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The potential impact of pay gap reporting on wages in New Zealand

Gender pay gap reporting has been legislated in many countries with the aim of reducing pay discrimination. Approaches differ: some countries require organisations to report to a government agency (such as Australia); others require organisations to publicly report their pay gaps (such as the United Kingdom). Others include sanctions for organisations that do not demonstrate improvement in their pay gaps (France).

The requirement to publicly report pay gaps has been in place for several years in some countries. Accordingly, there is a small but growing body of research that has sought to understand the impact of such laws on the behaviours of employees and employers and any changes in wages.

Based on its review of the evidence, the Mind the Gap campaign has concluded that *public* pay gap reporting is most likely to be effective in Aotearoa New Zealand. Ethnic and gender pay gaps should be required to be reported by organisations with 50 or more employees. Fifty employees allows for an adequately sized data set to ensure validity in reporting, while still encompassing the majority of workers in Aotearoa New Zealand. Organisations with fewer than 50 employees should be encouraged to calculate their pay gaps and undertake pay reviews to ensure pay discrimination is addressed within these organisations.

A standardized approach to reporting would need to be included in the legislation. Given the public service has had an effective public pay gap reporting regime for several years[1], Mind the Gap recommends the technical specifications used in the public service are applied across all sectors[2].

This briefing provides a summary of the overseas research on the impact of introducing pay gap reporting legislation. The purpose of the summary is to understand potential implications for Aotearoa New Zealand if legislation similar to what Mind the Gap has outlined were introduced. This is noting the usual caveats associated with applying international results to a New Zealand context and the complexity of labour market dynamics.

[1] https://www.publicservice.govt.nz/our-work/pay-gaps-and-pay-equity/

[2] https://static1.squarespace.com/static/611321349d4ee10c3e086b1d/t/61f33a0aa0d84e19293fb4b5/1643330070498/Policy+Document+2022.pdf

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Executive Summary

International research finds that:

- The pay policies and behaviours of individual firms have an increasingly important impact on the gender pay gap. Even after accounting for differences in education and occupation, studies find that pay gaps persist. To reduce pay gaps, intervention is needed at the level of the firm.
- Pay gap reporting law reduces gender pay gaps by approximately 20 – 40 percent.
- Pay gap reporting law reduces gaps by resulting in more women being hired and promoted within firms, as well as bringing growth in men's wages into line with growth in women's wages. Canadian law addressed this by requiring employers to reduce gaps by increasing women's wages.
- Women on lower incomes benefit most.
- Pay gap reporting has wider behavioural impacts. Women will choose to apply for jobs at low pay gap employers. Increasingly consumers, especially women, make spending decisions based on pay gap data reporting. Investor behaviour is influenced by pay gap data as well.

An estimate of the impact of pay gap reporting legalisation in New Zealand is that a woman earning the current median wage ($26.37) could receive $12.80 - $35.77 a week more.

The caveats associated with this calculation are discussed.

International impacts of gender pay gap reporting

Pay transparency can take many forms and several research papers have evaluated the impact of different approaches.

Reporting personal data can be effective, with cautions

Norway disclosed its entire population's tax records creating population-wide, individual pay transparency[3]. Some companies have published the salaries of all their staff[4]. The evidence from these individualised approaches is that it created a reduction in well-being and productivity for workers who perceived they were paid unfairly compared with their peers.

In Canada, Baker et al (2019)'s working paper *Pay Transparency and the Gender Pay Gap* published by the National Bureau of Economic Research (NBER)[5] examines the impact of public sector salary disclosure laws on university faculty salaries. The laws allow for public reporting of salaries of individual faculty if they

[3] https://www.nber.org/papers/w25622
[4] https://www.nber.org/papers/w24841
[5] https://www.nber.org/papers/w25834

exceed specific thresholds. These laws were introduced in different provinces at different times, the first in 1996, thus providing geographic and time variation for the researchers to exploit.

Using administrative data covering the majority of faculty in Canada and an event-study research design to understand the impact of the policy across institutions and academic departments, the authors conclude that the laws reduced the gender pay gap between men and women by approximately 20 – 40 percent.

