

Discover Economics

Economics Schools Challenge

The theme of this year's challenge is the gender pay gap.

We would like you to produce a one-page poster that addresses the following:

- Do you think that the gender pay gap is a problem – and why?
- What do you think that the government could require or encourage firms to do?
- Are there are other policy changes that could help to reduce the gender pay gap?

Enclosed in this pack is a four-page brief that gives you some background statistics on the gender pay gap, and some arguments and evidence produced by economists on factors that might explain the gender pay gap.

There are also a couple of case studies of large firms. These have information about the gender pay gaps at the firms – and some of the measures that they have introduced. You don't have to comment specifically on these policies – but they may give you some ideas.

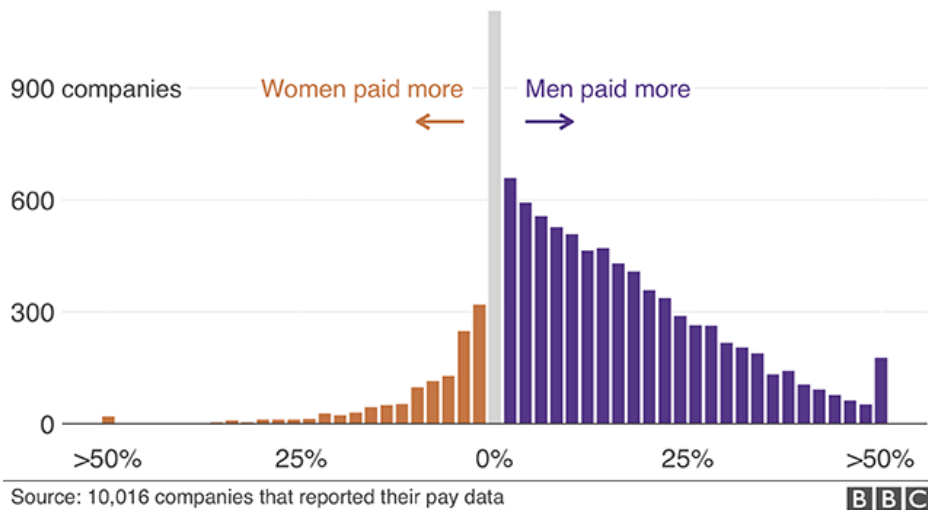
The gender pay gap

In 2018, all GB firms with 250+ employees were required to report their gender pay gap – the difference between the average hourly earnings of men and women in a firm.

Eight out of ten firms have a gender pay gap in favour of men.

78% of companies pay men more

Median hourly gender pay gap at companies in Great Britain



The median hourly gender pay gap is the difference between the median hourly pay of women in a firm and the median hourly pay of men in the same firm.

Equal pay?

The gender pay gap is not the same as unequal pay. Unequal pay means paying different amounts to people doing the same job. This is illegal.

Carrie Gracie, a BBC journalist, won an unequal pay case against the BBC in 2018. As BBC China editor, she was paid less than (male) editors covering the Middle East and USA. Among the *Strictly Come Dancing* judges, Shirley Ballas is paid less than Craig Revel-Horwood. He – and another judge, Arlene Phillips – argue that this is fair because he has more experience.

Do you think differences in pay for people in similar roles just reflect objective differences e.g. in experience?

Economists hold differing views on the gender pay gap

The gender pay gap results from a combination of drivers, such as occupational segregation and biases.

Institute for Public Policy Research

The gender pay gap is not a problem. It is a result of free choices.

Institute of Economic Affairs

Occupational choices

Part of the gender pay gap is due to differences in the occupations that men and women do – and differences in pay across occupations. For example, 90% engineers are men; 83% primary-school teachers are women. Occupation choice could be the result of educational and personal preferences, or societal norms or biases.

