

Increasing women's participation in the work force and closing the pay gap between women and men will have a positive impact on economic growth in the European Union. Despite recent improvements, there are still persistent gender gaps in labour market activity <sup>(1)</sup> and pay, which result in lower employment rates for women, potentially limiting EU growth. Addressing these issues is crucial to meet the Europe 2020 target to achieve an overall employment rate of women and men of at least 75 % by 2020.

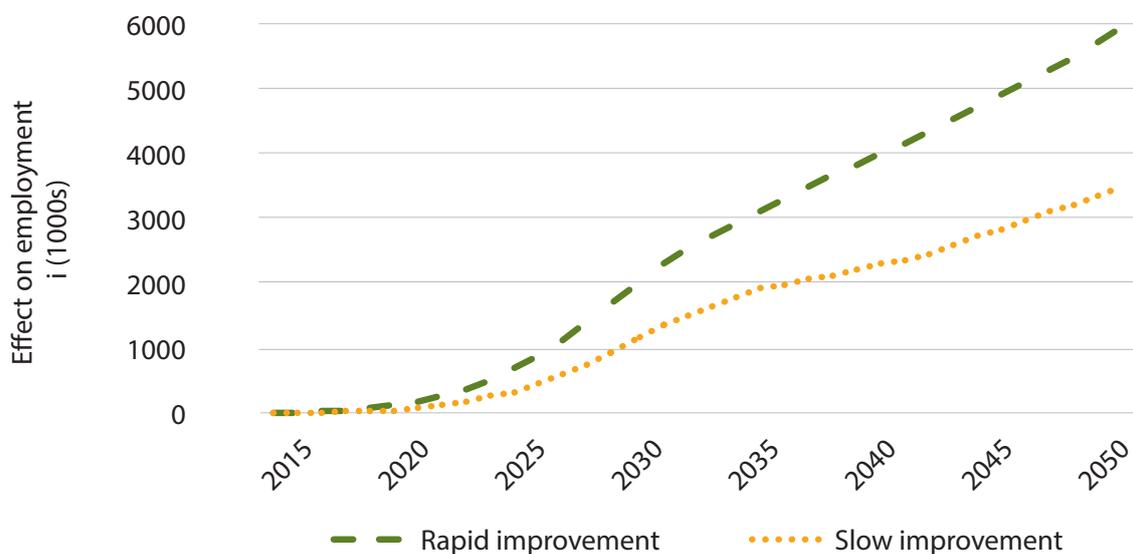
A study from the European Institute for Gender Equality (EIGE) on the 'economic benefits of gender equality' puts forth robust evidence showing the positive impacts of reducing gender inequalities in the labour market.

Gender equality measures that can reduce gender gaps include:

- providing childcare and other care provision;
- changes in parental leave pay and conditions;
- promotion and support of part-time and flexible working arrangements;
- legal provisions and policies regarding equal pay and working conditions;
- removing gender segregation across sectors and occupations;
- reducing the number of career breaks among women;
- promoting women into senior positions.

## Removing gender inequalities in labour market activity and pay boosts economic growth

Figure 1. The effect of closing the activity gap on employment



<sup>(1)</sup> The labour market activity rate is the percentage of active people in the workforce (either working or looking for work) in relation to the comparable total population.



Closing the activity rate gap would significantly increase the level of employment. The study forecasts an increase between 3.5 million and 6 million jobs in 2050 as a result of additional women entering the labour force. An increase in the supply of labour will also enable sectors that were previously labour constrained (e.g. due to a shortage of skilled workers) to increase potential output <sup>(2)</sup>.

