

Legislation Can't Fix Imperfect Information

Unequal wage gaps will exist so long as unequal skills, education levels and effort exists. No legislation will change that.

I will add another factor, imperfect information, which likewise cannot be changed by government. No individual, or even a large group, can have perfect information of all people, times and places. Someone may not know about a higher-paying job perfectly suited to that person's skill set, just as that other employer may not know about that particular person who's exactly the one needed at the time. It could be asked, with all the employers and employees in the country, wouldn't this average out insofar as the supposed gender wage gap? This goes to the "effort" factor, though, that not everyone has the same ambition to seek higher pay.

Imperfect information also means that employers and employees can only act based on what they know, which seems a tautology, but this is to stress how little they do know. As my economics sensei taught me, prices are a discovery process, and that applies as much to labor as anything else. A hiring manager would be aware of a "going rate" for a certain job, but as there's, of course, no ticker-tape or skywriting to declare what someone "should" be paid, it costs time and other things to find out. Moreover, an employing entity can deal only with what it can offer an employee, which is why one secretary may be "underpaid" so that a top lawyer is retained (the secretary can be replaced with another who'd take less money, but the boss is crucial to keep).

Perhaps someone discovers that she's paid less for approximately the same job that another performs elsewhere, though both may have approximately the same skills, experience, and ambition. This doesn't mean the employer had any malicious intent, rather that the employer and employee made a voluntary agreement based on their information and what the company could offer. Again, prices are a discovery process, and an employee learning he or she could have greater value is an addition to the information both parties have. That doesn't mean, though, that an employer is able to offer additional money to keep an employee. Also, there will be skewing by companies at the high end of the scale, like Goldman Sachs would be expected to pay more than a small midtown boutique investment firm. And there we could also expect a big difference in "effort" that is typically not accounted for, namely the intensity of work expected.