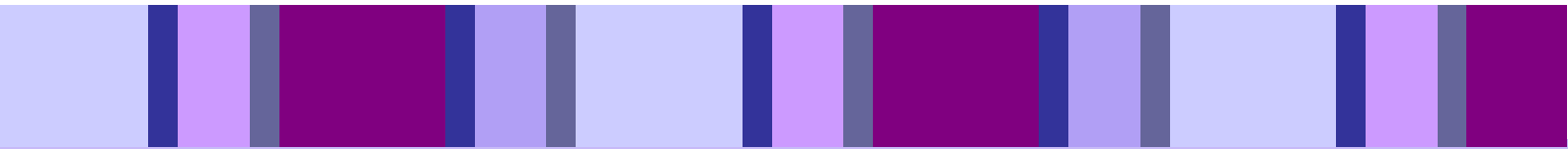


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# **Undervaluing women's work**



**Damian Grimshaw and Jill Rubery**

**European Work and Employment Research Centre**

**University of Manchester**



**Women. Men. Different. Equal.**  
Equal Opportunities Commission



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European Work and Employment Research Centre

University of Manchester

The University of Manchester  
Manchester  
Business School



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*Research and Resources  
Equal Opportunities Commission  
Arndale House  
Arndale Centre  
Manchester  
M4 3EQ*

Email: [research@eoc.org.uk](mailto:research@eoc.org.uk)  
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## EXECUTIVE SUMMARY

The undervaluation of women's work is a thread which links together the three causes of the gender pay gap: occupational segregation, discrimination and women's unequal share of family responsibilities. Undervaluation, which is defined in the report as a *higher quality of labour for a given wage*, is nevertheless being overlooked within current policy debates and proposals. For this reason, the Equal Opportunities Commission (EOC) commissioned a literature review to examine the available research evidence on undervaluation. The review drew on a range of differing perspectives on this issue, within the fields of economics, sociology and industrial relations and management. Some new analysis of the changing patterns of segregation and pay was also undertaken.

### Definitional issues

Women face two main risks of undervaluation - that they will be paid less than men for the same efficiency within the same job and that they will be employed in jobs or occupations which are themselves undervalued.

The consequence of undervaluation is that employers have access to a *higher quality of labour for a given wage*. The employee may offer a higher level of effort, skill or commitment for a given wage level, or the job itself may require a higher level of effort or skill than might be reasonably expected at that wage level. In addition, women's potential may be underutilised.

## MAIN FINDINGS

### Understanding how pay is determined

#### *Economic perspectives*

For economists, pay is primarily related to productivity. Evidence of lower returns to women's productive characteristics suggests undervaluation. *In practical terms, this means that women will receive lower rewards from investing in education or from their own work experience.* But despite such evidence, some studies claim that women must in fact be less committed workers or be willing to trade off pay for higher job satisfaction.

Some economic theories do allow for unequal outcomes in labour markets under the following conditions.

- Trade unions push up wages in protected segments and thereby crowd displaced workers (mainly women) into unprotected segments and lower wages.
- Social norms divide jobs into those appropriate for men and those appropriate for women, again pushing women into a smaller, more overcrowded, lower paid and technologically stagnant segment.
- Wages are held down by too powerful employers; again, women may be affected to a greater extent than men.
- Some employers, or even other workers, exercise a 'taste for discrimination'.
- Gender is used as a screening device in recruitment and pay decisions on the grounds that it is too costly to acquire accurate information on the potential productivity of employees.

*Sociological, psychological, industrial relations and management perspectives*

Five main dimensions to undervaluation are discussed within the literature.

- *Low valuation of the productive activity* - women are concentrated in lower paying firms in the secondary labour market.
- *Low valuation and visibility of skill and status* - women's work is often constructed as low skilled and their skills are not recognised in classification or grading schemes.
- *Low valuation associated with high job satisfaction* - women are low paid because they are expected to derive greater satisfaction from their work or to have lower expectations of rewards from work.
- *Low valuation of women's work associated with perceptions of women as second income earners* - women are expected to work for 'pin money' or 'extras'.
- *Low valuation embedded in payment systems* - low valuation occurs through the construction of pay hierarchies, the choice of wage comparators, the structure, design and implementation of payment systems.

### *A dynamic and integrated approach*

Pay serves multiple roles and functions. It reflects compromises between competing pressures, with different outcomes in different institutional, social and economic contexts. Pay is not simply to be explained by productivity. A corollary of this approach is that these institutional arrangements and their impact will change over time and context.

## **Undervaluation from an individual and group perspective**

### *Individual productive characteristics*

Economists 'decompose' the gender pay gap into the share that can be explained by gaps in productive characteristics and the share that reflects either lower returns to productive characteristics or other factors not captured by the wage equations. It is the indication of lower returns that provides indirect evidence of undervaluation.

Most recent UK studies show that gender differences in human capital, or personal characteristics (such as age, education and work experience), explain a shrinking portion of the overall gender pay gap. The closing of the gender gap in education has not done more to reduce the gender pay gap because men's and women's education are differently rewarded. This is also indicated by international evidence.

The gender pay gap also widens as experience increases. Part-time work increases the likelihood of undervaluation and discrimination. Not only does it fail to give access to higher earnings, but it also has a sustained negative impact on future pay levels. Compared to other countries, the UK imposes a particularly high pay penalty on part-time workers.

### *Income needs*

The stereotypical role of women as the second income earner in the household may still be influencing pay structures. Not only do many jobs still not provide sufficient income to support an independent adult, but also employers of low paid women workers justify their pay policies on the grounds that women are still willing to work for pin money.

### *Labour force groups*

Women who have a degree, even in the same subject and at the same grade as that of a male comparator, may still be paid less. Moreover, the earnings gap tends to widen with experience, even before family formation or childcare affect the graduates' careers.

