

# Testimony on the Fair Wage Amendment Act of 2016

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Testimony before the Council of the District of Columbia Subcommittee on Workforce

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*EPI Senior Economist Elise Gould delivered the following testimony before the Council of the District of Columbia Subcommittee on Workforce on November 29, 2016.*

Thank you for the opportunity to speak on this important issue. I am Elise Gould, Senior Economist at the Economic Policy Institute, a nonprofit, nonpartisan think tank with the mission to include the needs of low- and middle-income workers in economic policy discussions.

I have five key points I want to make this morning. One, a pay differential exists between men and women, and between workers of different races and ethnicities. Two, we should use all the tools at our disposal to eliminate discrimination in hiring, promotion, and pay. Three, pay transparency helps reduce wage disparities largely because it attacks the information asymmetry between workers and employers. Four, another way to attack this asymmetry is to allow workers to keep their own salary history as private as firms are allowed to keep information about their salary structure. Five, an optimal approach might allow full transparency: firms are allowed to ask for a salary history of applicants as long as they show these applicants the full salary structure of their firm.

One, pay differentials exist and sometimes to a grave degree. Women are paid less than men at all wage levels. According to the most recent data, as of 2015, women's hourly wages are 82.7 percent of men's hourly wages at the median, with the median woman paid an hourly wage of \$15.67, compared with \$18.94 for men. In 2015, the gap between men's and women's hourly wages was smallest among the lowest-earning workers, with 10th percentile women earning 92.0 percent of men's wages (Gould, Schieder, and Geier 2016).

White non-Hispanic women are paid 81.0 percent and Asian women 89.8 percent, of what non-Hispanic white men make. But the shares are much lower for black and Hispanic women, at 65.3 percent and 57.6 percent, respectively (CPS ORG 2011–2015). In terms of the impact on women's paychecks, this means that relative to the typical white man, the typical white woman takes home \$4.00 less per hour, black women take home \$7.31 less per hour, Hispanic women take home \$8.91 less per hour, and Asian women take home \$2.15 less per hour (Gould, Schieder, and Geier 2016).

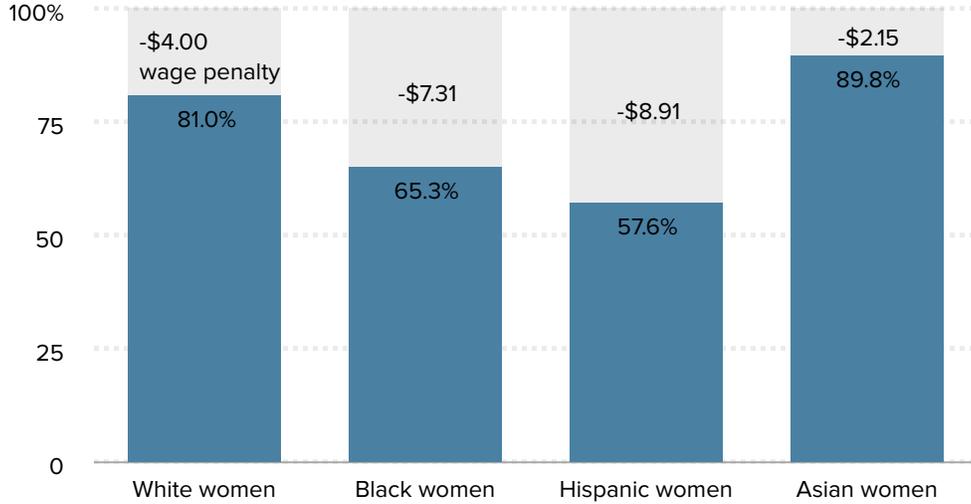
The gender wage gap exists for women across the age distribution, but grows over time. The gender wage gap is quite small for workers in their teens and early twenties (for workers 16-24, the median young man is paid \$10.09 per hour, whereas the median young woman is paid \$9.85 per hour), but the gap grows with age. For typical working men, hourly wages rise until around the age of 45 and then plateau, but for typical working women, hourly wages top off earlier (in the 35 to 44 age range). After around 40, women's wage growth plateaus and then drops off earlier than men's (Gould, Schieder, and Geier 2016).

Women cannot educate themselves out of the gender wage gap. Among workers who have not completed high school, women are paid 78.2 percent of what men are paid. Among workers who have a college degree, the share is 75.2 percent; and among

Figure A

## Black and Hispanic women experience the biggest pay gaps

Women’s median hourly wages as a share of white men’s and their per hour wage penalties, by race and ethnicity, 2015



**Notes:** Values displayed above columns represent the difference between women's median hourly wages and median hourly wages of white men.