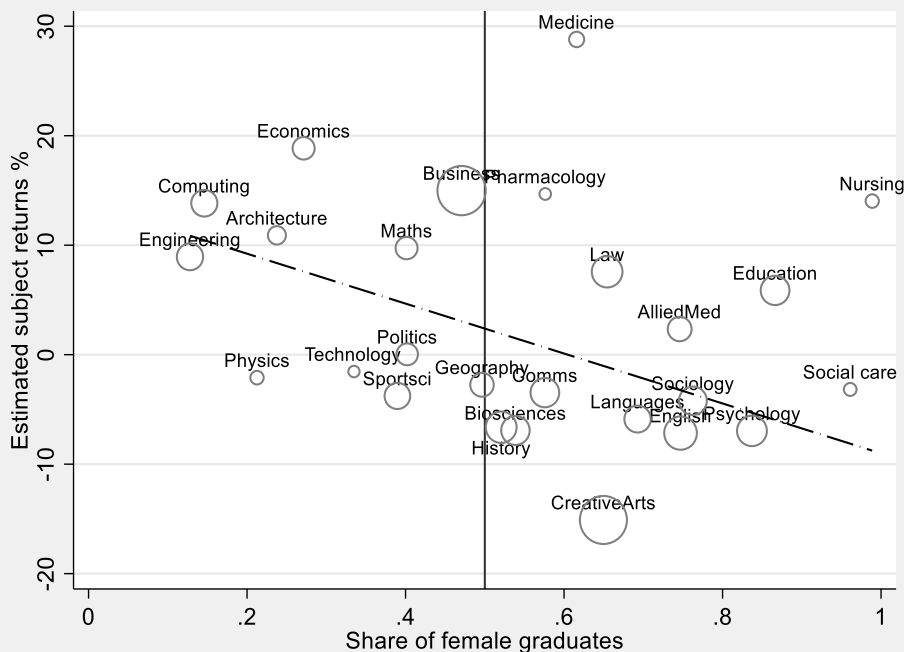
Childcare choices

Women are more likely to take time off/ work part-time when they have children. They may also take lower-paid jobs that fit around childcare. This is a choice that women make, but there may also be gender norms around childcare.

Why do you think that men and women make different choices about careers and childcare?

Evidence on career choices

Men and women choose different subjects to study at university. Subjects favoured by women tend to have lower financial returns.

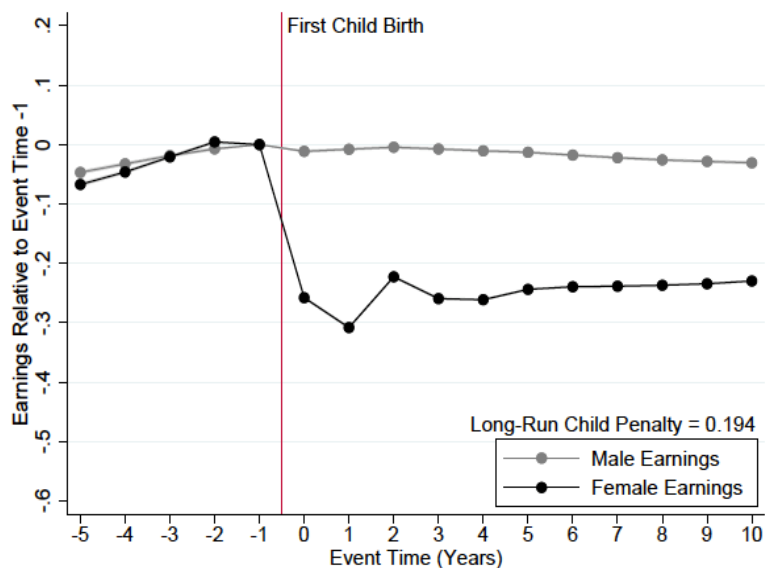


Returns are calculated relative to the average salary paid to all graduates. A 20% return for economics graduates means that economics graduates earn 20% more than the average graduate. Salaries are measured 1 – 5 years after graduation. Estimated returns control for prior academic attainment (A-level and GCSE results) and socio-economic background.

Evidence on the effect of childcare

This evidence from Denmark shows that men and women earn the same up to the birth of their first child. Then women face an earnings drop.

When women have children they may take time off, work part-time or look for jobs that allow them to combine work with looking after children.