Mothers and women returners are particularly at risk from undervaluation, both because of childcare constraints and because of interruptions to their careers. This is not associated with motherhood per se, but with the low pay and status of the part-time jobs that they may be forced into accepting.

Undervaluation applies throughout the occupational structure, but its impact may be greatest for low wage workers who can least afford any pay penalties. Those at the bottom of the labour market may also be particularly undervalued because they are 'working below their potential'.

### **Undervaluation and the workplace**

Undervaluation is associated with where one works, with how jobs or occupations are valued and with how payment systems are designed and implemented. These workplace factors - including gender concentration - are increasingly found to explain more of the gender pay gap than characteristics of individual employees.

#### *Employer characteristics*

Women may be low paid because they are concentrated in employing organisations that have a low ability to pay. In some cases, they may be located in organisations that have low 'willingness to pay'. That is, they may be unable to secure a fair share of economic rents in organisations with a medium or high ability to pay. For example, small establishments that are part of large chains may be particularly likely to pay low wages. These organisational forms are common in retail and catering where many women are employed.

Some employers enjoy a degree of monopsonistic power in the labour market, which in part explains women's lower wage levels. This means that these employers have power over the purchase of labour and find advantage in keeping both wages and employment below the level that might be found in a freely operating labour market. This may particularly affect some public sector jobs where the state is the primary, or even the sole, employer of that type of labour.

#### *Gender segregation at the workplace*

Both personal and workplace-related characteristics account for the gender pay gap. Indeed, the degree of gender segregation at the workplace has as large an impact on pay as the sex of the individual employee, after adjusting for human capital variables and occupational and industrial job characteristics. The concentration of part-time work within the establishment is also found to be an important explanatory factor.

### *The social construction of value*

Segregation makes it much more difficult to compare the relative skills or contributions of women and men directly. Segregation may disguise the influence of gender on wage differentials between sectors and organisations and on pay and grading hierarchies within firms. These influences can be summarised as follows.

- *Visibility* - women's skills are often simply not visible, as their jobs tend to be aggregated into large and undifferentiated pay and grading bands.
- *Valuation* - women's skills may not be valued, since pay and grading structures are still often based on male-type skills.
- *Vocation* - women's skills are often treated as 'natural', deriving from women's essence as mothers and carers, and are considered to provide opportunities for high levels of job satisfaction that justify the provision of low pay.
- *Value added* - women are more likely than men to be found in low value added or labour intensive occupations.
- *Variance* - women's lives follow different patterns to men's. This variance from a male norm promotes the notion that women's work (e.g. part-time work) occupies a separate sphere that is non commensurate with that of men's.

### *Payment systems*

Women's pay may be lower than men's if there is no job grading system in place; if there are separate systems related to different kinds of jobs; and if the system does not reflect the kind of skills found in women's as well as in men's jobs.

Starting salaries and individualised pay increments tend to be lower for women than for men. Men appear both more able or willing to engage in individual bargaining and to use external pay offers to boost pay.

Some women are less able than men to gain access to higher level jobs, as they face higher progression bars or are less able to meet them. Even if promoted, they may receive lower initial or continued pay rises.

Performance pay acts to maintain or exaggerate undervaluation by being more common in, and providing higher rewards in, male-dominated occupations; by being based on discretion; and by being based on variable, subjective, or male-biased, criteria of assessment.

Non-pay elements of the reward package tend to be higher, the higher the pay, and do not provide compensation for lower pay.

Pay systems are often based on rewarding the male model of continuity of employment and long hours of work.

### **Dynamics of undervaluation**

Research shows that undervaluation of women's work is an ongoing process, which is shaped by the actions of employers, governments, trade unions and other social actors. Six key challenges are identified: some reinforce longstanding patterns of undervaluation, while others generate new opportunities for undervaluation.

Outsourcing of work formerly undertaken in-house creates new risks, especially for the lower paid and more vulnerable groups of workers. Cost competition among suppliers exerts downward pressures on pay; reduces job security; increases the use of temporary contracts; and flattens and fragments job ladders. This is because outsourcing may weaken collective representation; lead to a worsening of employment policy and practice; and result in an intensification of work to meet performance targets specified in contracts for services.

New organisational forms bring new inequalities. 'Networked' organisations may exploit women's capacities for 'relational work', while delayed structures may constrain women's career development by removing rungs from traditional job ladders. Multi-employer coordination of activities may make legal comparisons of pay between colleagues impossible because they are tied to different employers.

Trade unions' power in shaping labour market conditions has weakened considerably and, in key sectors of women's employment, weak unionisation has failed to halt a steady decline in relative average pay.

New technologies have multiple effects on the valuation of jobs, with managerial discretion having an important influence on the impact they make. Studies of new call centre workplaces suggest that traditional sex typing of jobs continues in new ways, while low skill jobs are created through unbundling of job tasks following the adoption of new technologies.

Both part-time work and part-time workers are often undervalued. This is because:

- part-time work is often vulnerable work;

- many part-time workers enjoy little control over their working hours;
- women in part-time work experience a persistently large pay gap;
- work for many part-time workers has intensified, often through the manipulation of scheduling by employers to avoid paid breaks; and
- female part-time workers have weak career opportunities and face constraints in transferring to full-time jobs.

Women have been the main beneficiaries of the National Minimum Wage since its introduction in 1999, but it has not transformed the conditions underpinning the undervaluation of their work. There has been a major clustering of women workers around the minimum wage and few employers have introduced new training provision, or redesigned jobs.

### **Feminisation and undervaluation**

The conditions that underpin the undervaluation of women's work are not only restricted to traditional areas of 'women's work', but may follow women as they move into new job areas traditionally sex typed as 'men's work'.