**Source:** EPI analysis of Current Population Survey microdata, 2015

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workers who have an advanced degree, it is 73.4 percent. (Gould, Schieder, and Geier 2016).

Furthermore, the gender wage gap is present across the United States. In Washington, D.C., women at the median, or typical female workers, are paid 92.0 percent of typical male workers’ wages (Gould, Schieder, and Geier 2016).

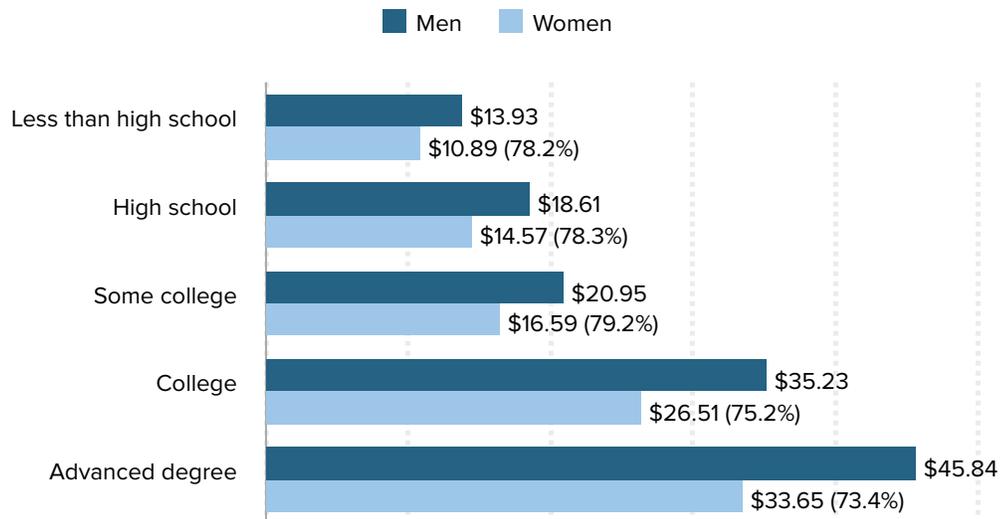
To summarize, women’s hourly wages are 82.7 percent of men’s hourly wages at the median. And, the gap is higher at the top of the wage distribution. Working women of color are at a particular disadvantage. Black and Hispanic women are paid only 65.3 percent and 57.6 percent, respectively, of what white non-Hispanic men are paid. Both women and workers of color cannot educate their way out of the gender wage gap. The gap exists at all levels of education. And, while the gap is smaller than many other parts of the country, typical female workers in Washington, D.C., are paid 92.0 percent of typical male workers.

Two, we should use all the tools at our disposal to eliminate discrimination in hiring, promotion, and pay. Public policymakers, employers, and the educational system should work together to attack and weaken factors that harm women’s labor market opportunities—from differences in cultural educational messaging, to constrained occupational choices, to unequal division of labor at home, to unnecessary employer demands for excessive and irregular hours. These solution are as far-reaching as paid family leave policies, which can reduce the gender wage gap particularly when men share

Figure B

## Women earn less than men at every education level

Average hourly wages, by gender and education, 2015



**Source:** EPI analysis of Current Population Survey Outgoing Rotation Group microdata. For more information on the data sample see EPI's State of Working America [Data Library](#).

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in leave-taking responsibilities. And solutions are as basic as eliminating the separate and lower minimum wage for tipped workers, which perpetuates racial and gender inequities, and results in worse economic outcomes (Lynn et al. 2008; Allegretto 2016).

