



Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

Peer Country Comments Paper – Germany

Will soft law reduce the gender pay gap?

Peer Review on “Reducing the gender pay gap through pay transparency - legislative measures and digital tools targeted at employers”

Online, 15-16 April 2021



EUROPEAN COMMISSION

Directorate-General for Employment, Social Affairs and Inclusion

Unit A1

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This document has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>

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1 Introduction

This paper has been prepared for the Peer Review on "Reducing the gender pay gap through pay transparency: legislative measures and digital tools targeted at employers" within the framework of the Mutual Learning Programme. It provides a comparative overview and assessment of the policy situation in Germany relative to that in the host country (Estonia). For further information on the host country policy example, please refer to the Host Country Discussion Paper.

The paper provides a brief overview of the employment situation for women and men in Germany in order to explain the rather high gender pay gap. In the third chapter, the Pay Transparency Act, which came into force in 2017, is presented, followed by a short assessment of its strengths and weaknesses. In addition, some other legal initiatives which have so far influenced pay inequalities, are presented. In the fourth chapter, some ideas for improving existing policy regulations as well as a plea for analysing existing collective agreements regarding their discriminatory potential is presented before in the last chapter open questions regarding the situation in the host country Estonia are collected.

2 Situation in the peer country

The labour market situation in Germany is similar to that of the host country Estonia: high female employment rate, a highly segregated labour market and one of the widest gender pay gaps in the European Union (EU). Below the main features will be presented in detail.

2.1 Labour market

Employment rates in Germany for both women and men are comparatively high. In 2019, the female employment rate (20-64) was 76.6%, significantly above the EU-28 average of 67.3% but still well below the male employment rate of 84.6% in Germany. The employment rates, however, conceal another important gender gap: while part-time work is not that common in Estonia, it is a central feature in Germany, especially for women. In 2019 the share of part-time workers amongst employed women was 44.7%, compared to only 11.5% amongst men; it is also much higher than the EU-28 average of 34%. The average weekly working time of women employed part-time was only 21.5 hours. Consequently, the full-time employment rate (FTE) for women was only 59.4% in 2018 as compared to 80.2% for men (Eurostat 2020a, FTE only available for 2018).

In addition, the gendered labour market segregation is pronounced, both horizontally – typical 'female' and 'male' jobs, where women/men constitute more than two thirds of the workforce – and vertically with women underrepresented in higher management roles.

Overall, women have lower weekly working hours, are working fewer years, have lower income, and are more often at risk of poverty, especially if they are single parents.

Regarding the economic structure in Germany there are also some differences compared to Estonia: while in Estonia most of the enterprises are micro size companies, the German industry is mainly characterised by small and medium-sized companies (with up to 250 employees and an annual turnover of up to EUR 50 billion). About 99.4% of the companies in Germany belong to this group and about 57% of the workforce works in small and medium-sized companies (Statistisches Bundesamt 2020).

In addition, union membership in Germany is higher than in Estonia. Though there has been a decline in the last decades, trade union membership in Germany was about 14.7% in 2018 (Schröder/Greef 2020).

2.2 Gender pay gap

Germany's gender pay gap is one of the highest in the EU – only Estonia have a higher gender pay gap (Eurostat 2020b). The gender pay gap remained stable at 21 to 23% since 2006, and fell only in 2019 and 2020 to 20% and 18% respectively. Moreover, East and West Germany differ significantly: in the former the gap is only about 6%, while in the latter it is around 20% (Statistisches Bundesamt 2021). This huge difference results from different employment forms – women in East Germany more often work full-time, are more often employed in higher paid positions (industry, management) while men work more frequently in lower paid service sectors (BMFSFJ 2020, 6).

