



# Canadian Labour Market and Skills Researcher Network

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### A New View of the Male/Female Pay Gap

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## **A New View of the Male/Female Pay Gap**

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### **Abstract**

We construct a new time series on the Canadian female/male pay ratio. The new series is based on wage data rather than the earnings data that has been used in the past. Wages more closely correspond to the price of labour, which is the focus of most theories of labour market discrimination and public policies in this area. Earnings based estimates combine gender differences in wages with gender differences in decisions of how much to work (i.e., hours). Our results reveal significant differences between the wage and earnings based series. Most importantly the wage series reveals that women have continued to make progress in the last fifteen years. In 2006 the wage based ratio is 0.85 while the earnings based ratio is only 0.72. We also find that as the gender wage ratio has risen, the remaining gap in wages is increasingly unexplained in the sense that it cannot be accounted for by gender differences in characteristics that the labour market values.

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## Executive Summary

Most discussion of differences in male and female compensation in Canada is framed by Statistics Canada's annual release of *Income Trends in Canada*. Based on data from the *Survey of Consumer Finances* and *Survey of Labor and Income Dynamics* this publication provides annual observations on the ratio of females' earnings to males' earnings for full year full time workers (the "gender earnings ratio"). Recent news from this publication is not good: the female/male earnings ratio for full year full time workers shows modest improvement in the late 1980s but has been in a holding pattern around 0.70 since 1992.

From a policy perspective the lack of movement in the ratio is puzzling. Canadian governments at various levels have been active with legislation intended to right inequities in compensation by gender.

In this paper, we investigate the possibility that the gender **earnings** ratio does not provide an informative gauge of the relative status of women. We offer estimates of the female/male **wage** ratio as an alternative. Wages more closely correspond to the price of labour that is the focus of economic models of discrimination. Earnings combine prices and quantities so an earnings gap might arise simply because Full-Year, Full-Time (FYFT) females work less than FYFT males. Gender employment gaps are an interesting but distinct issue.

Piecing together wage data from various surveys starting in 1981, we construct a consistent time series on the gender wage ratio in Canada. The wage based series is different from the earnings ratio in both level and trend. It is consistently higher than the earnings based ratio by 10 to 15 percentage points. In 2006 the wage based ratio for full time workers stood at 0.85, while the earnings based ratio for full year full time workers stood at 0.72. It also changes differently over time. Of particular note the wage based ratio displays steady if modest progress over the last 15 years while the earnings based ratio remains stalled.

Both the males and females in the sample have become older and more educated over time and females have gained more labour market experience. We investigate how the gender wage ratio changes as we control for gender differences in productive characteristics. In many dimensions females increasingly hold an edge on males in this regard. As a result if females commanded the same returns to these characteristics as males we would expect them to be receive higher—not lower—wages than males. The most significant exception to this conclusion is the industrial distribution of employment in which males hold a significant advantage.

From a policy perspective this research raises important issues. First, a gender compensation ratio of 0.80+ clearly raises different issues than one that is 0.70. Second, the wage based ratio shows women have made steady if modest progress through the 1990s and 2000s while the earnings based ratio does not.

The *Labour Force Survey* now provides timely, consistent evidence on the wages of male and female workers in the Canadian economy. There is a strong case for moving the annual report of the gender pay ratio and the policy debate that surrounds it to a wage basis.