27 Pay transparency to close the gender wage gap

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This chapter first presents an overview of pay transparency tools in OECD countries, including a classification of countries by the presence of regulations requiring private sector pay reporting, pay auditing, or related measures. It then shows key findings from the limited evaluation evidence available on the application of these tools. The chapter continues by presenting key reasons that justify the need for pay transparency practices. It ends with policy recommendations, including detailed steps for countries that currently have pay transparency policies in place to help pay transparency tools close the gender wage gap.

Key findings

- Pay transparency policies are increasingly commonly used in OECD countries to close the gender wage gap.
- Twenty-one out of 38 OECD countries – 55% – require private sector firms to regularly report on the gender wage gap among their employees. These policies typically target firms with at least 30-50 employees.
- At least ten OECD countries require that job classification systems, when used, be designed in a gender-neutral way, to avoid embedding systematically lower pay in women-dominated jobs.

Pay transparency tools in OECD countries

Pay transparency – and gender pay gap reporting, specifically – is gaining momentum among OECD governments trying to close the gender wage gap (Chapter 16). The latest OECD stocktaking illustrates that 21 out of the 38 OECD countries mandate systematic, regular gender **wage gap reporting** by private sector firms (Figure 27.1) (OECD, 2023[1]). This can entail calculating and reporting a range of different wage gap statistics, or the simple overall wage gap, to stakeholders such as workers, their representatives, a government agency, and/or the public, typically every one or two years. Whether a company has to report is usually determined by company size. Mandatory reporting for companies with 30-50 employees or more is most common. Penalties for non-reporting include restrictions on government tenders, publicly publishing individual firms' publishing history, and the possibility of fines – but many countries do not closely monitor compliance.

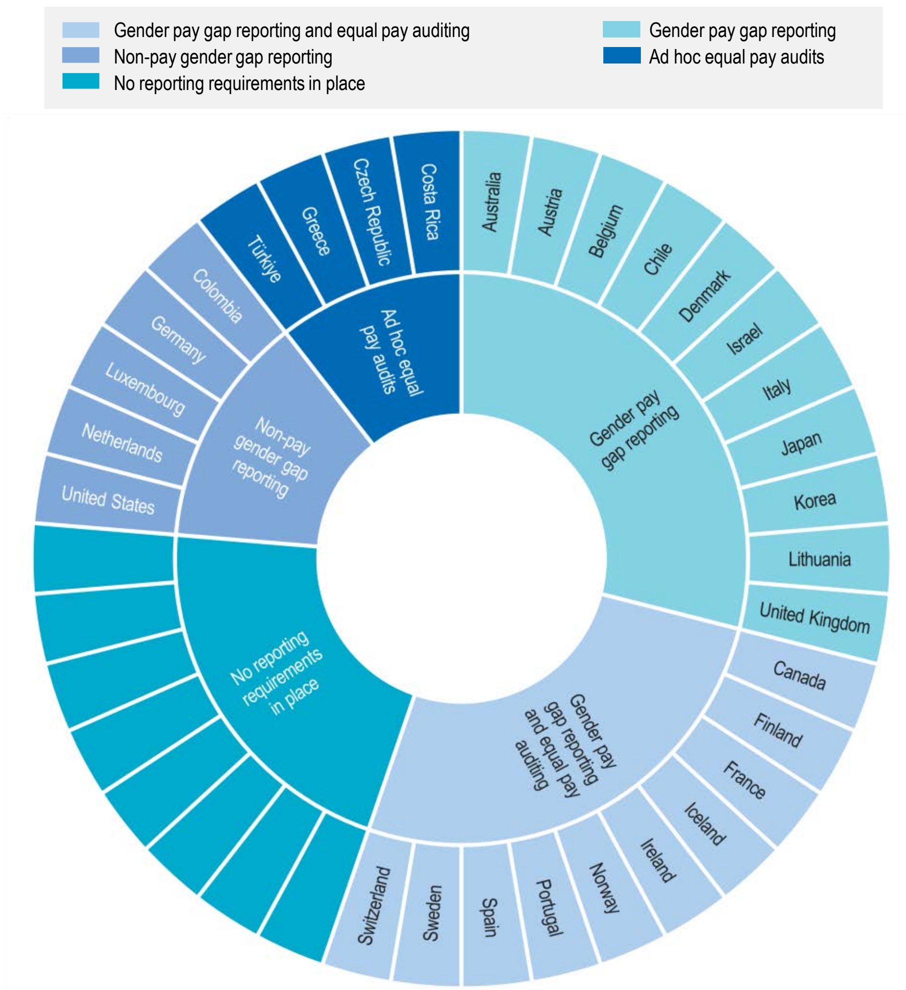
Within this group, ten OECD countries have implemented comprehensive **equal pay auditing** processes that apply to a pre-defined set of employers. Countries with equal pay audits include Canada (under the Pay Equity Act), Finland, France, Iceland, Ireland, Norway, Portugal, Spain, Sweden and Switzerland.