An analysis of Labour Force Survey data for the UK for 1991-2005 shows that women made significant inroads into many occupations in which men accounted for the majority of employment at the start of this period. These tended to be clustered among the high skill and professional end of the occupational structure. In some cases, women accounted for the majority of employment at the end of the period, but many more occupations remained the preserve of men and registered negligible change in the female share. A majority of occupations where the female share of employment increased significantly did experience above-average job growth during the 1990s, with women taking the vast bulk of new jobs. In some occupations, women increased their numbers despite a substantial decline in the numbers of men.

In line with earlier research for the US, there is evidence that in the UK, feminisation was linked with pay decline. Men's relative pay declined significantly in 10 of the 18 feminising occupations where men had been in the majority; especially large falls in pay were recorded for banking sector managers and personnel managers. These are particularly notable given the general labour market trend of an increase in relative pay among managerial and administrative occupations during the 1990-2005 period. Women's relative pay also fell in a majority of these occupations, relative to the median for all female employees. Thus, although women have been making inroads into male-dominated occupations, the pay incentives to do so have been decreasing.



**Lifting pay to match the quality of work**

A positive re-alignment between incremental changes in pay and work quality is possible (and desirable), but depends upon a combination of supporting conditions. The evidence suggests that one or more of the four factors noted below are necessary in the campaign to reverse the undervaluation of women's work.

*Developing and accrediting skills*

Employers may be persuaded to increase pay for undervalued work, if training provision can be increased to align pay with performance. Three enabling conditions are: a reorientation out of price-led markets towards expanding sales in a quality niche product market; using improved training provision and skill accreditation to strengthen employer reputation in the labour market; and the impact of statutory regulation in particular sectors that control skill-mix, but also provide incentives to match training and skill development with pay progression.

*Reducing staff turnover*

Many employers and managers face a shortage of good quality job applicants but, rather than increase pay, they opt for a combination of low pay with high rates of staff turnover. However, as US evidence shows, raising pay can be associated with a virtuous cycle of lower staff turnover, reduced demands on workers' time and decreased likelihood of quits. Also, in the care sector, continuity of employment is strongly related to higher patient care outcomes.

*Improving job design*

Undervaluation can be reduced by either increasing opportunities to use employee skills, or enhancing the transparency of skill use. New technologies can play a strong role in job design, while survey research suggests a quality enhancing approach to job design, as part of a 'high involvement management' approach, is associated with high organisational performance and a wage premium for affected employees.

*Cooperative outsourcing contracts*

The East London living wage movement shows how significant increases in the wage floor for workers in subcontracting firms hired to provide cleaning, catering and security services can be achieved. It has focused both on shifting the debate to think about what level of pay is needed to meet basic living conditions and on targeting the powerful client organisations that contract for business services, such as banks, hospitals, universities and municipalities. The US has a very extensive network of living wage 'ordinances' and research has revealed the benefits that have resulted.

Statutory provisions in local government and the National Health Service oblige contracting firms to provide all workers with terms and conditions which are 'no less favourable' than the collectively bargained structure for comparable public sector workers. But such efforts have been undermined by the continued market testing of low paid services. Nevertheless, public sector employers remain under continuous pressure to reduce labour costs that makes the improvement of employment conditions difficult to achieve or maintain.

## **POLICY OPTIONS TO REDUCE UNDERVALUATION**

This report has found diverse, but strong, evidence that women's work is undervalued. Policies to reduce undervaluation and to protect against the emergence of new forms of undervaluation need to address the status and pay attached to work done by women; and the position of women within the current job and pay structure. Both these elements of undervaluation need to be addressed at a number of different levels: the labour market; the occupation; the organisation; and the workplace or job level.

### **Improving the pay and status of work done by women**

#### *The labour market level*

Policies are needed to reduce the penalties attached to being placed at a low position within the pay and job hierarchy. These may include policies to raise the floor to the labour market, by for example establishing a living wage as the minimum pay level, or taking action to counter trends towards widening inequality at the top end of the labour market. Promoting greater transparency and accountability in remuneration decisions could help to turn the tide.

The integration of payment systems between organisations and sectors should provide mechanisms to link pay in female-dominated jobs to pay in male-dominated jobs. Current policies of outsourcing should not be allowed to fragment the systems of wage-fixing in the public sector. Change to equal pay laws to allow comparisons across employers could also promote greater integration of pay systems.

#### *The occupational level*

Promoting and professionalising the general status of an occupation through skill and career development may help to change perceptions of its value and the pay it commands. Failure to do so may result in costs for employers, employees and society through high turnover and loss of valuable skills.

*The organisational level*

Policies to reduce undervaluation associated with low ability to pay depend on where the problem lies. Where, for example, it is powerful clients who are pushing down wages in subcontracted sectors, living wage campaigns may be effective. Trade unions are currently trying to protect pay for outsourced services in the public sector, for example by agreeing a minimum wage for all contractors in the NHS. Where it is not possible to increase productivity, but the service provided is essential and valuable, the removal of undervaluation depends on society's willingness to pay, through taxation of both enterprises and individuals.

If equal pay laws are to be effective, they must begin to allow for comparisons across organisational borders to reduce incentives to outsource in order to pay low wages in gender segregated areas. Another strategy could be to require all large organisations, that is including those organised around chains of small workplaces, to conduct and publish equal pay reviews.

*The workplace and job level*

Equal pay legislation currently applies only within the workplace of a single employer. Even here, the equal value element to the legislation only applies if the jobs are of equal value, so that a woman's job that is 'worth' 80% of a man's job, may be legally paid at 50% of the wage. The adoption of a general and proportionate equal pay for work of equal value principle would be a first step to tackle undervaluation at the workplace.

In addition, organisations should adopt the policies to counter the problems of lack of visibility of skills, low valuation of skills, low pay on grounds of vocation, exclusion from high value-added employment and pay penalties because of variance in work patterns.