According to different studies (for an overview see BMFSFJ 2020), the unadjusted pay gap is mainly caused by four factors:

- The gendered labour market segregation and the corresponding unequal distribution of women and men in sectors, occupations, and positions (horizontal and vertical segregation).
- Women (more often than men) take career breaks and/or work part time due to care responsibilities, which has negative effects on their service length (seniority). The high part-time rate of women has a much stronger impact on the gender pay gap than in other European countries, as women are much more likely to work part-time with a low number of hours (Boll/Langemann 2018).
- So-called 'female jobs and sectors', such as salespersons, medical technical assistants, nurses or hairdressers are often lower-paid jobs and sectors due to existing collective agreements.
- Non-transparent and unsystematic wage setting processes and individual pay agreements are often less advantageous for women.

Using data for 2014, the Federal Statistical Office estimated that the so-called adjusted gender pay gap is 5.8% (Finke et al. 2017). Expressed in euros: based on the average EUR 4.43 gross that men earned more per hour than women, the Federal Statistical Office was able to attribute EUR 3.28 to differences between women and men in the aforementioned income-determining characteristics. The remaining income difference of EUR 1.16 could not be explained with the help of the characteristics considered. The fact that women work more often than men in low-paid occupations and sectors was responsible for a total of EUR 1.33 of the income difference of EUR 4.43 euros. Another EUR 0.94 could be attributed to the hierarchical position in the company. Part-time and marginal employment contributed EUR 0.42 to the pay gap.

There is public awareness regarding the gender pay gap. The women's interest group Business and Professional Women (bpw) initiated the first Equal Pay Day in Germany in 2008. Since then, it has taken place every year with growing attention in the public and in the media. Also, there has been a steady rise in the number of activities in many cities, organised by the local bpw-team and other partners, such as unions, local equal opportunities officers or other women's organisations. Since 2011 there exists a Federal Office ("Geschäftsstelle Forum Equal Pay Day"), which is financed by the Ministry for Family Affairs, Seniors, Women and Youth (Bundesministerium für Familie, Senioren, Frauen und Jugend, BMFSFJ) in order to support the work of the Equal Pay Day activities and to organise accompanying events to prepare the Equal Pay Day and disseminate the discussion. Since September 2014 it is accompanied by an advisory board, consisting of representatives of unions, interest groups of women and men and experts from different research institutions.

In 2013, the Federal Confederation of Trade Unions (Deutscher Gewerkschaftsbund, DGB) initiated the first day of Equal Pay in Companies ("Tag der betrieblichen Entgeltgleichheit"). It points out the date after which women should stop working as it corresponds to their part of the average annual earnings of men. The first Equal Pay Day in Companies was on 11 October 2013, the latest was on 20 October 2020. The

aim of this day is to encourage more direct and action-oriented activities on a company level.

At party level, the gender pay gap has been (and still is) made an issue by the Social Democratic Party (SPD), the Green Party (Bündnis 90/Die Grünen) and the Left Party (Die Linke). Since 2008, several initiatives, such as the Equal Pay resolution accompanying the first Equal Pay Day by the Green Party in 2008 or the drafting of laws for more pay equality by the SPD in 2012¹ and the Greens in 2013² have been launched. These did not pass the majority of the Christian Democratic Party (CDU/CSU) and the Liberal Party (FDP) in the German Bundestag on the March 22, 2013³. In the 2013 coalition agreement between CDU/CSU and SPD, the SPD insisted on including legislative measures to make income schemes transparent. However, the process to finally agree on a pay transparency law was quite difficult, since the CDU/CSU constantly acted against it. Therefore, it took several draft bills and a larger political and public debate, until the Gesetz zur Förderung der Transparenz von Entgeltstrukturen (Pay Transparency Act) was passed on 30 March 2017 and came into force 6 July 2017.