Equal pay audits are comparable to the new "joint pay assessments" proposed in the forthcoming European Union Pay Transparency Directive. These rules require additional gender data analysis and typically propose follow-up strategies to address inequalities. Audits typically require an analysis of the proportion of women and men in different positions, an analysis of the job evaluation and classification system used, and detailed information on pay and pay differentials on the basis of gender. Audits can directly affect gender pay gaps in ways similar to simpler pay transparency measures, e.g. by raising awareness and giving employees information to fight unfair pay. However, the key contribution of audits is to mainstream gender-sensitive thinking within firms and provide evidence for more targeted action by policy makers and firms (OECD, 2022[2]).

Most of these policies were introduced in the past decade, and most of this movement took place in Europe, reflecting the 2014 European Commission Recommendation on strengthening the principle of equal pay between men and women through transparency. Many of these pay reporting rules cover the public sector, as well (OECD, 2021[3]). Pay transparency is also promoted by the 2013 OECD Recommendation on Gender Equality in Education, Employment and Entrepreneurship as a tool to eliminate the discriminatory gender wage gap (OECD, 2017[4]).

Figure 27.1. About half of OECD countries require pay gap reporting and/or auditing by private sector firms

Distribution of countries by the presence of regulations requiring private sector pay reporting, pay auditing, or related measures, OECD countries, 2021



Note: The chart shows the distribution of pay reporting measures across OECD countries.
Source: OECD Gender Pay Transparency Questionnaire in OECD (2021[3]), *Pay Transparency Tools to Close the Gender Wage Gap*, https://doi/org/10.1787/eba5b91d-en.

Many OECD countries use **job classification systems** in the public and/or private sector, which attempt to standardise pay and make it transparent across men and women within specific job categories (OECD, 2021[3]). Job classification systems can help objectively match roles and responsibilities with individuals who have the required skills. By providing more transparency regarding what is required for a promotion, job classification systems can contribute to more objective recruitment and promotion rounds, thus reducing discrimination. Both these factors can contribute to more women receiving promotions to better-paid roles and responsibilities within firms, which would contribute to reduce the wage gaps within firms (OECD, 2022[2]). These classifications, often presented as salary scales, are more common in the public sector. At least ten countries mandate that job classification systems, when they are used, be **gender-neutral**. This is an attempt to correct for gender biases in job valuations that can exacerbate pay disparities. Gender-neutral job classification systems are often embedded within equal pay auditing processes, suggesting they may become more widespread if auditing becomes more common.

Reflecting the autonomy of social partners, only a handful of OECD countries direct or encourage social partners to **discuss equal pay considerations during collective bargaining processes**. Yet workers' representatives play an important role in pay transparency processes. Collective bargaining processes can help introduce and monitor gender-neutral job classification or evaluation schemes; workers' representatives are often integral in the analysis, dissemination, and communication of the results of employer pay gap reporting and equal pay audits; and worker representatives can also help individual workers advocate for better pay when pay inequity is discovered (OECD, 2021[3]).

