participation of partnered mothers as simply reflecting family preferences. Connections between women's falling fertility, and the lower earnings, lower labour force participation, and unfulfilled productive potential that often accompanies motherhood, are rarely made.

Yet, policies that reinforce mothers as primary carers and secondary workers are now out of step with the views of over half of parents who favour both parents being in work, and who think it doesn't matter which parent is the primary caregiver.

This paper has told the story about how labour market rigidities, short-term decision-making and gender blindness and gender stereotypes act to reinforce: the differences in the jobs men and women do; the valuation of gender-segregated jobs; women providing more care than men for children and other family members; and the limited employment opportunities open to workers who are not full-time. In turn, these gender inequities constrain family decision-making, business productivity, and the incomes of women over their lifetimes.

Apart from the impact of the jobs women do on women's own incomes and well-being, the clustering of women into lower status and lower paid roles, and being under-represented in management, presents a serious issue for the economy as it suggests women's educational achievements, skills and talents are not fully used and developed.

Kingsmill's (2001) major UK investigation into women's employment and pay found strong evidence that employers will be increasingly dependent upon their ability to attract, develop and retain their human capital as rapid technological innovation, globalisation and the continued growth of the knowledge economy and the service sector shape our future economy. She argues that ignoring the potential role and contribution of women will not be in the interest of the economy nor employers and employees.

The absence of gender equity<sup>6</sup> in workplaces is likely to be associated with a loss of productive potential when:

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<sup>6</sup> While the discussion here is focused on women, many of these issues apply to others in the workforce who experience a high level of family care responsibilities or workplace discrimination due to other characteristics.

- Workers, particularly women, are in jobs that are below their skill level, often as a consequence of taking a break from employment or wanting flexible or part-time hours
- Skill shortages are due to the failure of gender segregated occupations to attract or retain employees
- There is a lack of full recognition of skills in female dominated occupations, with consequences for pay, the way these groups of workers are organised, and progress in their jobs
- Women are not considered for promotion, or do not put themselves forward for promotion, because of the value placed on the jobs they occupy, or because workplace cultures do not ensure higher level jobs are family-friendly and/or seen as women's work
- Poor human resource practices, including a lack of transparency and equity in pay, translate into less motivated workers and/or higher turnover
- Women stay out of the labour force because wages are too low to make working worthwhile.

Providing momentum and encouragement for gender equity initiatives in workplaces will improve productivity, and address the myopia or gender blindness that is apparent in many businesses. This is unlikely, however, to be enough to redress all gender inequities and enable families to achieve the work-life balance they want. Countries that are further down the track of recognising the costs to productivity of the constrained jobs, wages and training opportunities facing many women, have taken legal steps to ensure the implementation equal opportunities and equal pay policies.

Government policy settings have a pivotal role in ensuring access to parental leave, the provision of affordable, quality childcare, reducing occupational segregation, retraining, and ensuring that tax and benefit policies make employment worthwhile.

From the perspective of lifetime earnings, it is worthwhile for women to remain attached to the labour force whilst they raise a family. Their work status and earnings, however, are likely to remain vulnerable if it is women, not men, who opt for part-time work and flexible hours and, if certain jobs and positions remain unavailable to women due to inflexible working hours and gendered assumptions.

As Rubery and colleagues state:

With both marriage and male employment providing decreasingly dependable sources of lifetime incomes for women and their children, reliance on a husband/father as a male breadwinner has become increasingly risky ... an innovative approach that might also help maintain the birth rate, involves persuading husbands to become less specialised alongside wives (Rubery et al, 1999: 9).

New Zealanders' strong preferences for work-family balance and a low stress lifestyle suggests that, rather than increasing the average number of hours people in the workforce spend in their jobs, productivity gains needs to come from improving the productivity of individual workers, and enabling people who are unemployed and out of the labour force to obtain jobs and skills. As Callister suggests, New Zealand could model itself as a "South Seas Sweden" with fathers reducing their hours of work, thus enabling mothers more flexibility around their own paid work, and both parents to share caring roles.

The need to improve productivity is pressing, particularly given the ageing population. The way forward is to adopt family and employment policies that encourage a broader base of labour force participation, a reduction in role specialisation within families, a commitment to flexible and part-time work across all occupations and industries, as well as a mix of family, pay and education and training policies that make being in work worthwhile for people with caring responsibilities. Improving the access of part-time workers to promotion and training, and opportunities to negotiate flexible work arrangements is likely to be a necessary condition to achieve any substantial shifts away from the strong gender divide around part-time work.

Finally, the adoption of policies that work for women will have spillover benefits for others who are disadvantaged in the workforce due to long periods out of work or who do not work full-time.

## **Appendix One: Terms of Reference**

The paper was tasked with addressing the following questions:

- What does evidence point to as the key factors influencing the pay gap and pay and employment equity and the key ways to improve the position for women?
- What are the economic rationales for pay and employment equity?
- What are the economic benefits of pay and employment equity at both the enterprise and economy-wide level?
- What other theoretical or emerging issues are likely to impact on the future need for, and sustainability of, interventions and strategies to narrow the pay gap and improve pay and employment equity, particularly at the lower paying segment of the labour market?

## **Appendix Two: A note on measurement and decomposition issues in analysing the gender pay gap**

The gender pay gap varies depending on whether the comparison is made between median hourly earnings, the arithmetic mean of hourly earnings, or the geometric mean hourly earnings. In 2003, these measures produced gender pay ratios of 88.1 percent, 86.4 percent, and 88.3 percent respectively (Dixon, 2004: 4). Dixon justifies using the geometric mean as it is less sensitive to changes in the upper tail of the earnings distribution than are arithmetic means. Hyman, on the other hand, questions the discounting of very high incomes, given the over-representation of males amongst the group (Hyman, 2001).

The focus of decomposition techniques is to separate out differences in the level of human capital and differences in returns to human capital. Differences in human capital are regarded as a justified reason for pay differences whereas differences in return to human capital are seen as potentially discriminatory unless there are other explanations.

Most statistical analyses of the gender pay gap have used the Oaxaca-Blinder decomposition technique which emphasises individual characteristics, such as women's lower levels of "human capital" (education and experience) and the individual choices they make about the jobs they do and the industries in which they work.

The Oaxaca-Blinder approach has been criticised for assuming a clear dichotomy between human capital and discrimination, as the two important contributors to the gap, and has been described as "focusing primarily on ... women's deficiencies relative to the attributes of men" (Rubery et al 2002: 132). This focus on human capital theory is seen as not adequately accommodating important institutional, sociological and organisational factors that impact on the gender pay gap (Todd and Eveline, 2004: 24).

Walby and Olsen identify four main problems with the Oaxaca-Blinder method:

- The decomposition uses the individual as the unit of analysis and therefore does not adapt to factors that do not take a human capital form, such as segregation and union membership
- The model assumes the factors of analysis can be added, however, some overlap
- The model does not deal well with situations where a variable has a significant presence for one sex, but not for the other, for example breaks from employment and part-time work
- By separating out the women's and men's equations, women are compared with women, and men with men, which makes it difficult to explore discrimination. For example, separate male and female analyses of the association between education and wages suggest that women receive a higher return from

education. This is misleading as, at equal levels of education, women get paid less than men on average (Walby and Olsen, 2002: 108-9).

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