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INTERVIEW

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"Zero Effect" of Austria's Gender Pay Gap Legislation

Interview with Andreas Gulyas

Gender disparity in earnings is a persistent feature of labour markets around the world. Women earn about 20 per cent less compared with their male colleagues and 15 per cent less on average across the European Union.
There is an ongoing debate among academics, policy makers, as well as the general public about the reasons behind and best policy instruments to close the gap. To fight inequality, the Austrian government in 2011 adopted a Pay Transparency Law.
The law was rolled out in phases, starting off with the largest firms and then gradually covered smaller companies. By 2014, all firms with more than 150 employees were required to publish and update income reports every second year. While the wage reports must be made available to all employees within the respective firm, the reviews are company secret and not public information.
Still, the Austrian transparency initiative had "no discernible effect" on the country's gender pay gap, a recently published study by Andreas Gulyas and Sebastian Seitz from the University of Mannheim and Sourav Sinha from Yale University showed.
The authors scrutinised employment records from the Austrian social security administration from 1997 to 2018 which comprised 1.2 million employees within more than 14,000 companies.
The following interview with Andreas Gulyas focuses on the weaknesses and strengths of Austria's legislation and tries to shed some light on possible repercussions for the political debate when it comes to fighting gender pay disparities.

Question: How important is transparency for the whole process of closing gender pay gaps?
Answer: I think policy makers had and have high expectations for transparency. Policy makers suspect that firms pay women and men differently, and that this pay discrimination might go unnoticed because workers are not well informed about the pay levels of their co-workers. Transparency then provides information on how much the firm is willing to pay men in general. In theory, this should help women to challenge discriminatory pay schedules.

What strengths do you see compared to other concepts?
The strength of Pay Transparency legislation compared to other policy interventions is

cheapness. For the government, the policy effectively entails no costs. The burden for firms is limited as well, as compiling and updating the wage reports every second year is not very costly. Therefore, it would be great if it were an effective tool to close the gender wage gap.

So it is not an effective tool?
As we show in our paper, we should not have too high expectations. In Austria it did not affect the gender wage gap and the wage setting in general – you may say it had a zero-effect.

What's the international perspective?
The limited international evidence that we have so far also points towards limited effectiveness. Pay Transparency legislation in Denmark and the UK closed the gender wage gap somewhat by one or two percentage points, but more by reducing male wages than by boosting female earnings.

So employers exploit the gender pay gap legislation to their own benefit, thwarting the intended effect?
There are two aspects here. First, because with transparency all wages are known, firms might be now more reluctant to give pay raises to individuals, because then many workers would demand a renegotiation. Second, equity concerns might lead firms to cut back on particularly high wages. But both factors go in favour of firms, as they reduce the wage bill.

Why do employees not renegotiate their salaries after the results are known?
That's a good question which is difficult to answer. For many employees it is naïve to think that they have a lot of bargaining power to begin with. Many workers such as cashiers at grocery stores typically do not negotiate wages but are just paid according to the firm's wage policy.

What else plays a role?
In addition, some workers might be too risk averse to ask for a higher wage, perhaps out of fear to lose their jobs. Studies have pointed out that women are more risk averse in wage negotiations, and that there is often a gender gap in ask-wages in negotiations. The Austrian transparency reform does not legislate firms to act upon any revealed wage differences but leaves it up to the worker to bargain for higher wages. Thus, the policy does not address wage differences that are due to gender differences in the wage bargaining behaviour.

What are the main deficiencies of Austria's Pay Transparency Law?
As discussed above, the law does only mandate the firm to compile the reports, but does not mandate them to act upon revealed wage differences, and leaves it up to the worker to bargain for higher wages. Thus, one way to increase the bite of the reform would be to require firms to address any revealed gender differences by themselves.
But in my opinion the main deficiency is that the wage reports are legislated to be company secret, which is also the main difference compared to the UK. Therefore, this information is only available to current employees, but not to outsiders.

To what extent does this deficiency limit positive effects?
It limits the effectiveness in three ways. First, wages are typically negotiated at the beginning of the contract, changes afterwards might be more difficult. But new hires only get access to the information after they officially joined and hence after the wage negotiations.
Second, men on average work for better paying firms than women. This accounts for a significant part of the gender wage gap. With fully public wage reports, female applicants could use this information already in the application stage and direct their search towards better paying and more equitable firms.
Third, with fully public wage reports, the reform might be more salient to workers and importantly, firms would face additional scrutiny from media outlets. This happened in the UK after they introduced a pay transparency reform. Prominent newspapers used this information to reveal the worst offending firms in terms of the gender wage gap.

Companies have no obligation to publish the results, but many public sector firms make theirs available online. Could this be a game changer?
I don't think so. The share of public sector employment is just too low to have an overall impact on the labour market.

Can an alignment of taxation deliver a better outcome?
In Germany, policy makers should rethink the joint taxation of labour income of married households as it places an artificially high tax rate on the second earner, which is typically the woman. This provides incentives for the second earner to either drop out of the labour market or work part-time. It also explains the large part-time share among females in Germany, and therefore contributes to the gender gap in incomes.

What else - apart from transparency - can be done to narrow the gender pay gap?
There is mounting evidence that the largest part of the gender wage gap can be attributed to motherhood. At least in German speaking countries, it is still the norm that fathers focus on their careers, while mothers bear most of the child caring responsibilities. Therefore, incomes of mothers dramatically drop after the birth of children, while incomes barely change for fathers.

How should policy makers react then?
Policy makers should focus on two aspects. First, investments in the expansion and quality of childcare can lead to better compatibility of careers and family life. Second, a higher replacement rate – that is, the percentage of income that is replaced during paternity and maternity leave – may lead to a more equal allocation of child caring responsibilities within the family. Due to the current low replacement rate, income losses for households are minimised if the lower earning parent, typically the mother, stays at home. With a higher replacement rate more fathers would be incentivised to take up paternity leave. This might change the family dynamics down the road as well.

INTERVIEW

Andreas Gulyas, Ph.D. is a member of the Collaborative Research Center Transregio 224 EPoS (Project A03).

Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

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