



Labour Market Matters

Special points of interest:

- A new study that focuses on the gender wage-ratio rather than the traditionally used gender earnings-ratio uncovers that women have steadily improved their labour market standing compared to men over the last couple of decades.
- Cohabiting women are found to respond less to changes in partner wages compared to married women in new study.

“[T]he wage-ratio steadily improved over the last 15 years, and had drawn to 0.856...by 2007. This contrasts sharply with the earnings ratio which stayed relative stagnant over the same years at 0.725”



Michael Baker (University of Toronto)

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New Research Re-frames the Debate on the Male/Female Compensation Gap

Based on data from Statistics Canada the ratio of female to male annual earnings for full-year full-time (FYFT) workers showed modest improvement in the 1980s, and has held steady at around 0.70 since 1992 (meaning that females earn approximately 70 percent of what males earn). In an era of social, economic, political and legislative change, the finding that the gender earnings-gap has not improved since the early 1990s is somewhat puzzling. It is possible, however, that the gender earnings ratio does not provide the most informative gauge for assessing the labour market progress of women.

Michael Baker (University of Toronto) and Marie Drolet (Statistics Canada) argue that the wage ratio between men and women is better suited than the FYFT earnings ratio to assess the financial gains women have made in the labour market. Gender based labour market discrimination is often characterized by gender differences in the price of labour. Wages capture the price of labour while earnings combine the price of labour (i.e. wages) and the quantity of labour supplied (ie. hours worked). Any gender gap in work volume (hours or

weeks worked) contributes to the gender earnings gap but not to the gender wage gap. In their paper: “A New View of the Male/Female Pay Gap” ([CLSRN Working Paper no. 50](#)), Baker and Drolet compile hourly wage rate data from various surveys starting from 1981 and construct a consistent time series on the gender wage ratio in Canada.

Baker and Drolet find the wage-ratio steadily improved over the last 15 years, and had drawn to 0.856 (that is, women made 85.6 percent of what men made wage-wise) by 2007. This contrasts sharply with the earnings ratio which stayed relatively stagnant over same years at 0.725 (women making 72 percent of what men made in terms of annual earnings).

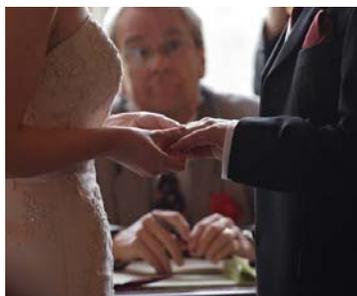
The Canadian workforce became older and more educated over the period of study and woman have made relative gains in their labour market experience. The study found that women increasingly hold an edge in terms of various measures of productivity, most notably education. If women earned the same as men for a given level of education, the expectation would be that women would earn higher – not lower – wages than men. However,



While the gender **earnings**-ratio indicates that the gender compensation gap has not improved since the early 1990s, the gender **wage**-ratio indicates that women have steadily improved the compensation gap over the same number of years.
Image: Vivian Tran

where men work as measured by industry gives men a significant advantage in the aggregate wage data. The fact that men and women work in different industries accounts for a large part of a small but persistent gap between male and female wages.

Baker and Drolet’s study has delineated an important finding that traditional reports focusing on the gender earnings ratio have missed. By focusing on the gender wage rather than earnings’ ratio, they have shown that women have indeed made progress towards closing the gender compensation gap over the last couple of decades.



Cohabitation is quickly replacing marriage as the most common form of union between Canadian couples. Cohabiting women appear to respond differently to changes in partner wages than do married women.

Image: [Sharron Goodyear](#)

“While married women were found to respond to declines in their husband’s wages...cohabiting women exhibited less of a response, or no response at all to variation in partner wages.”



As marriage becomes less common in Canada, the labour market behavior of cohabiting couples provides insight into what collective labour market behavior in the future will look like.

Image: [Salvatore Vuono](#)

Do Married Women Respond Differently to Changes in Partner Wage-Structure than Cohabiting Women?

Cohabitation is becoming the choice of union for a growing number of Canadian couples. In 1981, only 6.4% of Canadian couples lived in common-law arrangements. By 2006, 27% of Canadian couples (aged 25-54) were common-law, while Quebec had 49% of all couples in common-law unions. Estimates from the 2006 Canadian General Social Survey show that about 41% of cohabitating women aged 25 to 54 remained in their unions 3 years or more after first living together. The average duration of unions of cohabitating couples was estimated to be 7.4 years in 2006. Taken together, these numbers provide compelling evidence that rather than being a marginal form of living arrangement that affects few couples for a very short period of time, cohabitation is now a state in which a relatively large, and growing number of Canadian couples choose as a form of stable conjugal union.

In their paper **“Marriage, Cohabitation and Women’s Response to Changes in the Male Wage Structure”** ([CLSRN Working Paper no. 37](#)), René Morissette, Yuqian Lu, and Feng Hou (all of Statistics Canada)

argue that there may be several reasons why cohabiting women’s labour supply would respond less to changes to their partners’ wage changes than that of their married counterparts. They argue that compared to married couples, partners in cohabiting relations may be more likely to view each other as individual economic entities because of the relatively higher uncertainty over the stability of the union, and perhaps more importantly, the “absence of a reliably enforceable contract.” Given the rapid rise in the prevalence of cohabitation, investigating whether married couples and cohabiting couples adjust differently to shocks to partner wages, may allow for a better understanding of collective labour market behaviour as it will be in the future, as more and more couples enter common law unions rather than marriage.

The study found that Canadian cohabitating men tend to be less educated, work shorter hours and have much lower annual earnings than their married counterparts. This is consistent with the proposition that: a) marriage is still highly selective for men; and b) men with better

economic prospects are more likely to marry than to cohabit. In contrast, cohabiting women participate more often in the labour force and work longer hours than married women, even though they are slightly less likely to have a university degree. They earn lower hourly wages than married women, owing partly to their younger age.

While married women were found to respond to declines in their husband’s wages by increasing their work hours (to compensate for loss of husband’s earnings), cohabiting women exhibited less of a response, or no response at all to variation in partner wages. However, the magnitude of the difference is not sizable. Since, a) married men’s and cohabiting men’s responses to variations in their own wages do not differ much, and b) married men’s and cohabiting men’s earnings are still the main component of family earnings (as they amount to roughly 65%-70% of family earnings), the end result is that the impact of changes in male wages on family earnings is very similar for married and cohabiting couples.

Endnotes

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