All of these pay transparency processes are based on important **legal principles of equal pay for work of equal value, or equal pay for equal work**. Nearly all OECD countries have clarified the concept of equal pay for equal work and/or work of equal value in national legislation. Those who have not clarified the concept in national legislation have clarified equal pay principles through the courts and case law (OECD, 2021[3]). Increasingly more countries, alongside social partners and other stakeholders, are part of the Equal Pay International Coalition (EPIC), the only multi-stakeholder partnership working to reduce the gender pay gap at the global, regional and national levels.

Each of these policies have the potential to narrow the gender wage gap. But strengthening reforms, greater stakeholder engagement, and more and better evaluations are needed.

Evaluations are limited, but pay transparency has intuitive appeal

Because most pay transparency policies are relatively new, there has been limited research carried out evaluating their effects on wage and employment outcomes. The available research on national pay transparency rules has largely concentrated on company pay reporting obligations (OECD, 2021[3]).

Studies of company pay reporting rules have typically found small reductions in the gender wage gap when reporting measures are accompanied by the threat of sanctions and/or relatively high policy visibility, as is the case in Denmark (Bennedsen et al., 2019[5]) and the United Kingdom (Blundell, 2021[6]; Duchini, Simion and Turrell, 2020[7]). The positive effects arise through a reduction in men's wages, rather than an increase in women's wages. Where enforcement mechanisms or wage gap visibility are weaker, however, these measures seem to have had fewer or no positive effects (Böheim and Gust, 2021[8]; Gulyas, Seitz and Sinha, 2020[9]). Studies looking at smaller, targeted populations of workers, such as university faculties in Canada and the United States, did find that publishing salaries helps to close the gender wage gap (Baker et al., 2019[10]; Obloj and Zenger, 2020[11]).

Pay transparency policies should continue to be evaluated in different contexts to see how features of different systems may affect gender wage gaps in different ways. Given that pay transparency policies are often phased in with rules based on firm size, these policies are ripe for rigorous, quasi-experimental evaluations with nearly comparable "treatment" and "control" groups around the policy threshold (OECD, 2021[3]).

Although the evidence base is still being built, pay transparency policies hold significant appeal. Pay transparency measures represent a relatively simple, intuitive tool both to identify and to take action against the gender wage gap in the workplace – particularly in mid-sized and larger organisations with dedicated human resources management that can calculate gender gaps.

Crucially, pay transparency policies give workers, employers and the public an important tool to combat gender inequality: they offer an acknowledgement of the existence and the size of gender pay gaps.

Why do we need pay transparency?

Closing the gender wage gap depends crucially on knowing whether, how, and to what extent such gaps exist. At the aggregate level – within a workplace, town, region, country, and so on – administrative and labour force data can help governments identify when gender wage gaps occur and their causes (OECD, 2021[3]). So-called observable factors driving the gender wage gap include an employee's age, level of education, field of study, sector of employment, workplace, parenthood status, and other variables (OECD, 2017[12]). Recent research using match employer-employee data suggests that about three-quarters of the gender wage gap, across a sample of 16 OECD countries, is attributable to pay inequity *within* firms (OECD, 2021[13]) (Chapter 16).

It is very difficult, however, for an *individual* worker to know whether she or he is being underpaid – and with whom their salary should be compared. Very few countries guarantee workers the right to learn a specific colleague's (or small group of colleagues') pay (OECD, 2021[3]).

Many countries identify privacy and data protections as a hurdle to sharing a specific, comparable colleague's pay. Logistical or operational barriers are another issue; as with other transparency requirements, some companies claim that identifying and sharing the salary of a "comparator" is too high an administrative burden (OECD, 2021[3]), though it is not clear that doing so would be much more difficult than other forms of pay reporting. Finally, the issue of finding either a hypothetical comparator or an accurate, real-life comparator is a longstanding challenge (European Commission, 2020[14]).