**Improving the position of women within the current job and pay structure***The labour market level*

Policies to reduce women's vulnerability to undervaluation need to extend women's career choices at the point of childbirth and re-entry to the labour market.

The right to work flexibly should be both strengthened and extended to include other carers, not just parents of young children. More positive incentives for men to participate in care on an equal basis with women are required. And consideration should be given to establishing a parallel right to request a return to full-time work when care responsibilities change to prevent the crowding of women on to 'mommy tracks' at work.

Perhaps most importantly, there needs to be a move away from the long hours culture that often leaves mothers with few options other than to go down the part-time route. This culture change has to be effected at the organisation and workplace level, but the change could be assisted symbolically and in practice, by the abolition of the opt out from the maximum 48 hour week.

Finally, there should be policies to recognise that becoming a parent is a positive contribution to society. This could include giving rights to reduce hours, with earnings compensation during periods of responsibility for young children.

#### *The occupational level*

Promoting women's position within occupational structures may involve two quite separate strategies. In male-dominated occupations, policies are needed to ensure that women are able to move off the lowest rungs of the ladder, that they are not so discouraged by the dominant male culture that they leave the occupation, and that they avoid being confined to a specific and low paid job segment. In female-dominated occupations, the main tasks may be to create more promotion opportunities and to ensure those opportunities do not become monopolised by a minority of male employees.

#### *The organisational level*

Women need to gain access to higher paying organisations that provide better career opportunities. Organisations can be encouraged or required to report on their equal opportunity policies and practices through specific equality or equal pay reviews, as required in many Nordic countries, or to include information on equality within a general reporting framework such as an addendum to a company report.

#### *The workplace and job level*

Countering undervaluation requires attention to be paid to where men and women are placed initially within a pay and grading structure and how their pay progresses over time. A set of principles that may help ensure that the pay system promotes gender equality include commitments to:

- equal pay for work of equal value for all staff, not just between men and women;
- transparency of pay and reward structures;
- the reward of actual performance *at work*, not presumed commitment *to work*, such as willingness to work extra and long hours; and

- the reward of contribution/performance in the job and not the market power of the employee.

### **Key principles to reducing undervaluation**

Combating undervaluation requires a multi-dimensional policy approach. It involves both changes to the valuation of women's work and changes to the position of women within any given pay and job grading hierarchy. The key principles or approaches include policies to:

- reduce the pay penalty for undervaluation at the bottom of the job hierarchy;
- promote integration, not fragmentation, of the system of wage determination and indeed the production system;
- make women's skills visible and, where appropriate, take steps to professionalize women's work;
- allow for comparisons across organisational borders, including up and down supply chains, in equal pay cases and in collective bargaining;
- develop gender sensitive pay and job grading systems and ensure payment systems match the needs/demands of the job;
- promote continuity of careers through policies to tackle the long hours culture and strengthened rights to request flexible working and rights to request a return to full-time work;
- desegregate occupations, but address vertical segregation within both male- and female-dominated occupations;
- require organisations to report on their equal opportunities and equal pay policies through equal pay reviews;
- promote transparency of reward at the workplace;
- commit to a general principle of equal pay for work of equal value for all employees;
- reward job demands, not the productivity of the job; and
- reward commitment at work, not commitment to work.

## 1. INTRODUCTION

The need to address the continuing pay gap between women and men has been on the agenda since the Equal Opportunities Commission (EOC) set up its Equal Pay Taskforce in 1999. Reporting in February 2001, this Taskforce concluded that there were three main causes of the gender pay gap - occupational segregation, discrimination and women's unequal burden of family responsibilities (Equal Pay Taskforce, 2001). Since then there have been at least two more major reports for the government on the gender pay gap - the Kingsmill report in 2001 (Kingsmill, 2001) and the most recent Women and Work Commission's report in February 2006 (Women and Work Commission, 2006). Five years later and the diagnosis of the main causes remains the same, but the debate about how to reduce the pay gap continues.

A major problem is the unwillingness of policymakers to address one factor associated with all three causes of the gender pay gap and that is undervaluation of women's work. As discussed below (pp. 6-10), undervaluation is defined in the report as a *higher quality of labour for a given wage*. Not only is undervaluation a consequence of discrimination, but it is also associated with processes of occupational segregation, as jobs primarily associated with female labour may be undervalued and underpaid. The consequence of women's unequal family burden is also that they become concentrated in undervalued jobs, often in segregated areas of the labour market. Undervaluation thus is a thread that links together all three contributory factors, but is in danger of being overlooked within current policy debates and proposals.

The Women and Work Commission's report did acknowledge the likelihood of undervaluation of the traditional areas of women's employment - in caring, cashiering, catering, cleaning and clerical work. However, it chose to focus the majority of its recommendations on policies to encourage women to move out of these occupations, rather than on policies to remedy undervaluation within these jobs. Not only is it unlikely that all or most women will be able to move into better paid male jobs areas, but this approach begs the question of who is to undertake these tasks in the future if they are not to be done by women. Writing in *The Guardian* (28.02.06), Polly Toynbee summed up the problem:

*No one asks who, if women are going to move on and up, will look after children, clean offices and sit at supermarket tills? Presumably yet more waves of the new slave class - ever more immigrants. But the question remains: people are needed to do these vital jobs, and if they are low paid, they will be mainly women. Thirty years of failure is long enough to know*

*the pay gap is only partly a 'promoting women' problem: essentially it is the result of a far deeper structural pay disorder. If you want to pay women more, then value their vital work fairly and pay them more. Nordic countries show pay can be more equal.*

Much of the expansion of employment over recent years has been in jobs dominated by women. It is thus, at the very least, highly impractical to expect these job areas to decline or disappear and that all women currently employed in retail or care work are going to become plumbers. Without policies to address the undervaluation of jobs that women currently do, the gender pay gap will either remain or be replaced by new inequalities between migrant and non-migrant labour.