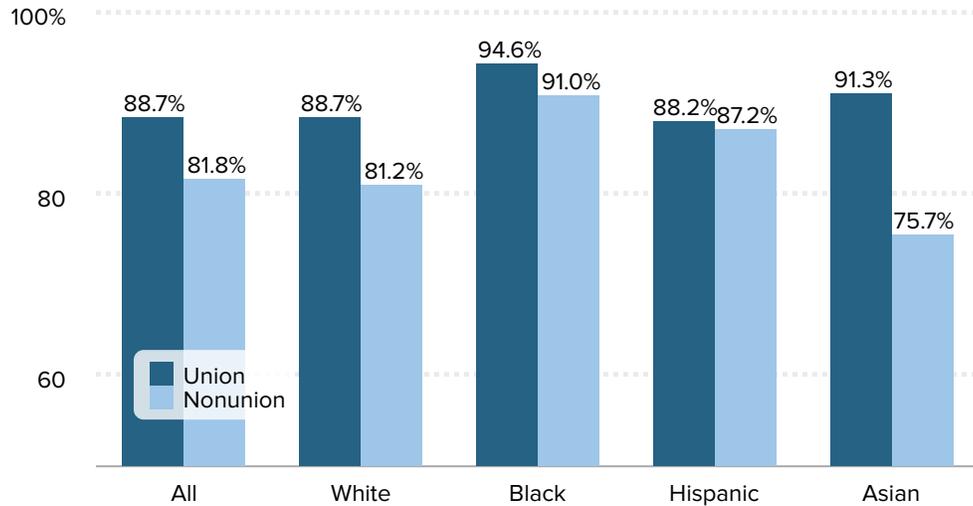
Three, pay transparency helps reduce wage disparities largely because it attacks the information asymmetry between workers and employers. Wage bargaining has inherent informational asymmetries, meaning that both potential and actual employees hold information about their salary requirements and employers hold information about the salary range they are willing to offer or concede to during negotiations. Reducing these informational asymmetries and setting clear standards of pay can reduce wage disparities. In some workplaces, this is accomplished through negotiations by unions. Accordingly, the gender pay gap in unionized workforces is smaller than in nonunionized workforces. Working women in unions are paid 89 cents for every dollar paid to unionized working men; nonunionized working women are paid 82 cents for every dollar paid to nonunionized working men (Gould, Schieder, and Geier 2016).

Furthermore, research has shown that pay transparency can lead to increased self-regulation with regards to pay practices and, therefore, lower pay inequality. By disclosing public-sector salary information in one state, compensation of top municipal managers declined relative to managers in cities that had already disclosed salaries (Mas 2014). Research on executive pay also finds that, similar to the gender wage gap, “litigation alone cannot solve and deter abusive pay practices because the courts are reluctant to interfere with business judgments regarding compensation” and, therefore, “transparency would be

Figure C

## Women generally experience a smaller pay gap when their workplace is unionized

Women’s median weekly earnings for full-time wage and salary employees as a percent of men’s, by race and ethnicity, 2014



Notes: The values represent the difference between the median weekly earnings of full-time wage and salary workers who are union members or are covered by a union contract and those who are not.

Source: EPI analysis of Anderson, Hegewisch, and Hayes, 2015

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an effective way to involve employees in the self-regulation of the firm’s pay practices” (Eisenberg 2011).

Four, another way to attack this asymmetry is to allow workers to keep their own salary history as private as firms are allowed to keep information about their salary structure. This amendment attempts to end the perpetuation of lower pay for women and workers of color by preventing employers from perpetuating wage disparities during initial wage negotiations (Eisenberg 2011). As previously mentioned, wage disparities exist and it is a noble goal to try to cut them back wherever possible. “Most importantly, litigation does not solve pay disparities where they are most likely to happen: at the initial wage negotiation stage” (Eisenberg 2011).

And women are uniquely disadvantaged at that initial phase, because women avoid negotiation more often than men (Exley, Niederle, and Vesterlund 2016). This is particularly true when there is some ambiguity in the wage negotiation process (Liebbrant and List 2012). And, if they do negotiate, women are not treated equally, and research suggests that there is a higher penalty for women who try to negotiate (Bowles, Babcock, and Lei 2006).

Taken together, the evidence would suggest that reducing ambiguities in initial negotiations by establishing clearer rules and information could help put women on a more even playing field.

Five, an optimal approach might allow full transparency: firms are allowed to ask for a salary history of applicants as long as they show these applicants the full salary structure of their firm. You could consider this to be quid pro quo transparency. The point is you want more symmetrical information, a reduction in informational asymmetries. In the bargaining process, employers could be required to provide the employee with more information about the workplace if employers ask about a potential employee's salary requirements. Best care scenario would be wage ranges for various occupations or even more general information about the salary structure, such as providing wage levels at different points of the firms' wage distribution to potential employees going into a negotiation.

In practice, employers can ask for salary requirements as long as they also make their salary structure—occupations, hourly pay, hours of work—available. And, this would be a minimum burden to employers in the District of Columbia as quarterly earnings reports are already completed by all employers participating in the unemployment insurance system—so the employer already does it and the government has it.

Again, I want to thank you for the opportunity to share my research and thoughts. It's important and admirable that the council recognizes the importance of minimizing disparities. I look forward to any questions you may have.

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