Further, Cullen and Pakzad-Hurson (2019) developed a model of collective wage bargaining and introduced the variable of pay transparency (workers being able to see each other's wages). The finding relevant for this review is that their model showed pay transparency benefited women by reducing men's power in communicating wages[6].

Focusing on the behaviour of firms is critical

Marco et al's (2021) research concludes that the pay behaviour of firms in France is a main contributor to the French gender pay gap[7]. France has seen an important decline in the gender pay gap in the past few decades. But little of the decline can be attributed to changes in the pay behaviours of firms. They conclude that the portion of the gap explained by firms is significant (as large as occupational difference) and has not decreased. As a result, firms play a larger role in the remaining gender pay gap than they did 20 years ago.

Several research reports reinforce this finding about the importance of organisations and their hiring, pay and promotion practices. The research reports demonstrate how pay gap reporting legislation aimed at firms reduced the national gender pay gap.

Bennedsen et al (2019)'s NBER working paper *Do firms respond to gender pay gap transparency?*[8] investigated the 2006 legislation change in Denmark that requires firms to provide gender disaggregated wage statistics to their employees (not a public register). The research found that the law reduced the gender pay gap by approximately two percentage points in those firms reporting or a 13 percent reduction relative to the pre-legislative mean.

This occurred primarily through an initial 1.7 percentage point drop in wage growth for male employees of the firms that reported. Male wages were increasing at a rate faster than women's; reporting equalized wage growth. The authors conclude that the laws strengthened the relative bargaining power of women.

Bennedsen et al (2020)[9] also found that the law increased female hiring rates (number of female employees hired/total employment) by 0.8 percentage points.

They also found a significant decline in male employees joining the treated firms, potentially explained by lower male wage growth in treated firms making them less attractive for men. However, having children mattered: male employees with children experienced a lower decline in wages than men without children.

[6] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3866335
[7] Evolution of the wage gender gap: Firm-level evidence from France | VOX, CEPR Policy Portal (voxeu.org)
[8] https://www.nber.org/system/files/working_papers/w25435/w25435.pdf
[9] Pay transparency and the gender pay gap | VOX, CEPR Policy Portal (voxeu.org)

Female employees in firms that reported were also more likely to get promoted to higher levels after the passage of the law. The legislation had no effect on the promotion probability of male employees.

They also found that gender pay gap decreased the most for those in the lower and middle wage distributions. The impact for those earning the most was less pronounced. The gender pay gap also decreased the most in firms that started with higher gender pay gaps.

They conclude that laws on pay transparency overcome biases against women in the workplace. Although the regulation reduces the gender pay gap, however, it also initially had the unintended consequence of reducing the average employee wage at the firm.

Public pay gender reporting in the UK in firms with 250 employees and over was introduced in 2017. Blundell (2020) found that the introduction of reporting requirements led to a 1.6 percentage point narrowing of the gender pay gap for affected employers (a 19 percent reduction in the gender pay gap). This was in part due to a decline in male wage growth[10].

Duchini et al (2020) also found in that pay transparency in the UK increased the probability of women working in higher paid roles. However, initial reductions in gender pay gaps were from ''pay compression'' for men in more senior roles and significant pay increases for women had not eventuated as yet.

They note that post-reporting companies sought to make their roles more "women-friendly" (such as promoting flexible work opportunities in their job ads). They also found that firms were motivated to address their gender pay gap issues because of the reputational issues a high gap caused. For the three days after gender pay gaps were released in the UK, some firms stock prices dropped as investors anticipated reputational damage[11]

Albanesi et al's (2015) research concluded that transparency of incentive pay for top executives in Standard and Poors companies is needed to reduce the gender pay gap for senior women[12.].

Included in each country's experience of pay gap reporting is the unintended consequence of firms reducing some of their gender pay gap by slowing the growth of men's wages. Canadian federal law has addressed this issue by requiring employers to develop a pay equity plan and, where wage gaps are identified, employers much achieve pay equity by increasing the salaries of women-dominated jobs[13].