Undervaluation does not, however, only apply to those doing the jobs currently placed at the bottom of the wage hierarchy. It can also apply to women in higher level jobs, including those breaking into areas dominated by men. Desegregation is not necessarily in itself the answer. Many of the occupations now associated with women's work - bank cashiers, clerical workers, teachers - were once male preserves. Entry of women into these occupational areas has often been associated with a lowering over time of their pay and status. The argument that is made here is that, if there is a real political will and commitment to reduce and even eliminate the gender pay gap, then attention has to be paid to how jobs are valued. It is not sufficient simply to consider where women end up within the current pay structure, although actions to improve women's position can also of course be helpful.

One reason for the relative neglect of undervaluation is that policymakers are reluctant to engage with policies to change the valuation of jobs. Some regard the valuation of jobs as the appropriate domain of employers or at most an issue for bargaining between employers and trade unions.<sup>1</sup> This reluctance is reinforced by an economics profession that asserts that wages do reflect the productivity of jobs and that the market ensures an appropriate allocation of workers to jobs, taking into account their preferences and their potential productivity. This approach, in our view, oversimplifies the factors shaping pay and gives the market the benefit of the doubt unless there is strong evidence to prove otherwise.

The argument we make here is that wages are not simply determined by the market or by productivity, but are the outcome of complex and often competing logics. These competing logics mean that the setting of wages is far from a precise science and in

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<sup>1</sup> A clear example is found in the European Commission in its latest draft of its strategy to make Europe a competitive, but socially inclusive, economy (its 'Lisbon' strategy, as it is called), since it reaffirms a commitment to closing the gender pay gap, but firmly identifies the task as one for social partners.

practice reflects a compromise between a range of influences. Labour market and production cost factors are clearly one set of influences, but wages are also fixed in relation to long established social norms and with regard to internal organisational hierarchies. Moreover, it is employers not the market that fix wages - in economics terms, they are wage fixers not wage takers - and the wage bargain forms one element of the employment relationship between employers and workers; some employers may opt to pay higher wages to generate motivation and commitment, while others favour a cost minimising strategy.

Under this approach to wage determination, there is no assumption that wage fixing is some form of exact science relating pay to productive potential; instead there is scope for indeterminacy and a range of outcomes. As such, undervaluation of women's work can be both embedded in pay structures and may also emerge in new forms and new areas. Evidence in support of this view can be found in the fact that comparisons across organisations and across countries reveal variations in the levels of pay attached to jobs that make similar demands on the employees, in respect of skill, work intensity or responsibilities. And while pay does tend to be higher for those who invest in education, the rates of return on the investment are highly variable between societies and of course are different for women and men.

Productivity is in any case not an easy concept to measure and has limited meaning in many service occupations, particularly in the public sector. If we are serious in our efforts to close the gender pay gap, then the issue of the valuation of jobs needs to be addressed directly, not simply acknowledged and then ignored. We may need to consider changes to the legal framework, to the collective bargaining framework and to our finance of public services in order to achieve this objective, but we cannot simply assume that women through changing their behaviour - as implied by the Women and Work Commission recommendations - can resolve the issue.

### **1.1 The gender pay gap: how serious is the problem?**

The seriousness of efforts to reduce the gender pay gap will of course be dependent on the extent and persistence of the problem. In part, the problem of undervaluation can be judged by reference to what is happening to the gender pay gap. There are four factors that suggest that there is a particularly strong need to address the issues of undervaluation in the UK.

The first factor is that the expectation that the gender pay gap would rapidly disappear once women invested to a similar degree in their education and committed themselves to long and fairly continuous employment careers has not been fulfilled. The gender pay gap has narrowed (see Table 1.1), but most of the decline has



occurred among full-time employees and even then the decline is stronger if median earnings are considered, not mean earnings (see Table 1.2).

**Table 1.1 Female median earnings as a ratio of male median full-time hourly earnings, United Kingdom, 1982-2006**

	Female full-timers		Female part-timers	
	NES	ASHE	NES	ASHE
1982	72.0		56.8	
1983	72.3		57.0	
1984	73.4		57.5	
1985	73.8		57.4	
1986	74.1		56.7	
1987	73.7		56.2	
1988	75.2		56.1	
1989	76.5		57.2	
1990	77.1		57.4	
1991	78.3		58.3	
1992	79.3		58.7	
1993	79.4		58.8	
1994	80.0		59.0	
1995	80.2		60.0	
1996	80.4		58.2	
1997	80.9	81.9*	59.2	56.5*
1998	80.7	81.6*	59.2	55.9*
1999	81.6	82.8*	60.4	56.2*
2000	81.5	82.5*	60.2	56.3*
2001	82.1	82.9*	59.0	55.9*
2002		83.7*		55.7*
2003		84.4*		57.5*
2004		85.2* / 84.9**		57.2* / 57.7*
2005		86.3**		59.6**
2006		86.7**		59.8**

*Notes:* Overtime included for female full-timers/male full-timers percentages; overtime excluded for female part-timers/male full-timers percentages.

\* NES data reworked using ASHE methodology.

\*\* ASHE method only.

*Sources:* Annual Survey of Hours and Earnings and New Earnings Survey.

**Table 1.2 Comparison of mean and median gender pay ratios for full-time employees in hourly earnings, United Kingdom, 1997-2006**

	Mean hourly earnings	Median hourly earnings
	Per cent:	
1997	79.3	82.6
1998	78.8	82.6
1999	79.5	83.6
2000	79.8	83.7
2001	80.0	83.6
2002	79.9	84.5
2003	80.6	85.4
2004 <sup>1</sup>	82.2	85.5
2005	82.9	87.0
2006	82.8	87.4

*Notes:* Earnings data exclude overtime hours and pay and so median figures differ from those in Table 1.1; data are for full-time employees on adult rates, whose pay for the survey pay-period was not affected by absence.

