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Exchange of good practices on gender equality

Reducing the gender pay gap

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Reducing the Gender pay gap in Estonia: Transferability of good practices

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1. Introduction

Being a woman or man is one of the main factors that influence the status and role of a person in society. Evidence to that statement can be found in gender pay gap which demonstrates clear imbalance between men and women in most developed countries, including Estonia.

Because of that any good practices in reducing the gender pay gap would be implemented without any doubts by other EU-member states, if it is transferable. Let us take a look at Germany and Austria, who have offered two interesting ways for reducing the gender pay gap, and what about the transferability of these ideas to Estonia.

1.1. Background and policy context

Estonia, one of the smallest states in Europe (with a population of 1.34 million and territory 45.2 thousands square km), regained its pre-World War II independence in 1991. Thirteen years later (in 2004) Estonia joined the EU. Thus, our country has been independent remarkably shorter period compared with that of Germany or Austria.

50 years in the Soviet Union has destroyed normal development of the Estonian society. Because of that, the first task after regaining independence was re-organisation of political system and economy while such a questions like gender equality, gender pay gap etc. were postponed. As an outcome, Estonia has the largest gender wage gap in the EU countries. The difference between average gross hourly wages of women and men in 2010 was equal to 30, 4%.

The most important step forward concerning the process of reducing gender pay gap was taken in September of this year (2011), when Estonian Parliament obliged the Estonian Government to work out National Action Plan for Gender Equality. In Austria such a plan was enacted in 2008.

In addition, in Estonia there are, actually, two acts, both dealing with the equality issues. In 2004 Gender Equality Act passed the Parliament and in 2009 Equal Treatment Act was enacted.

As for German and Estonian relationship, it should be taken into account also common historical and cultural roots of these countries. Germans have played major role in Estonian history over the centuries, beginning in the 13th century and lasting with the intervals up to the end of World War II.

The outcome of the long subordination was that the Estonian legal system developed largely due to the Germans, and in several fields the Germanic legal model had been

applied in Estonia until 1940. After regaining independence in 1991 in Estonia, the German legal system played an important role in the development of the Estonian Civil Code (Family Law, Commercial Code, Law of Property Act etc.).

1.2. Economic circumstances

After regaining independence in 1991, Estonian government pursued a program of market reforms. The main feature of these reforms was the shift from the once-dominant energy-intensive heavy industrial sectors to a labor-intensive light industry and the service sector.

Another specific feature of the transitional Estonian economy was that Estonia's foreign trade shifted rapidly from East to West. The World Bank praised Estonia for a successful and rapid transition, which has brought about the free-market economy and the labor market with few barriers for hiring and firing employees. Estonia was even labelled a "model pupil" of free-market economics.

In the light of all this, it is quite surprising, however, that Estonia did not choose continental type of welfare state regime or the socio-democratic (closest neighbours) = Scandinavian type. Instead the United Kingdom and Ireland served as models for liberal economic development for Estonian government.

This – ultra-liberal – approach in economy brought about the worsening of wages and increased the gender pay gap. At the same time less than 10% of employees are members of the unions. In addition, the Estonian enterprises' structure by number of employees is quite specific - 93% of Estonian enterprises employ less than 10 employees, the share of enterprises with 250 or more workers makes up 0.14% of all companies. But as mentioned in Germany paper: "larger establishments have far greater potential for change than smaller ones".

1.3. Legal background

As it was said previously there are two acts, both dealing with the equality issues. Despite the fact that both serve the same idea – reduce any kind of inequality – Gender Equality Act deals with equality of men and women, while Equal Treatment Act pays the most of attention to all other types of inequality (based on race, ethnicity, age, disability etc.).

Although the Gender Equality Act was passed in 2004, it is still not fully implemented. According to the act, the employers should „collect statistical data concerning employment which are based on gender and which allow, if necessary, the relevant institutions to monitor and assess whether the principle of equal treatment is complied with in employment relationships. The procedure for the collection of data and a list of data shall be established by a regulation of the Government of the Republic”.

Within seven years the government has not adopted such a regulation.