Additional pay transparency policies

Other measures have been introduced, often alongside pay gap reporting, with the aim of addressing pay discrimination.

Kim (2015)[14] investigated the impact of US state-level laws that ban pay secrecy, that is employer-level prohibitions on employees sharing salary information. The results indicate that in states with a law

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[10] Wage Responses to Gender Pay Gap Reporting Requirements by Jack Blundell :: SSRN
11 2006.16099.pdf (arxiv.org)
12 Incentive pay and top executive gender gaps | VOX, CEPR Policy Portal (voxeu.org)
13 https://www.parliament.nz/resource/en-NZ/53SCEW_ADV_115768_EW4522/cdedf684879df795d1adb76c5a1463da919afeb4
14 https://onlinelibrary.wiley.com/doi/abs/10.1111/irel.12109

prohibiting pay secrecy the wages of college education women were higher, leading to a lower gender pay gap.

Several US states and cities have recently adopted legislation that prohibits employers from asking about previously earned salaries. Hansen and McNicols' (2020) study found the gender earnings ratio increased by one percent in states that had introduced such legislation. They found these population wide increases were driven by an increase of the gender earnings ratio for households with all children over 5 years old, by workers over 35, and are principally driven by those who have recently switched jobs[15].

Impact on employee and consumer behaviour

Blundell (2020)[16] found that female workers in particular exhibit a significant preference for low gender pay gap employers. In a hypothetical choice experiment, over half of women accepted a 2.5% lower salary to avoid a high pay gap employer.

Schlager et al (2021) found UK consumers, especially women, also chose not to purchase from businesses with large gender pay gaps[17]. They found when firms are revealed to have gender pay gaps, consumers are less willing to pay for their goods, a reaction driven by consumer perceptions of unfairness. Compared to men, women show larger decreases in purchase intentions toward firms with gender pay gaps.

Social media data, from before and after the United Kingdom laws were introduced further demonstrate that gender pay gaps correlate with negative consumer reactions. Women are more likely than men to express negative sentiments online in response to pay gap-related topics.

Summary

Various pay transparency regimes have been implemented internationally. They have reduced the gender pay gap at a firm and national level. This is usually driven by a slowing of the wage growth of male employees, relative to the growth in women's wages. Male wages tend to grow at a faster rate than women, pay reporting legalisation has been shown to equalize wage growth, providing women with more relative bargaining power. Lower earning women are likely to benefit most in terms of a reduced gender pay gap.

Such regimes have also seen an increase in women being promoted to senior positions, more women hired in total, more flexible work options provided and women choosing to work for low gender pay gap firms. Consumers have been shown to prefer to purchase from low gender pay gap companies. Investors may initially withdraw from companies with large gender pay gaps, anticipating reputational issues.

Interestingly, the review has highlighted the importance of firm behaviour on the gender pay gap, with Marco et al (2021) even concluding that the role of the firm in pay gaps has become relatively more important over time. Intervention at the firm level, is therefore supported, by this analysis.

Potential impacts for Aotearoa New Zealand

[15] https://www.nber.org/papers/w27054
[16] Wage Responses to Gender Pay Gap Reporting Requirements by Jack Blundell :: SSRN
[17] https://myscp.onlinelibrary.wiley.com/doi/10.1002/jcpy.1219

Past research (Pacheco et al, 2017[18]) shows that even after accounting for a range of individual and job characteristics, a substantial component of the gender pay gap in New Zealand is unexplained. This indicates that, like the international research concludes, the behaviour of firms is important and intervention is needed at the firm level.

To understand the impact pay gap reporting could have on Aotearoa New Zealand, we extrapolate from international evidence, while acknowledging the relevant caveats in this exercise. New Zealand's firm structures, labour markets, collective bargaining and industrial law and policies differ to varying extents to those in the US and across Europe.