<sup>1</sup> Changes in the methodology underpinning the collection of data for the ASHE mean that there is discontinuity in the data from 2004 (see Dobbs, 2006: 2).

*Sources:* Annual Survey of Hours and Earnings (Dobbs, 2006: Table 1) - available at: <http://www.statistics.gov.uk/statbase/product.asp?vlnk=14123>

The narrowing of the gender pay gap has followed the narrowing of the gender gap in educational investment and experience, but has not been as rapid as might be anticipated. Recent research on graduates (Purcell and Elias, 2004) indeed reveals evidence of significant and widening gender pay gaps even before women begin to take breaks to have children. This evidence of persistent lower returns to education and experience suggests that attention needs to be paid to factors other than differences in productive characteristics between men and women and that undervaluation must be recognised as a possible contributor to gender pay inequalities.

The second factor is the continued concentration of women in relatively low paid occupations and occupations that are predicted to remain important and potentially expand over future years. This problem is manifest in the much wider gender pay gap for part-timers: at 41% compared to 13.8% for full-timers (using median hourly earnings as the basis for comparison - see Table 1.1). There are significant labour shortages in areas such as care work. Women's jobs are going to continue to be significant both for employment opportunities and for delivering services in both the

public and private sectors. How these jobs are valued is thus an important and continuing issue.

The third factor is the evidence that the UK imposes a relatively high penalty on those located on the lower rungs of the pay hierarchy. Women pay a high penalty for employment in low grade jobs in the UK and if part of the explanation for this level of pay is undervaluation, it may be that the UK undervalues women's jobs more than is the case in comparable countries. Indirect evidence of this is found in the very high penalty paid for working part-time in the UK compared to elsewhere in Europe (see Commission of the European Communities (CEC), 2002; Organisation for Economic Co-operation and Development (OECD), 1998).

The fourth factor is that undervaluation may affect women over their whole lifecycle. The result is that measuring gender pay inequality at any one point in time may underestimate the impact of undervaluation on women over their lives taken as a whole. For example, taking a low paid part-time job not only affects women when they are holding that job, but also affects their lifetime career opportunities and their pensions. Persistent undervaluation limits the options for individuals and households to vary the domestic division of labour; women are the ones to give up employment or opt for part-time jobs, at least in part because the option of earning a high wage and being the main breadwinner is not always open to them. In most couples, the male partner has the best labour market opportunities, a factor that may confine women to more discontinuous and part-time working, and to cumulative problems of undervaluation. Not only are potential lifetime earnings affected, but so also are pensions entitlements (Warren et al., 2001). Here we are regarding undervaluation as one cause, among many, of women's continued shouldering of family responsibilities. This approach contrasts with much of the policy debate that regards women's family responsibilities as a potential explanation of, or even justification for, undervaluation of women's work.

## **1.2 Undervaluation of women's work: some definitional issues**

The potential for *undervaluation* of women's work has been formally recognised in the passing of equal pay legislation. There is a national and international consensus, evident in ILO labour standards and EU and UK employment law that women should receive equal pay for the same work as men and that women should receive equal pay for work of equal value. It is important to note that the legislative framework presumes that where the equal pay principle fails to hold, the problem is taken to be *undervaluation related to discrimination* and not, for example, overvaluation of men's work.

The first principle of equal pay for the same work implies that women are at risk of undervaluation within a given job or occupation; that is, they are at risk of being paid less for the same level of efficiency within the same job. Examples of how this can occur include different starting salaries for men and women; differential access to pay increments or bonuses; and the use of additional payments that are weighted towards rewarding characteristics most likely to be found among men. These cases would include where rewards are weighted towards overtime working, or the need for high levels of strength. In contrast, extra payments may not be available to compensate for dealing with human waste or for working on jobs requiring high tolerance of repetitive, but demanding, work.

The second principle of equal pay for work of equal value implies that women are at risk of undervaluation through employment in jobs or occupations which are themselves undervalued. This undervaluation may be revealed through comparisons between primarily female jobs and primarily male jobs within the same workplace, or across workplaces owned by the same employer. Examples include equal value cases won by predominantly female secretarial staff who had been lower paid than the mainly male manual workers in banks, even though the former were required to have higher qualifications and undertake more complex work than the latter (Hastings, 2000). However, the appropriate comparisons which might highlight the extent of undervaluation are not necessarily to be found inside the same employing organisation. Why, we may want to ask, are those who are employed to look after our cars paid better than those employed to look after our children? These two groups of workers are not normally found within the same employing organisation, but there is no doubt that the former job is firmly associated with men and the latter job is just as firmly associated with women. The question needs to be asked whether the pay level accorded the job is influenced by the gender of the typical employee. Currently, equal pay legislation does not allow for comparisons to be made between differing employing organisations. Nevertheless, when comparisons are made between jobs located in different sectors and different organisations, the same problems of undervaluation that are found within a single organisation may be present, and to an even higher degree.

The outcome of undervaluation, whether arising out of undervaluation within a job or the undervaluation of the job category, is, from the perspective of employers, that they have access to *a higher quality of labour for a given wage*.