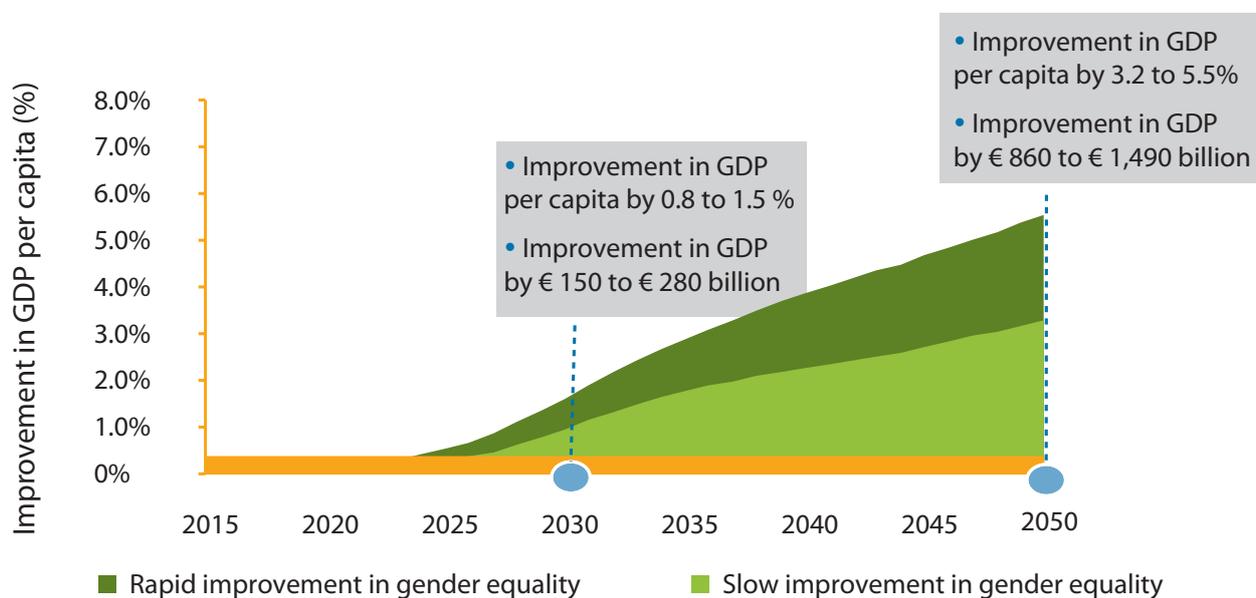
Compared to the effects of closing the activity rate gap, the effects of closing the wage gap on the employment of women are relatively small. On the one hand, higher wage rates would initially encourage more women to enter the labour market, leading to an increase in productivity and employment rates. On the other hand, higher

labour costs are likely to drive firms to reduce their demand for labour and offer fewer jobs.

However, an increase in women's salaries contributes to reducing the activity rate gap, possibly accounting for part of the positive employment effects associated with improving the labour market activity of women.

The impacts on GDP per capita are largest when the activity rate gap decreases. GDP per capita is estimated to increase by 0.8-1.5 % in 2030 and by 3.2-5.5 % in 2050 (an increase in GDP of up to EUR 280 billion by 2030 and up to EUR 1 490 billion by 2050).

**Figure 2. The effect of closing the activity gap on GDP per capita**



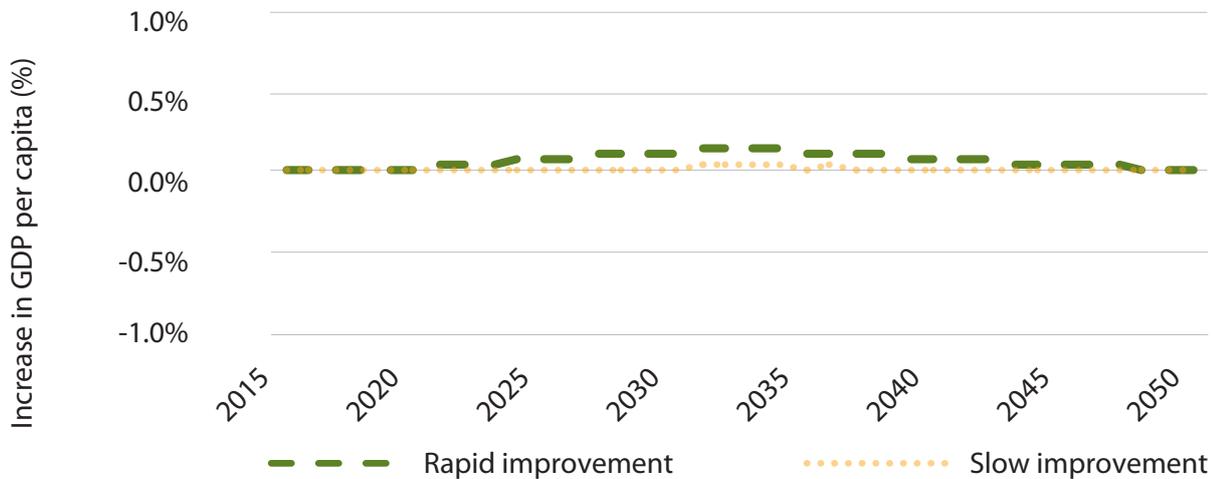
Improvements to wage equality would result in a 0-0.2 % increase in GDP per capita over the 2030-2050 period. Reducing the gender pay gap has a low impact on GDP because of opposing macroeconomic impacts. While higher wages for women generate an increase in household real incomes and spending, they also increase the costs faced by firms. In the long run, firms increase prices in order to restore their profit margins, which reduces household real incomes and puts downwards pressure on outputs and GDP from around 2040 onwards.

