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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

Equal treatment of people is the cornerstone of each civil society. „No one shall be discriminated against on the basis of nationality, race, colour, sex, language, origin, religion, political or other opinion, property or social status, or on other grounds“, says, for example, the Constitution of the Estonian Republic. However, 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 (Rubery et al 2005, Fredman 2008, Mandel and Shalev 2009), including Estonia, where the value of gender pay gap in 2010 was the highest among EU member states.

Thus, if there is any good practice in reducing the gender pay gap, it would be overtaken and implemented without any doubts by other EU-member states. Because of that initiatives taken by Germany (Logib-D) and Austria (wage transparency) concerning question under consideration, are highly relevant.

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.

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%. If to take a look at longer period one can see that gender pay gap in Estonia has fluctuated between 20 and 30% all the last decade.

Step-by-step the situation is changing. The most important step forward was taken in September of this year (2011), when Estonian Parliament obliged the Estonian Government to work out National Action Plan how to reduce such a large gap.

As for legislation, there are, in Estonia, 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.

In addition, it can not be forgotten that 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, 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 (Eamets 2008).

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.

Ultra-liberal approach in economy brought about several unexpected outcomes. While the participation rate among both men and women decreased (respectively from 82% in 1991 to 73% in 2010 and 68% to 66%) the unemployment rate increased: among men from 1,4% in 1991 to 19,6% in 2010, among women from 1,5 to 14,5%.

At the same time (since 1991) gender division of labor has deepened – while the share of women, for example, in education has grown over 80%, it is less than 20% in construction and transport. Thus, the reduction of gender segregation in the labor market is considered to be one of the measures to reduce the gender pay gap. On the other hand, according to Reskin (1988), reducing the gender segregation in the labor market does not necessarily mean the disappearance of the gender pay gap – instead segregation may appear some other characteristic.

It is also interesting to know that 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's paper: "larger establishments have far greater potential for change than smaller ones".

1.3. Legal background

As it was said previously there are in Estonia 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 approach is titled **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. 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. Austrian 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 most general 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, 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 EU 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.

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 is not the same *de facto* - the actual rights, obligations, opportunities and responsibilities of women and men in Estonia are imbalanced. It 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 only in 2008, increased dramatically the number of men using this opportunity: 6953. Respective figure for the year 2009, when the compensation was cancelled for budget cuts, was equal to 485.

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.

3.2. **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 by organisations.

3.3. Organisational practices

As said already, Estonian legislation, concretely Employment Contracts Act prohibits to distribute information about wages calculated, paid or payable to the employee. There is time-by-time a question raised 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 (Armstrong et al 2005), – does representatives of the same occupation, but in different sectors, earn approximately the same money. This procedure, quite actively carried out in public sector, is much less popular in private sector.

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