This higher quality in some contexts takes the form of the employee offering a higher level of effort, skill or commitment than might be expected for that wage level. Women may prove to be more reliable workers, less subject to high turnover or to

'shirking' and more willing to take the initiative. In other contexts, the job itself may require a higher level of effort or skill than might be reasonably expected at that wage level. These demands might include high levels of work intensity enforced by strong control mechanisms (for example, in some call centres), or high demands on employees' emotions or stress levels (for example, in care work) (Belt et al., 2000; England, 2005a). In both of these contexts, the employer may benefit from being able to tap into high quality labour for low wages, even though the women themselves suffer from not receiving fair rewards for their labour. Men may also feel more comfortable if women's earnings are below theirs, reinforcing their presumed higher status in both employment and the household. There may be a cost to society, however, as well as to the women themselves, since women's talents are not being fully utilised. Indeed, another dimension to, and consequence of, undervaluation is the underutilisation and development of potential. In this context, women may not be able to demonstrate their potential quality and they may be trapped in dead end and repetitive, low level jobs with limited opportunities for either achieving high performance or working to their full potential (see Chapter 7 on the link between wages and performance).

This approach of valuing quality for a given wage provides at least a starting point for a definition of undervaluation. It also highlights the fact that women may be either underpaid for the work they do, or underemployed relative to their potential. We should also here note the danger of measuring the value of women's work against a labour market norm that is implicitly male. There is indeed a potential contradiction in using such a norm, for one of the arguments that will be made is that many of the types of skills required in women's work, or displayed by women, are not visible in, or valued by, the male labour market. Removing undervaluation involves more than a tinkering with pay structures and must lead to a questioning of the assumptions and values that underpin current pay and reward structures. Indeed, if we move towards a more gender equal society in which women's voices are given more weight, the prevailing norms and values, including those that underpin pay structures, must be expected to change. In measuring undervaluation against current labour market norms or values, we must thus be aware that these norms or values are themselves likely to be influenced by the dominance of men and male norms in the labour market.

A report on the undervaluation of women's work must address both the undervaluation of women compared to men within the same job and the undervaluation that arises through the concentration of women in those jobs or occupations that are associated with women's employment. In addressing the influence of gender segregation on pay - at the level of the sector, occupation and

workplace - we need to consider this as having both historical roots and current relevance in the ways in which jobs and pay systems are being restructured. Undervaluation is certainly in part an historical legacy, reflecting the low status of women at the time the jobs became associated with women's labour (Rau and Wazienski, 1999). However, there are also current examples where increases in the employment of women may be leading to, or may even be, the consequence of jobs being paid below their value. Thus the changes in gender segregation which are currently occurring may not herald the end of gender discrimination, but instead may be linked to the establishment of new forms of undervaluation. For example, women may be found to be moving into jobs or occupations where, due to strong competitive markets or other factors, organisations are finding it difficult to pay high enough wages to continue to recruit men. Employing women may allow the jobs to slip down the occupational pay hierarchy, even though there may be no notable changes in the demands made of the employees in the occupation. Likewise, organisations that hire women may find it convenient to redesign jobs and pay structures, such that women are concentrated in lower paying areas or segments.

A particular issue here is whether employers develop different pay and career options for those working part-time within a job or occupation. The definition adopted here of undervaluation - *higher quality for a given wage* - makes it clear that undervaluation associated with gender segregation can apply at all levels of the labour market hierarchy. Thus it can apply to the value attached to female-dominated professional jobs compared to male-dominated professional jobs, as much as to female-dominated lower level service jobs compared to male-dominated lower level service jobs.

A difference in the pay of women compared to men within specific jobs and occupations is also a potential form of undervaluation, if women are less likely to receive the same starting pay or additional payments, or enjoy fewer opportunities for upward promotion out of the specific job category. Indeed, in general, the issue of the pay for the job cannot and should not be divorced from considerations of the pay for the person. First, evidence of the undervaluation of women's productive characteristics (for example, lower returns to human capital, experience, etc.) provides indirect support for the argument that the jobs in which women are located are either undervalued or are underutilising female potential. Second, undervaluation needs to be considered in a more dynamic perspective, to include not just current pay, but also pay careers: the development of pay over time is a reflection of both the characteristics of the job or sector and the characteristics of the person. Undervaluation may occur over time because of underutilised or underdeveloped potential, which can be seen in lower opportunities for skill development - through

training or challenging work - or for promotion (pay and grade). Characteristics of women's work must therefore include not only current job demands relative to pay, but also the associated opportunities for career and pay development.

Indeed, in considering the extent and form of undervaluation, the possibility that undervaluation is a cumulative outcome of under-reward on a range of dimensions must be considered. For example, the following forms of undervaluation could apply to a particular woman, over the course of her career with an employer:

- undervaluing of job by pay grade, or undervaluation of basic pay in absence of any pay grading system;
- lower basic pay within job grade (starting salary plus increments);
- lower access to, and/or size of, contingent or performance rewards;
- lower access to, and/or size of, premia for additional or unsocial hours working;
- lower access to, and/or size of, other rewards, such as pensions or other fringe benefits;
- lower opportunities for advancement in terms of training or promotion; and
- lower rewards for advancement in terms of skill development, promotion or supervision.

We therefore need to focus on undervaluation as a dynamic concept, both at the level of the labour market - such that new jobs, sectors and labour market groups may become prone to undervaluation - and at the level of the individual, such that undervaluation may either be compensated for or intensified over the lifecycle.

### **1.3 Outline of the report**

The report is divided into eight chapters. Chapter 2 provides an overview of theories of pay that may inform our understanding of undervaluation. Chapter 3 surveys the literature on undervaluation from the perspective of the individual employee and labour force groups. Chapter 4 looks at undervaluation at the workplace. Chapter 5 considers the dynamics of undervaluation and the factors that might shape undervaluation patterns in the future. Chapter 6 provides information on recent desegregation and employment trends and their relationship to undervaluation. Chapter 7 considers the relationship between undervaluation and performance. Chapter 8 outlines policies to reduce undervaluation.