The following calculations hypothesize what the impact of pay gap reporting in Aotearoa New Zealand could be. For simplicity they assume that mechanism of closing the gender pay gap is an increase in women's wages, noting that the impact will likely include an equalizing of wage growth, as per the international experience.

The Education and Workforce Select Committee, in its March 2022 report on pay transparency[19], acknowledged the risk of unintended consequences of men's wages reducing. One of its recommendations is that the Government should develop pay transparency measures that achieve pay equity by increasing lower wages, so reducing this risk from the New Zealand context. This makes the calculations presented here realistic.

As of June 2021, the median women's wage was $26.37 per hour[20]. The median man's wage was $29.00. That is a difference of $2.63 per hour. If this difference were closed by 19 percent (as Blundell (2020) found happened in the UK after pay gap reporting law was introduced), women would earn $0.50 more an hour, or $20 per week for a 40-hour week, or $1000 per year for working 50 weeks of the year.

A 20-40 percent decrease in the gender pay gap in New Zealand (as Baker et al (2019) found occurred in the Canadian university sector) could result in $21-42 dollars more per week in the pay package of women earning the median women's wage here.

Legislation that requires employers to report their gender pay gaps can be expected to affect only the pay gap between men and women at the same employer. Forthcoming research by Sin et al[21] found that around 45-85 percent of Aotearoa New Zealand's gender pay gap.

If the midpoint of Sin et al's finding – 65 percent – is applied to the overall median gender gap in the hourly wage, it is estimated a gender pay gap at the median of $1.71 is present within employers. A 19 percent closing of this gap would mean an increase for women of 32 cents per hour, $12.80 per 40 hour week, or $640 for a 50 week year.

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[18] https://women.govt.nz/sites/public_files/Empirical%20evidence%20of%20GPG%20in%20NZ%20-%20Mar2017_0.pdf

[19] https://www.parliament.nz/en/pb/sc/business-before-committees/document/BRF_115768/briefing-into-pay-transparency

[20] https://www.stats.govt.nz/news/gender-pay-gap-unchanged

[21] Sin, Stillman and Fabing (forthcoming) *What drives the gender wage gap? Examining the roles of sorting, productivity increases and discrimination,* Review of Economics and Statistics

If the maximum benefits were realized- that is if 85 percent of the gender wage gap were within employers and the pay gap closed by 40 percent - women earning the median wage could earn $35.77 more a week, and $1788 a year through the introduction of pay gap reporting legislation.

There are many unknowns, and these calculations must be considered in this light.

The UK and Canadian research that this calculation draws on was completed pre-COVID. COVID has impacted New Zealand's labour markets in complex ways. The construction boom and investment in shovel-ready projects has resulted in steep wage growth for the predominantly male construction workforce which may see the gender pay gap grow. This is because women's wages may not have grown at the same pace. Further, more women lost their jobs or the number of paid hours per week because of COVID and the increased caring responsibilities women have taken on during COVID also impinge of their ability to engage in paid work[22].

Conversely, women and groups of vulnerable workers tend to benefit when there is a labour shortage, such as created by the current COVID-driven immigration restrictions. This might mean the gender pay gap remains the same or decreases.

Further, the Mind the Gap campaign is calling for both gender and ethnic pay gap reporting. To date, no jurisdiction[23] has introduced extensive ethnic pay gap reporting[24]. The impact of this is unknown on the wages of Māori and Pacific men and men of other ethnicities, as well as for Māori, Pacific and ethnic women workers.

Summary

These calculations provide an initial indication of the impact of pay gap reporting in Aotearoa New Zealand. While it is difficult to accurately predict, it is reasonable to conclude that pay gap reporting law will reduce pay gaps, the question of by how much is still to be determined.

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[22] https://women.govt.nz/news/covid-19-and-women

[23] The UK parliament debated introducing mandatory ethnic pay gap reporting in 2021 https://lordslibrary.parliament.uk/mandatory-ethnicity-pay-gap-reporting/

[24] Ethnic pay gap reporting is occurring voluntarily in some companies in New Zealand and internationally. New Zealand public service departments are required to report their ethnic data in 2022.

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