3 Legislative and policy measures to support equal pay

3.1 Pay Transparency Act

The Pay Transparency Act (Gesetz zur Förderung der Transparenz von Entgeltstrukturen) came into force on 6 July 2017. Core points of the law are as follows:

- Employees (either male or female) in companies with more than 200 employees have an individual right to wage comparison information; the employee can ask for information relating to a comparable group of up to six employees of the opposite sex (§§ 10ff. EntgTranspG).
- In companies bound by collective bargaining agreements, works councils will administer this legal entitlement; in companies without works councils, employees have to address the employer themselves.
- Companies employing 500 or more employees are encouraged to implement a voluntary monitoring process for equal pay and to prepare an internal report on their pay structure. This procedure needs to be carried out at least every five years. If and how the companies carry out the assessment of their pay structures is not controlled and there are no incentives or enforcements to ensure the companies to carry it out.
- Incorporated companies with more than 500 employees have to report on equal opportunities measures as well as on equal pay on a regular basis as part of their management report on the economic situation of the company (Lagebericht). This report has to be published on the website of the company. How this reporting is completed is not specified and the report is not controlled by any authority.

This law meets some of the recommendations on pay transparency, as presented in the European Commission's Recommendation 2014/124/EU. In concrete terms, the law covers the right of employees to obtain information of pay levels (Recommendation 2014/124/EU II, 3), companies reporting on pay (Recommendation 2014/124/EU, II, 4) and pay audits (Recommendation 2014/124/EU, II, 5). However, the law itself focuses on recommendations instead of binding measures.

In addition, the size of companies in which women work potentially limits its impact regarding gender equality. In 2017, women constituted about 54% of the workforce in

¹ <http://dipbt.bundestag.de/extrakt/ba/WP17/451/45122.html>

² <https://dip21.bundestag.de/dip21/btd/17/088/1708897.pdf>

³ https://www.bundestag.de/dokumente/textarchiv/2013/43539435_kw12_de_entgeltgleichheitsgesetz-211654

small and medium-sized companies (SMEs), in micro-enterprises (up to 5 employees) the female share of employees is even higher at 59% (Abel-Koch 2019). Moreover, and as already mentioned before, SMEs (with less than 250 employees) make up 99.4% of all companies in Germany (Statistisches Bundesamt 2020) and none of them must ensure the individual right of wage comparison information. Women are overrepresented in companies without a works council and have to administer claims themselves. Accordingly, women are underrepresented in companies who fall under the stricter parts of the law and where employees would find support by work councils.

The law is evaluated regularly (§23 EntgTranspG), and the government reports every four years on the results of the evaluation.

The first evaluation was carried out after two years in 2019. The evaluation found that only 2% of the employees made use of their individual right to wage comparison information (BMFSFJ 2019, 88). In absolute numbers, this corresponds to 43 requests, 21 of them from women and 22 from men. In companies with more than 200 employees, the share was 4%. It also found that 45% of the surveyed companies with more than 500 employees and 43% of companies with 201 to 500 employees have voluntarily reviewed their company pay structures (BMFSFJ 2019, 94). However, the majority of companies (71%) stated that the law was not the motivation for carrying out or planning this audit (BMFSFJ 2019, 94). One has to keep in mind that neither the government nor the Federal Antidiscrimination Agency issued standardised guidelines for carrying out the audit. Regarding the reporting obligation for incorporated companies with more than 500 employees, 44% of the companies stated that they already report on gender equality in their management reports and another 40% that they are planning to do so (BMFSFJ 2019, 99).

According to a survey of 1 000 managers (EY 2018), before the official evaluation above, only half of the managers were aware of the Pay Transparency Act. Another survey (Baumann et al. 2019) among works councils in 2300 companies carried out at the end of the year 2018 showed that:

- nothing has happened so far in the majority of companies;
- 74% of the companies with more than 500 employees ignore the Act;
- only a minority of companies (12%) are reviewing their pay structures and try to make pay structures more transparent.

The significant differences to the results of the BMFSFJ study can be explained by the date of the survey which was right after the law came into force.