Focusing solely on GDP is likely to obscure other positive impacts of closing pay gaps. An increase in women's salaries is likely to lower poverty rates among women and reduce the gender gap in old-age pensions (EIGE, 2016). A reduction in

the pay gap can also increase women's confidence and allow them to gain more responsibility at work and progress into leadership positions (Booth, 2003). In sum, fostering greater participation of women in the labour market and ensuring pay equality is crucial to achieve an overall employment rate of women and men of at least 75 % and to boost inclusive, smart and sustainable growth.

(1) Potential output, or the potential productive capacity of the economy, refers to the maximum economic output when all resources are fully utilised.

Figure 3. The effect of closing the gender pay gap on GDP



## Women have lower activity rates, employment rates and earn less compared to men

The employment rate of women across the EU was 64.3 % in 2015, compared to 75.9 % for men <sup>(3)</sup>.

Women are likely to undertake much more unpaid work than men, including caring obligations for children and elderly relatives. They participate less in the labour market and/or are forced to pursue a lower career profile. Despite the recent increase across Europe in the activity rates of women, the average EU gender gap in activity rates is still 15 %, and the differences at national level are sometimes much larger. The activity rate gaps then translate into lower employment rates of women.

In 2014, gross hourly earnings by women in the EU were on average 16.1 % below those of men <sup>(4)</sup>.

Gender inequality in the labour market is made worse by the gender pay gap. Despite technological changes <sup>(5)</sup> and legislation aimed at securing equal pay for women and men, the gender pay gap persists into the 21st century. It also varies greatly across Member States.

Gender employment and pay gaps result from various inequalities that affect women during their lives.

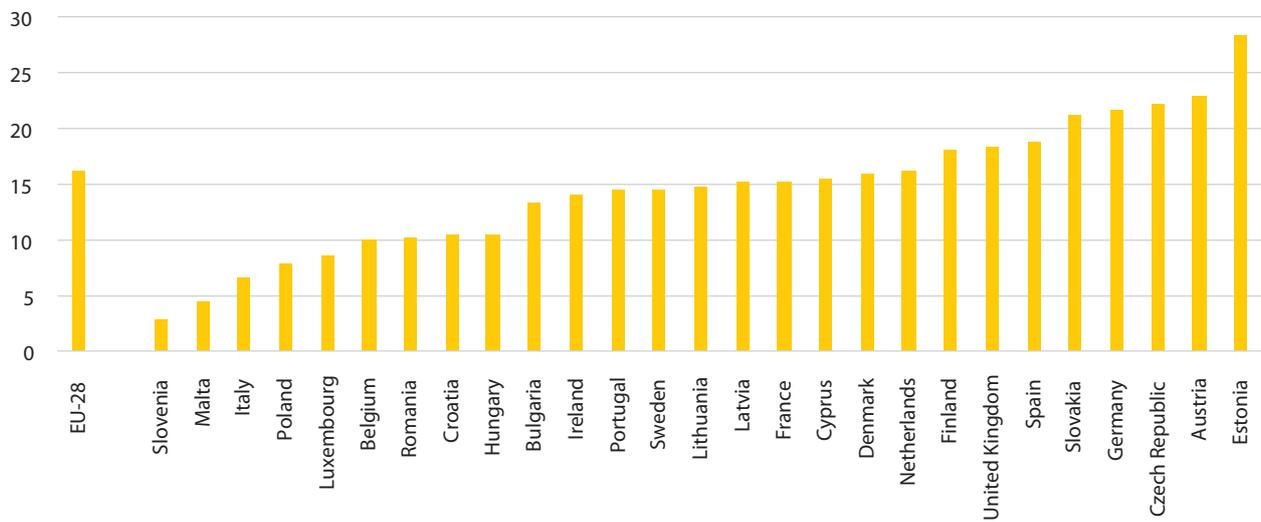
- i. **Gender segregation in education and in the labour market:** women tend to be over-represented in degrees, training programmes and occupations that offer lower wages than occupations predominantly carried out by men.
- ii. **Occupational segregation,** both horizontal (different sectors and occupations) and vertical (different levels of responsibility or positions).
- iii. **Career breaks** due to maternity leave.
- iv. **Uneven division of unpaid domestic and care work:** women are likely to undertake much more unpaid work than men, including caring obligations for children and elderly relatives. This affects their opportunities to participate in the labour market and limits their career progression.