The comparator question remains a difficult, practical puzzle to solve when pay discrimination cases arise. Countries have used different approaches to address the comparator issue. Such approaches include legislation allowing the comparison of salary with the previous person who held a post, allowing comparison with a group of colleagues, requiring that the comparator be of an opposite sex, and/or requiring that the comparator be employed within the same company (European Commission, 2020[14]). New Zealand, notably, has recognised that the historic undervaluation of traditionally women's work necessitates a comparator being sourced from a different sector. Some other countries have said that a comparator should not be necessary at all to prove unfair pay (OECD, 2021[3]).

The limits of using pay information to (self) advocate

It must be emphasised that gender wage gaps represent a much broader problem, in both societies and labour markets, which cannot be fixed individually. When armed with the knowledge that they have been underpaid, a worker tends to have a limited number of options: do nothing, negotiate higher pay, or initiate a pay equity claim. In all three instances the onus of identifying, raising, and rectifying (possibly discriminatory) pay inequity rests on the individual. This is a very large burden (OECD, 2021[3]).

While pay transparency laws may give workers more information, their effectiveness largely relies upon workers having bargaining power to negotiate collectively or individually – and to negotiate without backlash, which is less likely the case for female workers. Research shows that women tend to be less likely than men to negotiate for a higher salary – and when they do negotiate, they tend to face backlash, or a "social penalty" (Bowles, 2014[15]).

This means that even if a female worker correctly *identifies* a pay equity issue, raising it with her employer may not be an easy step or a feasible solution. Additionally, pay equity claims that go through the legal system tend to be costly, both in time and money (OECD, 2021[3]).

Nevertheless, legal mechanisms must be in place for either an individual or a group of workers to seek recourse if they are indeed underpaid for their work. To support this, objective criteria to assess work of equal value should be used for pay equity claims. Access to justice should be streamlined and the burden of proof in pay discrimination cases should rest on the respondent (European Commission, 2020[14]).

Pay transparency policies: Shining a light on gender wage gaps

In many countries with pay auditing or pay reporting requirements, these rules only went into effect over the past decade. These recent innovations in pay transparency represent an important, relatively rapid, and large-scale shift to address pay inequality across OECD countries (OECD, 2021[3]).

Pay transparency measures can function at least as well as a right to request a comparator's pay, but only if they are designed and implemented well.

Countries that do not currently have pay transparency policies in place should strongly consider implementing them. For countries that *are* advancing pay transparency, the OECD recommends the following steps to help pay transparency tools close the gender wage gap. For more details, see (OECD, 2021[3]; 2023[1]).

Key policy messages

- Promote equal pay; allow individual workers to request pay information on comparable workers; and promote the use of intentionally gender-neutral job classification systems.
- Identify the most important wage gap statistics that should be reported, and provide clear guidelines and tools for reporting in order to simplify processes for employers; improve the quality of reporting and follow-up action plans across firms, and work to ensure that reporting processes are followed by actionable, tailored and enforceable plans to address wage gaps that are found; enforce reporting with a dedicated government actor, such as a labour inspector, rights ombudsman or a certified external auditor, to improve compliance and the quality of reporting; and dedicate resources to more and better impact evaluations, including research on both wage outcomes and policy process outcomes.
- Embed pay transparency within a broader, systematic, life course approach to promoting gender equality in society, labour markets, governance and public policy. This includes gender-equal access to all levels and subjects of schooling, family and work-life balance supports like childcare and parental leave, efforts to improve the division of unpaid work, anti-discrimination legislation, and improving women's access to leadership roles.

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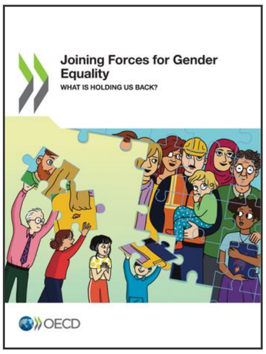

From:

Joining Forces for Gender Equality

What is Holding us Back?

Access the complete publication at:

https://doi.org/10.1787/67d48024-en

Please cite this chapter as:

Alajääskö, Lyydia and Valérie Frey (2023), “Pay transparency to close the gender wage gap”, in OECD, *Joining Forces for Gender Equality: What is Holding us Back?*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/7db04433-en