Mitchell's Musings 10-26-15: A New Plateau?

Daniel J.B. Mitchell

Economics has always had a divide between theory and empirical research. There are empirical regularities of which researchers who are data-focused are aware, but which don't follow from any economic theory. There is no theoretical reason, for example, why the unemployment rate might not fall to 2%. But anyone familiar with the unemployment data would be very surprised if that happened. Why? Because except during extreme wartime conditions, it hasn't happened in the past.

To take another example, if I were to forecast that in two years, California would have 14% of the U.S. population, there is no theoretical reason to say that such a prediction is implausible. But suppose you know that the current proportion is 12%, that California's share of the U.S. population more or less stagnated at that level with the end of the Cold War, and that it would take an implausible in-migration to raise the share by 2 percentage points in two years. You would surely reject that forecast.

So let's look at another proportion, the ratio in percentage terms of female-to-male wages. You probably know (empirically) that the ratio is less than 100%. For much of the post-World War II period, the ratio bounced around 60%. The range on the chart below runs from 57% to 64% through 1979. Presumably, that ratio can be "explained" by such factors as variation in hours worked (there is variation even when only full-time workers are used), occupational composition, education, discrimination, etc. But through the 1970s, as the chart shows, the ratio showed no trend. Indeed, the constancy of the ratio around 60% was likely one of the sparks that ignited the "comparable worth" movement of the 1970s which looked for legal remedies to raise the ratio.

At the time as I recall, commentators on the issue would sometimes even point to Leviticus 27:

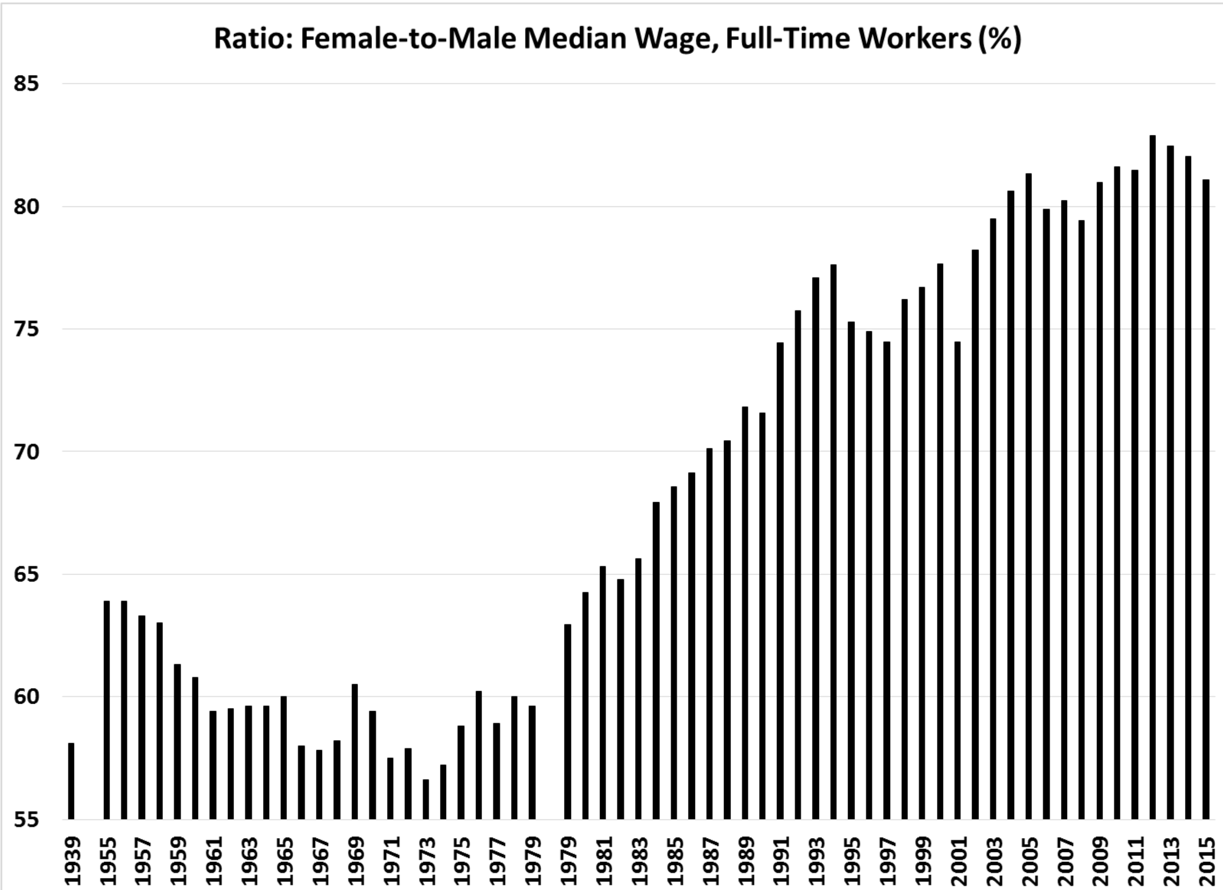
> *"If it is a male from twenty to sixty years, the equivalent is fifty shekels by the sanctuary weight; if it is a female, the equivalent is thirty shekels."*