## 2. UNDERVALUATION AND APPROACHES TO PAY DETERMINATION

### 2.1 Introduction

Pay is a cost of production, a signal to recruit and retain staff, a key resource for individuals and families, a reflection of social identity, a tool for motivating staff and the outcome of distributional conflict between employers and workers. With these many roles and functions, it is not surprising that there are differences of opinion and perspective on the most important factors shaping processes of pay determination. Social scientists from a whole range of disciplines have something to say about pay, but they approach the question from different disciplinary concerns and different understandings of social practices. To a large extent, the different disciplines do not talk to each other and as a consequence much of the literature on pay remains rather separate and the tensions between the different approaches and accounts unexplored. The argument we make here is that there is in fact no one way to resolve these differences, that pay does serve multiple roles and functions and as such is often a compromise between competing pressures, with different outcomes in different institutional, social and economic contexts

### 2.2 Undervaluation and theories of pay

The study of pay is not confined to one academic discipline. While economics has the claim to the most well-developed general theories of pay, there are equally strong traditions of studying the forces that shape pay levels and practices in sociology, industrial relations and management.

The involvement of these different disciplines in exploring and explaining pay levels and practices reflects the importance of pay within both the economy and the society. To make sense of these varying perspectives, it is helpful to look at pay as a cost of production, as a source of social status and living standards and as a key variable in shaping the employment relationship.

#### *Pay as a cost of production*

Pay can be considered through the lens of employing organisations as a cost of production, with the price that can be charged for the products or services produced setting an upper limit to the price or the wage paid to labour. This approach can explain why wages for similar types of jobs may vary between organisations and sectors: where an organisation or sector is operating in an expanding market, or the organisation is an innovative and productive organisation, it may be possible for employees to bargain some share of the additional profits. This practice in economics terms is known as *rent sharing*. However, an ability to benefit from location in favourable segments of the industrial system depends upon the bargaining power of



the workforce and on the rapidity by which favourable positions are eroded by competition.

Traditional wage theory tends to assume that these differences in ability to pay between organisations and sectors have relatively limited influence on pay unless there are strong trade unions, as otherwise there would be limited incentives for employers to pay above the market rate for labour. However, *one possible element in explaining gender differences in the valuation of their work is that men are both more likely to be employed in sectors where there is potential rent to share and more able, through stronger organisation and power, to secure a share of the potential rent.*

To the extent that wages do rise in the expanding sectors and organisations, this acts primarily to attract labour from declining x sectors to areas of higher value added. A parallel process may occur, according to mainstream economic theory, in sectors or organisations with declining ability to pay, where the level of pay for a particular type of labour may well fall below so-named market rates, encouraging labour to move to more productive sectors. Where there is a fixed wage floor - for example, a national minimum wage - the impact may be to reduce employment through marginal firms becoming uncompetitive at these wage rates. However, total employment may still expand as the more productive firms are not being undercut by the less productive.

All of these mechanisms are based on rather strong assumptions. First, the notion of market rate is based on the assumption that there is a balance between supply and demand in the labour market and not a potential excess supply of labour (which is found, for example, among the predominately female inactive population), or indeed, in the potential pool of economic migrants. This might mean, for example, that if there is a shortage of labour in a female-dominated occupation, that employers, instead of raising the price of labour, might seek to attract in new labour supplies who might otherwise not be available to work. This could be done by offering part-time and flexible hours rather than by raising wage rates.

Second, pay differentials may reflect factors other than productivity, including discrimination. Thus one of the ways that organisations may respond to difficulties in retaining and recruiting labour may be to switch to a new labour force group - for example, from men to women. The outcome of a move from a more advantaged to a more disadvantaged group could be that the pay for the occupation may even tend to decline rather than rise. Such processes can help explain how, historically, clerical work, which was once both a male preserve and well paid, slipped down the occupational hierarchy; as the demand for such workers increased, employers turned

to educated female labour as a group to be mobilised at lower wage levels (Crompton and Jones, 1984; Lowe, 1987).

*Pay as a source of social status and living standards*

While pay is undoubtedly an important contributor to costs of production, it is equally pertinent to view pay through the lens of the family or the individual employee, that is as their main source of purchasing power and the means by which they can achieve and maintain their standard of living. This effect may extend even to periods without work, such as retirement, if pensions are linked to wage earning. The main concern for employees and their families is that pay should keep pace with, or exceed, any rise in the cost of living. However, the main concern for employers in setting pay is to keep costs in line with what they can charge in the product market. These potentially conflicting views create tensions in the setting of pay levels. This issue also highlights one of the major problems of the traditional undervaluation of women's work; many women may be employed in jobs that do not pay enough to allow an acceptable standard of living for themselves, let alone any dependants, even if they worked full-time hours. Undervaluation thus reinforces women's economic dependence upon men and leads to poverty among those women, such as single mothers, who need to earn a living wage for themselves and their families. Low paying employers rely on subsidies from other family members or from the state to support the living costs of their employees. Furthermore, many women over their lifecycle move from positions of economic dependency to situations in which they are required to be economically independent; divorced or widowed women face problems of inadequate access, both to wage income and to pension provisions, even though at some periods of their lives, they may have been in households where the standards of living may have been primarily secured by a man's 'family wage'.

Pay is also regarded as an important reflection of social status and social class, within the workplace and the community. A particular issue in debates over undervaluation is whether women tend to be lower paid at work in order not to upset the prevailing social and economic gender hierarchy. Thus at the household level, it is the 'norm' for men to earn more than their wives or partners; at the workplace, men may be resistant to supervision by women or to being paid less than women. In 2003-04, women contributed more than 50% of income in around one fifth of couple households (Women and Equality Unit, 2005) but, on average, their contribution is 32%. Attitudes towards women's role in family finances may or may not be changing, but the legacies of these traditional norms will still be around for some time to come.

















































































































































































































































































































































