<sup>(3)</sup> Eurostat defines the employment rate as 'the proportion of the working age population that is in employment'. For further information see: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment_statistics).

<sup>(4)</sup> NB: The cited data are the most recent data available from Eurostat at the time the content of this publication was prepared. For further information and updates please see: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender\\_pay\\_gap\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics)

<sup>(5)</sup> Technological progress in the workplace has raised the value of non-manual skills relative to manual ones, thereby raising female relative wages (Black and Spitz-Oener, 2010).

**Figure 4. The unadjusted gender pay gap, 2014 (the difference between the average gross hourly earnings of male and female employees as a percentage of male gross earnings)**



Source: Eurostat (tsdsc340).

## The gender gaps in employment and pay are expensive

*The total cost of a lower employment rate for women across the EU was EUR 370 billion in 2013, equal to 2.8 % of the EU's GDP.*

The cost of a lower employment rate for women is calculated by including their missed earnings and welfare contributions, and public finance costs, such as individual welfare transfers and social benefits. Depending on a woman's educational level, the cost of exclusion from the labour market throughout their working life is estimated at between EUR 1.2 million and EUR 2 million (Eurofound, 2016).

While there is little evidence of a direct economic impact from the gender pay gap, studies show that women's unequal pay does not just hurt women but is a cost for the whole society. There is a strong link between the gender pay gap and child poverty, skills shortages and a cost to the economy because of the underuse of women's skills.

Gender inequalities in the labour market have a detrimental effect on women's income, including earnings and occupational pensions. This in turn has the potential to systematically undermine women's economic independence and to increase their risk of poverty and social exclusion (EIGE, 2016)

## References

Black, S. E. and Spitz-Oener, A. (2010), 'Explaining women's success: technological change and the skill content of women's work', *The Review of Economics and Statistics*, Vol. 92, No 1, pp. 187-194.

Booth A., Burton, J. and Mumford, K. (2003), 'The position of women in UK academic economics', *The Economic Journal*, Vol. 110, pp. 312-333.

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## About the study

The study on the economic benefits of gender equality is unique in the EU context. It is the first of its kind to use a robust econometric model to estimate a broad range of macroeconomic benefits of gender equality in several broad areas such as education, labour market activity and wages.

The overall results of the study show that more gender equality would lead to:

- between 6.3 million and 10.5 million additional jobs in 2050, with about 70 % of these jobs taken by women;
- positive GDP impacts that grow over time;
- an increase in GDP per capita of up to nearly 10 % in 2050.

The study used the E3ME macroeconomic model to estimate the economic impacts of improvements in gender equality. E3ME is an empirical macroeconomic model tailored specifically to model outcomes at EU and Member State levels.

The outputs of the study on economic benefits of gender equality in the EU include nine publications.

1. Literature review: existing evidence on the social and economic benefits of gender equality and methodological approaches.
2. EU and EU Member State overviews.
3. Report on the empirical application of the model.
4. How the evidence was produced: briefing paper on the theoretical framework and model.
5. How the evidence was produced: factsheet on the theoretical framework and model.
6. Economic impacts of gender equality in the EU policy context: briefing paper.
7. Economic impacts of gender equality: briefing paper.
8. How gender equality in STEM education leads to economic growth: briefing paper.
- 9. How closing the gender labour market activity and pay gaps leads to economic growth: briefing paper.**

All publications, detailed study results and methodology can be found on EIGE's website.

The European Institute for Gender Equality (EIGE) is the EU knowledge centre on gender equality. EIGE supports policymakers and all relevant institutions in their efforts to make equality between women and men a reality for all Europeans by providing them with specific expertise and comparable and reliable data on gender equality in Europe.

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