So it appeared, at least if you were a commentator on comparable worth in the late 1970s and early 1980s, that the 60% ratio (30 shekels/50 shekels) was – if not exactly God-given – at least a very longstanding empirical tendency.[1] However, as sometimes happens when there is no theory explaining

[1]There is some uncertainty as to the application of the passage, but it does not appear to refer to wages. It appears instead to refer to temple dues. Women seemed to increase in relative valuation (dues assessment) with age *after* age 5. From one month to five years, the shekel ratio was 3/5 (60%). From age 5-20, however, the ratio drops to

an empirical regularity, the ratio started to change in the 1980s, just as the Biblical reference was being invoked.

======



Note: Data for 1939-1979 are from June O'Neill, "The Trend in the Male-Female Wage Gap in the United States," Journal of Labor Economics, Part 2, January 1985, p. S94, and refer to median annual earnings of year-round, full-time workers. The data for 1979-2015 are third quarter ratios of median usual weekly earnings of full-time workers from the U.S. Bureau of Labor Statistics usual weekly earnings series. As can be seen from the overlap at 1979, the two series give differing results with the series for the later series generally above the earlier series.

======

Did the agitation around comparable worth – an approach that didn't get much legal traction – play some role in the rising ratio in the 1980s?[2] Maybe firms in making pay decisions responded to the

10/20 (50%). For ages above 60, the ratio is 10/15 (66.7%). There is an escape clause for those who cannot afford the assessment allowing payment of whatever could be afforded.

[2]Apart from any legal issues, U.S. courts may have been fearful of becoming wage tribunals with the caseload that would have implied.

agitation without legal compulsion. Alternatively, the author of the early 1980s article from which the 1939-1979 data in the chart above were drawn suggests that the ratio could be expected to rise due to increased workforce experience, education, and expectations of women.[3] And it did.

What we do know is that the general upward trend, although hardly even from year to year, continued into the 1990s. Somewhere in the early 2000s, however, the female/male wage ratio seems to have stopped increasing, stalling at around 80% (with a range running from 79% to 83%). There seems to be a perception again – as there was when comparable worth became a topic of concern in the 1970s - that the overall ratio has become stuck, albeit it a higher level than the old 60%.[4] That perception may account, for example, for recent agitation about the lack of women in Silicon Valley/high-tech type jobs (which are generally well paid).[5] In any case, the plateau raises the question of whether 80% has become the new normal.

[3] June O'Neill, "The Trend in the Male-Female Wage Gap in the United States," Journal of Labor Economics, Part 2, January 1985, p. S115. Data in the article go up to 1983, presumably around the time the article was written.
[4]http://www.aauw.org/files/2015/09/The-Simple-Truth-Fall-2015.pdf.
[5]http://www.motherjones.com/mixed-media/2015/06/evidence-silicon-valley-really-sexist.