The Act under consideration also says that the Ministry of Social Affairs should set up the Gender Equality Council, which “advises the government in matters relating to the promotion of gender equality. The rules of procedure of the Gender Equality Council

shall be provided for in its statutes". Although the government adopted the statutes in 2005, the Gender Equality Council has not yet formed.

1.4. Institutional background

In 2005 the first time a Gender Equality Commissioner was introduced in Estonia (since 2009th year this position is called The Gender Equality and Equal Treatment Commissioner). Commissioner is an independent and impartial expert who acts independently, monitors compliance with the requirements of the Gender Equality Act and Equal Treatment Act.

2. Transferability issues

The principle of equal rights and equal treatment of men and women as well as equal pay are accepted by the most developed countries. The same is correct concerning Germany and Austria. Both have done a lot of work in reducing the gender pay gap in their country. Another question is to what extent the good practices of Germany and Austria are transferable to Estonia as a whole or parts.

In **Germany** the good practice example is titled as **an assessment of Logib-D**. The main idea of this analytical instrument is that it allows establishments to conduct statistical self assessments of pay equality, relying upon them to voluntarily take the initiative. After entering the pay levels and qualification characteristics of male and female employees, the employer is provided with an anonymous analysis of the remuneration structure and, thus, a diagnosis of the wage gaps within his enterprise or organisation. In addition, the establishment gains an initial impression as to whether the wage gap is influenced by a lack of women in managerial positions or by differences in the age structures of the establishment's female and male workforces.

Austria is a different case. Their approach is pay transparency by obligatory staff income reports (i.e. employers are obliged to produce a "staff income report every other year"). Thus, Austrian' case emphasise the importance of dissemination of all circumstances on income. In other words – pay transparency is considered to be an important way to promote equal treatment and gender equality. Companies over a certain size have to draw up staff income reports (reports on pay) every two years. The requirement to draw up and submit such a report can be enforced by courts.

Based on these short overviews the first and short assessment is that both approaches are transferable to Estonia, to the country, which is politically, economically and culturally returned to the West and has accepted democratic rules of Western societies. Because of that Estonia should follow the generally recognised principles, one of which is equality of men and women, including equal pay for equal work. Transparency of wages (staff's first of all) is one step towards such a society. Because of that this approach could be implemented more broadly than only in Austria. Indeed, Austrian paper itself also says "the Austrian approach towards more transparency is highly transferable. The income-reports as well as the obligation to include wages in job-ads can easily be implemented in other EU-member states. Certainly some adaptations would be necessary in most cases, depending on the national regimes".

German approach seems to be interesting as well. However, it is more complicated, assumes more specific education, and presupposes more knowledge in computing.

Nevertheless the approach, offered by Germans, is also transferable to Estonia, at least in principle. The last position in line of European Union countries concerning the gender pay gap (30 %) is not the aim Estonia is interested in. Because of that transference of good practices from abroad to reduce gender pay gap in Estonia should be welcome and implemented without any doubts.

Unfortunately the question is more complicated. The first hardship concerning transference of good practices of Germany and Austria to Estonia is connected with the Estonian legislation. Namely, Employment Contracts Act which came into force 1. July 2009, says: “duty of employer is not to disclose, without an employee’s consent or legal basis, information about wages calculated, paid or payable to the employee“ (§ 28:13). Actually, almost the same is said in Austrian as well as in the German paper (the income report has to be anonymous; results are only to be discussed within the establishments, on aggregated level). However, if Estonian employee or enterprise staff in some reason is not interested in transparency of his/her salary, employer is not allowed to give this information. In other words – he/she is protected by the law. His/her financial situation is kept in secret.

The next problem is that inequality, including the gender pay gap particularly, is not perceived by people as a matter of concern. More over, information on salaries or income is considered to be extremely confidential. Despite the fact that in public sector salaries are officially transparent, this rule quite often does not work. It is a pity as public sector employers have the moral obligation to be an example to employers in other sectors.

As a matter of fact, in private sector salary is mostly and only the contract between employer and employee. In addition, salary is a topic which is almost never raised in small talk, such questions like “How much do you earn? Or “What is your salary about?” are considered impolite.