In 2015, the UK government introduced “split parental leave”. This allowed mothers to “give” up to 50 weeks (out of 52) of their maternity leave and up to 33 weeks (out of 39) of their maternity pay to their partners. In principle, this scheme allows men and women to share childcare in the first few months. But **only 2 per cent** of eligible couples have taken split parental leave.

This choice may reflect economic factors – if men earn more, the cost of not-working is higher – but it could also reflect other factors.

Behavioural economics perspective

George Akerlof (Economics Nobel Prize winner, 2001) and Rachel Kranton introduced the notion of **Identity Economics**. This means that people’s choices may be based not only on economic factors but also on their identity. People avoid actions that conflict with their identity/ choose actions that conform with their identity. This identity might be shaped by social norms.

For example....

Career choices: 30% people studying economics are women, compared to 80% people studying psychology. Might this be because women see a lot of male economists and think that economics is not for them?

Childcare choices: If women are lower-paid, they may have a stronger economic incentive to take maternity leave. But they may also think that is what they should do.

Unconscious bias

How people are perceived/ behave may be affected (sub-consciously) by their identity.

Howard or Heidi?

Harvard Business School ran an experiment with their students. They presented the students with a story of a successful entrepreneur. They told half the students that the entrepreneur's name was Heidi Rozen; they told the other half that it was Howard Rozen. In all other dimensions, the entrepreneur was identical. Then they asked students their impressions of Heidi or Howard.

The students rated both as competent and worthy of respect, but Howard came across as a more appealing colleague. Heidi, on the other hand, was seen as selfish and not "the type of person you would want to hire or work for."

Other studies by economists have shown the following:

- Women are more likely to be asked to do non-remunerated admin tasks (eg chairing a committee) and are more likely to volunteer to do them
- Women are more likely than men to opt out of competitive situations (choose alternatives where they don't have to compete against others) – even where their past performance suggests that they would do well
- Women negotiate less – they are less likely to ask for a pay rise

Fewer than one-quarter of the members of the company boards of the UK's biggest 350 companies are women.

Male board members were asked why there were so few women on the boards.

Here are some of their replies....

- I don't think women fit comfortably into the board environment
- There aren't that many women with the right credentials and depth of experience to sit on the board - the issues covered are extremely complex
- Most women don't want the hassle or pressure of sitting on a board
- All the 'good' women have already been snapped up
- We have one woman already on the board, so we are done - it is someone else's turn

What assumptions are being made about women here? What if you replace the category of 'women' with another disadvantaged group (e.g. ethnic minority, disabled)?

Case Studies

Case study 1

BOX 3.1. Case study: HSBC Bank PLC

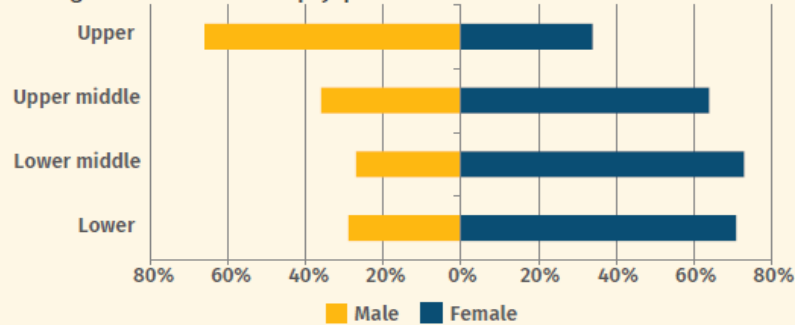
HSBC Bank PLC is the largest of HSBC's seven UK employing entities, employing approximately 23,507 people.

Key statistics

Mean gender pay gap	59%
Median gender pay gap	29%
Bonus pay	Received by 85% of women
	Received by 84% of men
Median bonus pay gap	61%
Mean bonus pay gap	86%

FIGURE 3A

HSBC: gender balance of each pay quartile



Drivers of the gender pay gap

HSBC has a pay gap because there are fewer women in senior leadership; the majority of its female staff are in more junior and lower-paid roles; and there is a higher prevalence of part-time working among women. The firm's most senior roles are based in the UK, which explains why the mean pay gap is significantly larger than the median.