The problems of the Pay Transparency Act further exacerbated by additional caveats. The law does not oblige companies to systematically check their pay structures for any discriminatory practice. Instead, employees have to defend their 'individual right' individually, also in court, because the law does preclude the right of association, for instance, through legal representation by trade unions. For claimants with low income, most likely many women, this may become a financial and mental hurdle (Süddeutsche Zeitung December 9, 2016). Likewise, since employees' request for pay transparency is only realised if there is a comparable group of six employees, employees in SMEs or who work in highly individualised and differentiated employment structures might not have access to transparency. Moreover, the follow-up of identified pay differences remains unclear since the law lacks clear legal consequences. Individuals are tasked with initiating a lawsuit and whether employees are willing to do so, needs to be scrutinised further. Finally, company reports on gender equality and pay structures are not published, thereby potentially stifling public debate on companies' equal pay policies. The prominent case of an independent women journalist, whose lawsuit against the public broadcaster ZDF took about five years and went up to the Federal Labour Court before she won, illustrates many of these difficulties (Süddeutsche Zeitung June 25, 2020).

3.2 Statutory minimum wage

With regard to the gender pay gap, it is further relevant that a statutory minimum wage came into force in January 2015. It was originally set at EUR 8.50 but increased to EUR 8.84 on 1 January 2017 and to EUR 9.19 on 1 January 2019. On 1 January 2020 it was raised further to EUR 9.35. Some groups of employees, such as trainees, young people under the age of 18 without training qualification, people who are doing internships for up to six weeks, long-term unemployed, and volunteers have been excluded from the statutory minimum wage. According to the latest data on the gender pay gap by the statistical office⁴, the statutory minimum wage has had a positive impact on the income prospects of women as they often work in low-wage sectors. Bosch (2018, 15) showed the positive impact on women's income and showed that it helped reduce the gender pay gap by 2.4%. According to the government, the statutory minimum wage had a positive impact on the income prospects of people working in low-wage sectors and precarious work, which includes a high share of women, as well as on female and male employees in East Germany, who has a higher share of employment in lower paid industries (Bundesregierung 2019)

3.3. Temporary Part-Time Act

On 1 January 2019, the Temporary Part-time Act (Gesetz zur Weiterentwicklung des Teilzeitrechts – Einführung einer Brückenteilzeit) came into force. A pre-existing Part-time and Fixed-term Work Act (adopted 2000) entitled employees working in companies with a minimum of 15 employees to reduce their working time but with no legal entitlement to return to full-time. The Temporary Part-time Act targeted this loophole and aims to counteract the above-mentioned so-called 'part-time trap': as female employees face difficulties returning to full-time when pausing for parental leave and intensive periods of (child)care (Schrenker/Zucco 2020).

3.4. Digital tools

The Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) provides information on different digital tools with which employers can review their pay structures. Among these is the "Logib-D" (Lohngleichheit im Betrieb - Deutschland) tool, which was launched in 2009 by the BMFSFJ. It is a free internet tool which enables companies to analyse their earnings structure with regard to gender on a voluntary basis. Logib-D calculates which part of the gender pay gap in the company is due to:

- years of vocational training;
- years of work life;
- hierarchical position;
- part-time;
- size of team; and
- gender.

From 2010 to 2013 the BMFSFJ supported the application of Logib-D in 200 companies by financing consultants to accompany the process and awarding a certificate. It motivates the companies to look at career possibilities for women, at (part)-time working models and a variety of initiatives to reconcile family and professional life. With these measures gender equality in working life should be improved. They will influence the gender wage gap indirectly, but will not tackle it directly, e.g. by looking for wage discrimination potentials and eliminating them.

⁴ https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2016/03/PD16_097_621.html

In 2010, another tool was launched, that aimed at analysing the wage structure by gender on the basis of the legal equal pay principles "equal pay for equal work and for work of equal value": eg-check.de (https://www.eg-check.de/eg-check/DE/Weichenseite/weiche_node.html). This tool was developed by two researchers – Karin Tondorf and Andrea Jochmann-Döll – with the financial support of the union-related Hans Böckler Foundation (Hans Böckler Stiftung) and in strict accordance to the German and European statutory provisions and case law. In 2013, the Federal Anti-Discrimination Agency took over this tool which enables, employers, employee representatives, collective bargaining parties and – as far as data is provided – employees themselves to check pay regulations and pay practices in order to identify possible direct and indirect pay discrimination. The following pay components can be examined:

- basic pay (factor-based);
- pay levels (experience-based);
- performance pay;
- overtime pay; and
- hardship allowances.