Despite such a strong protection of information on private life, it does not mean that there is no policy debate at all in Estonia concerning income and gender pay gap.

3. Policy debate

Policy debates going on in Estonia could be divided into three categories:

3.1. Legal aspects.

The purpose of the Gender Equality Act is to ensure equal treatment arising from the Constitution of the Republic of Estonia and to promote gender equality of men and women as a fundamental human right. Unfortunately, the established *de jure* equality (Gender Equality Act) is not the same *de facto* - the actual rights, obligations, opportunities and responsibilities of women and men in Estonia are imbalanced. This concerns first of all position of these two groups in the labor market and related to this unequal socio-economic situation of men and women.

3.1.1. *Employment Contracts Act*

According to the Employment Contracts Act fathers in Estonia have a right to take paternal leave the duration of which could be 10 working days prior to and after child's

birth. But giving the right for paternal leave is not enough - monetary benefit that comes with the parental leave is may be even more important. This statement is confirmed by the fact that compensated paternal leave (based on average salary), which was in force in Estonia only in 2008, increased dramatically the number of men using this opportunity: there were 6953 men on paternal leave in 2008. Respective figure for the year 2009, when the compensation was cancelled for budget cuts, equalised to 485, i.e. 14 times less.

Thus, it is extremely important to motivate fathers to share parental leave with mothers and because of that, it is important to reinstate the ten-day compensated paternal leave. The second step will be the implementation of a father's individual right to parental leave, which would mitigate somewhat the long career breaks of Estonian women and in this way to reduce the gender pay gap.

3.1.2. Parental Benefits Act

In 2004 The Parental Benefits Act was introduced in Estonia. This Act is designed to contribute to the successful intertwining of work and family life. The benefit itself provides parents with their average salary from the preceding calendar year for the time that they temporarily take off work to care for their children. All parents have the right to the parental benefit. The father of a child has the right to the parental benefit once the child has reached the age of 70 days, mothers from the day following the final day of maternity leave. Up to the year 2008 the parental benefit was paid until the child reaches the age of 14 months, since then 18 months.

Although The Parental Benefits Act is usually treated in the demographic context as a factor to promote the birth of further child(ren), it has an important role in reducing gender pay gap as well. Namely, if earlier career break (birth of child(ren)) meant remarkably lower income, the Parental Benefits Act guarantees the income equal to the amount received before parental leave.

There has been also idea, that parental leave may be used not from the beginning to end, but divided into several periods from the birth up to the attendance of school. It means that woman's career breaks are shorter, which in turn gives one more opportunity to reduce the gender pay gap.

3.1.3. Parental Pension Act

Parental Pension Act in Estonia will be probably introduced in 2013. According to this act to one parent of the child, that was born on January 1st 2013 or later will be paid 4 per cent of the mean salary to his/her 2nd pillar of the pension until child reaches age 3. In order to assure the intergenerational solidarity, one of the parents of a child born between January 1st 1991 and December 31st 2012, will receive a pension complement. These steps, hopefully, will reduce gender pay gap in later years.

3.2. Human capital issues.

Career breaks for women that are associated with having children and home duties have been considered one of the main factors in explaining the gender pay gap. Thus, if wife and husband share more equally the career breaks associated with children, and

the obligations to raise children, it would markedly reduce gender inequality, especially the impact of parental leave on women's incomes and the risk of discrimination for women.

In terms of reducing the gender pay gap it is important to create more family-friendly workplaces, distance work, organised child care etc. In 2007 the state level program „kindergarten for every child” was worked out and was supported by most people as well as organisations.

3.1. Organisational practices.

As said already, Estonian legislation, concretely Employment Contracts Act prohibits distribute information about wages calculated, paid or payable to the employee. There is a discussion in Estonia – should enterprises make salaries transparent? The aim of this step is to compare salaries in different sectors. A large gender pay gap could be reduced also by evaluation of occupations, meaning that representatives of the same occupation, but in different sectors, receive approximately the same income. This procedure, actively carried out in public sector, is much less popular in private sector.