Although a similar proportion of men and women receive a bonus, part-time employees' bonuses are calculated pro-rata, which means the bonus pay gap is larger than the hourly pay gap.

Company response

The company has committed to the following actions to address its pay gap:

- **Signing up to the 30 per cent club:** the campaign has a target of 30 per cent of senior leadership roles to be held by women by 2020. HSBC has also committed to creating gender-diverse shortlists for all senior leadership roles.
- **Developing female talent to strengthen the leadership pipeline:** it now looks for gender balance among its UK graduate intake, and encourages balanced representation in its internal progression programme for high-potential staff.
- **Support for flexible working arrangements:** through a new Flex Employee network, and the provision of parental leave 'coaching'.

Conclusion

HSBC is a large employer with a relatively gender-balanced workforce, but where the majority of the lowest-paid workers (in relative terms) are women. It could make an immediate difference to its pay gap by employing more men in junior roles, but by far the better response for long-run gender equality would be to focus on bringing more women into senior positions. That may, in the short-run, increase the pay gap, if it results in more female graduate trainees.

Case study 2

BOX 3.3. Case study: Deloitte UK

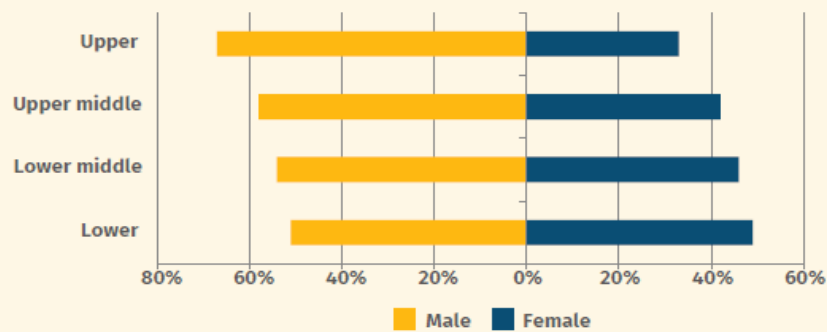
Deloitte UK, a professional services firm, has two employment entities that it reports against: Deloitte LLP and Deloitte MCS Ltd. The table shows the figures for the whole of Deloitte UK which combines both legal entities as well as other employees who are managed by Deloitte UK but are not within the scope of the mandated disclosure.

Key statistics

Mean gender pay gap	15.3%
Median gender pay gap	18.2%
Bonus pay	Received by 62.4% of women
	Received by 39.1% of men
Median Bonus gender pay gap	39.1%
Mean Bonus gender pay gap	50.9%

FIGURE 3C

Deloitte: gender balance of each pay quartile



Drivers of the gender pay gap

As Deloitte has identified in its own analysis, the key driver of the gender pay gap is the lower representation of women at the top of the organisation: just 19 per cent of the firm's partners are women. This helps to explain why the median bonus gap is large, and the mean larger: bonuses are generally higher the more senior the recipient.

Company response

In 2012, Deloitte established a set of targets designed to ensure greater gender equality across the organisation. It set a target for 25 per cent of its partners to be women by 2020, rising to 30 per cent by 2025. In 2014, Deloitte published its 'Women in Leadership' gender balance action plan. This sets out a comprehensive strategy to drive gender equality including:

- **A focus on culture:** including initiatives such as its Time Out scheme (which enables employees to take four weeks' unpaid leave each year) and encouraging 'agile' working,¹⁵ as well as focusing on the inclusivity of the working environment
- **Reviewing recruitment processes:** to ensure that hiring processes at both entry level and for experienced hires successfully attract an equal share of women and men
- **Programmes targeted at 'pain points':** including a Return to Work internship programme; a transitions coaching programme for primary carers returning from maternity/ parental leave; sponsorship programmes for senior female staff; and development of a talent pipeline for senior grades.

Conclusion

The organisation was an early adopter of measures designed to promote gender equality. Its experiences suggest that interventions take time to work – Deloitte set a modest target for partner representation at an eight-year horizon. This implies that those attempting to increase gender equality in their organisations should prepare to make a long-term effort, and not simply focus on year-to-year changes in their pay gap.