For each of these pay components eg-check.de provides a statistical scheme that shows which data should be collected in which way in order to identify potential discrimination. In addition, for each pay component there is a regulation-check ("Regelungs-Check") with which discriminatory regulations in collective agreements (either at company level or at sector level) can be found.

A third set of instruments is called pair comparisons ("Paarvergleiche"). In principle, this is a discrimination-free job evaluation scheme comprising of 19 factors in four areas (knowledge, psycho-social demands, responsibilities and physical demands), that enables the value of a job, free of discrimination, to be determined. With this instrument, the value of different jobs – such as male dominated jobs like handymen or female dominated jobs like nurses – can be compared. This might help to translate the 'equal pay for work of equal value' principle into practice.

Further, the so-called EVA-list - EVA stands for "Evaluation of Job Evaluation Procedures" – allows to check individual job evaluation procedures for gender neutrality. The list evaluates job evaluations in collective agreements. It is a low-threshold instrument that can be used in an uncomplicated way by negotiating social partners.

The BMFSFJ also commissioned the free online tool fair-pay compass (<https://www.fpi-lab.org/>) which offers a systematic overview of already existing company review instruments. It supports companies in selecting the "right" instrument to check their pay structures for equal pay.

This overview shows that there are several digital tools available with which companies can check their pay structures and might identify gender discriminatory practices. However, as already mentioned above, most of the companies do not use these tools – either because they do not review their pay structures at all or they simply use a pay list.

4 Considerations for future policies and initiatives

4.1 Review of collective agreements

Collective agreements, just like company agreements, also reflect gender stereotypes and social perceptions about the value of typical female or male occupations (BMFSFJ 2020, 32). Some of the collective agreements, for example in the food production sector, were established in the 1990s and contain clearly gendered job descriptions. Consequently, it remains a task for the social partner to review and, if necessary, adjust collective agreements or company agreements – and thus payments for occupations. This includes a further advancement on the transparency of pay structures.

4.2 Reducing vertical segregation

The law for equal participation of women and men in management positions, which came into force in 2015, set a 30 per cent quota for the underrepresented sex in supervisory boards of public traded companies with more than 2,000 employees (currently 105 companies). Companies are obliged to fulfil the quota successively when electing new board members. Violations are sanctioned with an 'empty seat' mechanism, which stipulates that any board election failing to meet the quota is invalid. Companies with more than 500 employees, which are either quoted on the stock exchange or subject to co-determination, are to set (and publish) targets to increase the share of women in decision-making processes. Through this law, the share of women in companies with a fixed quota of 30% could be significantly increased, but the share of women in management positions, in the majority of companies, remains below their share in the workforce. This is due to the fact that many women work in jobs and sectors that offer few opportunities for career development. In addition, their career development is limited because many HR managers still assume that women will interrupt their employment or ask to reduce their working hours if motherhood occurs. Moreover, as long as management positions are understood exclusively as full-time work, this means a significant career disadvantage for women (Scheele et al. 2020).

At the beginning of 2021, the Federal Cabinet passed a draft bill requiring at least one woman on boards with more than three members in listed companies and companies which fall under the Co-Determination Act.⁵ Moreover, when the law comes into force, companies must now justify setting a target of '0%' women on corporate boards – a malpractice so far often used by companies who have to publish targets regarding the share of women in their executive boards. In case of violations, the law uses a 'name-and-shame'-approach by requiring the company to make its justification publicly available, and, if omitting justification, introduces fines. Despite the clear tightening of obligations, the executive board quota is not as far-reaching as the one for supervisory boards: (1) It only applies to about 74 companies and 40 already fulfil the quota thus potentially leading to only 30 more women on executive boards; (2) the share of women depends on the board size because the law stipulates only a minimum threshold so that, for instance, larger boards with seven members fulfil the quota with only one woman; (3) a grace period might further delay implementation (Kirsch and Wrohlich 2021).

