

Comment on Ronald L. Oaxaca: The challenge of measuring labor market discrimination against women

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This is a highly informative and pedagogical overview of different decomposition methods, and their relevance for labour market discrimination against women. My comments will mostly deal with practical issues when trying to apply these methods, especially with regard to the contemporary Swedish labour market.

First, I wish to address the problem of whether to use the male or female coefficients as standards when decomposing the gender wage gap. This choice is seldom argued for in a more elaborate way. In most decomposition studies, the male coefficients are used as standards, with the explicit or implicit assumption (often without further arguments) that men are paid in a nondiscriminatory way. Thus, adopting the estimated male coefficients as the standard implies that men are, on average, appropriately compensated and that women are undercompensated. Instead, adopting the female coefficients as the standard implies that women are, on average, appropriately compensated and that men are overcompensated. If you look at the decomposition techniques as a type of simulation, an intellectual experiment, of what would happen if women received the same return to their endowments as men, the former standard (using men's coefficients) implies that the overall wage costs in the economy would have to be increased, and the latter standard (using women's coefficients) that the overall wage costs would be decreased. Therefore, in my view, the most realistic procedure would be to use a weighted average of the male and female coefficients so that the overall wage costs in the economy do not change. This is perhaps even more important when you try to apply decomposition methods to a singular firm, to which I will return below.

Second, it is argued in the paper that the choice of decomposition method and independent variables should be based on the definition of discrimination chosen. I could not agree more. But if you wish to apply this to Sweden, what would be the proper choices? In Sweden,

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occupational segregation by gender is very strong. The gender wage gap within occupations is relatively small while wage differentials between male and female dominated occupations are instead large. “Evaluative discrimination” or “comparable worth discrimination” is defined by Paula England (1992) as “... jobs filled mostly by women have pay levels that are lower than they would be if the jobs were filled mostly by men.” If it is true that this type of indirect discrimination is one of the main mechanisms behind the gender wage gap in Sweden (as well as in many other countries), the problem would, of course, be to decide which characteristics of the occupation or the job to control for. In other words, how to operationalize comparable worth? These issues are closely related to the lower relative wages in the public sector which have become quite dramatic in Sweden in recent years. The reason is, of course, that the large majority of public-sector workers are women while men dominate in the private sector.

Third, I find the discussion about directly applying decomposition methods within a firm to be very interesting and potentially fruitful from a practical, policy oriented view. Even though it is difficult to obtain a definite estimate of discrimination within a firm and a proper algorithm to correct for documented inequities, I would suggest that a decomposition analysis is a good point of departure for accomplishing equity salary adjustments, since such an analysis would identify possibly underpaid women and possibly overpaid men. In other words, large differences between actual and predicted salaries could be further investigated using more qualitative methods. The advantage of such a two-stage procedure would be that, compared with the normal situation for a researcher, we may be able to obtain at least some information about those otherwise unobserved characteristics of the worker and the job, which are relevant for deciding what a non-discriminatory wage level would be.

In the discussion of the salary adjustments within a firm, there is the constraint that no individual’s salary is reduced by the adjustment process. I find such a restriction to be problematic since, using the male coefficients as the standard, the total wage costs of the firm will increase, and the size of this increase is a function of the degree of discrimination (and of the relative size of women in the firm). The implication will probably be that many firms will hesitate to undertake salary adjustment since their total wage costs would increase. I would therefore suggest that the adjustment of underpaid women’s salaries should be made gradually over a longer period of time at regular sal-

ary revisions. After some salary revisions, the discrimination (unexplained) part will hopefully disappear.

References

England, P. (1992), *Comparable Worth. Theories and Evidence*, Aldine de Gruyter, New York.