4.3 Fighting against gender stereotypes and reducing the gender care gap

Breaking down gender stereotypes in educational and occupational choices and in professional organisations remains central. Furthermore, it is a matter of redistributing gainful employment and care work between the sexes, to which the further improvement of the quality and quantity of care facilities makes an important contribution.

⁵ <https://www.bmfsfj.de/bmfsfj/service/gesetze/zweites-fuehrungspositionengesetz-fuepog-2-164226>

5 Questions

- Do collective agreements play a role in Estonia or is it mainly individual pay agreements?
- Many Eastern European countries show less gender stereotypes when it comes to professions. How would you explain the huge gender differences regarding education and training? Any changes within the last decades?
- Is there a wider public debate on the gender pay gap and does it somehow influence policy makers?

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Annex 1 Summary table

The main points covered by the paper are summarised below.

Situation in the peer country

- With 76.6% in employment, the female employment rate in Germany is high.
- Especially in West Germany, the part-time rate of women is very high. It stands at 44.7%.
- The gender care gap is quite high and women do 52.4% more unpaid care work than men.
- The labour market is highly gender-segregated. Women and men work in different sectors and professions and women are under-represented in management positions.
- The labour market is dominated by small and medium-sized companies with up to 250 employees.

Legislative and policy measures to support equal pay

- The Pay Transparency Act (Gesetz zur Förderung der Transparenz von Entgeltstrukturen) came into force in 2017 and aims to reduce the gender pay gap by introducing an individual right to wage comparison information, a voluntary monitoring process for companies and a regular report on equal opportunities measures as well as on equal pay.
- A statutory minimum wage came into force in 2015 and has had a positive impact on the income situation of women.
- A Temporary Part-Time Act came into force in 2019 and aims at supporting women to return into full-time position after reducing working hours.

Considerations for future policies and initiatives

- Social partners should systematically review pay structures and collective agreements.
- At schools, in advertisement and media, gender stereotypes should be reduced. This could help to tackle horizontal and vertical segregation.
- The 2015 law on equal participation of women and men in management positions should be further improved by applying the gender quota to management boards – and not only to supervisory boards of a small number of companies.

Questions

- Do collective agreements play at all a role in Estonia or is it mainly individual pay agreements?
- Many Eastern European countries show less gender stereotypes when it comes to profession. How would you explain the huge gender differences regarding education and training? Any changes within the last decades?
- Is there a wider public debate on the gender pay gap and does it somehow influence policy makers?

Annex 2 Example of relevant practice

Name of the practice:	Pay Transparency Act (Gesetz zur Förderung der Transparenz von Entgeltstrukturen)
Year of implementation:	2017
Coordinating authority:	Government, Federal Ministry for Families, Seniors, Women and Youth (BMFSFJ)
Objectives:	<p>Reduction of the gender pay gap by making pay schemes more transparent. Companies with more than 200 employees, specific regulations for companies with more than 500 employees.</p> <ol style="list-style-type: none"> 1. Workers in companies with more than 200 employees will be entitled to an individual right to wage comparison information; this affects more than fourteen million employees in Germany. 2. In companies bound by collective bargaining agreements, works councils will administrate this legal entitlement; in companies without works councils, employees have to address the employer themselves. 3. An evaluation procedure is introduced for companies with more than 500 employees. This procedure needs to be carried out at least every five years. Incorporated companies with more than 500 employees have to report on equal opportunities measures as well as on equal pay on a regular basis.
Main activities:	Evaluation of the law
Results so far:	<p>According to the first evaluation, only 4% of all employees working in companies with more than 200 employees have made use of their right to wage comparison information; 45% of interviewed companies with more than 500 employees and 43% companies with 201 to 500 employees have checked their pay structures voluntarily after the law came into force; and 44% interviewed companies who are obliged to report on their equal opportunity measures answered that they do so – and 40% that they intend to do so. All in all, the assessment is mixed – there seems to be a greater awareness regarding the gender pay gap, but only a minority of companies have changed their pay policy.</p>



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