

THE IMPACT OF THE MINIMUM WAGE ON THE GENDER PAY GAP IN ESTONIA

BACKGROUND

- Estonia has the largest gender pay gap in the European Union. According to Eurostat, in 2020 the gross hourly wage of female employees in Estonia was 21.8% lower than that of male employees. The European Union average is 14.1%.
- The aim of this analysis was to assess the impact of a change in the minimum wage on the gender pay gap and general inequality in Estonia.
- The European Commission recommends setting the minimum level at 50% of the national average wage. In Estonia, however, in 2020 the minimum wage corresponded to only 41.1% of the average wage.
- The analysis used a dataset representative of the entire Estonian population for the years 2018 and 2019 - in total, the data of more than 1.3 million people for both years were analyzed. The EUROMOD policy microsimulation tool was used to assess the impact of the change in the minimum wage.

Uuringuraport: Aavik, K., Ubakivi-Hadachi, P., Raudsepp, M., Roosalu, T. (2020). Soolise palgalõhe vähendamine: mitmetasandiline kvalitatiivuurim. RASI toimetised nr 11. Tallinn: Tallinna Ülikool.

FINDINGS

THE GENDER PAY GAP REDUCES AS MINIMUM WAGE INCREASES

Using data representing the entire Estonian population and the microsimulation tool EUROMOD, we analyzed what would happen to the gender pay gap if the minimum wage was raised to 50% of the average wage. As a result of microsimulations, it was found that the minimum wage and the gender pay gap are negatively correlated (see Figure 1). This means that as the minimum wage increases, the gender pay gap narrows.

MINIMUM WAGE MAY REDUCE THE PAY GAP OVER 0.5%

The results of the analysis show that raising the minimum wage to the level recommended by the European Commission of 50% of the average wage would have helped lower the gender pay gap by an additional 0.42% in 2018 and an additional 0.51% in 2019. This is a significant decrease, as in reality the gender pay gap was 2.9% smaller in 2018 and 0.9% smaller in 2019 than in the previous year (see Figure 2).

This means that an increase in the minimum wage could significantly accelerate the narrowing of the pay gap.

MINIMUM WAGE ALSO HAS AN IMPACT ON POVERTY

The increase in the minimum wage also shows a direct benefit in reducing the extreme and at-risk-of-poverty rates. A very significant decline could be seen in the in-work poverty rate, which fell from 10.6% to 9.5% in the 2019 scenario, when the minimum wage was referred to 50% of the average wage.

Gross Hourly Gender Pay Gap in 2019 Predicted Scenarios

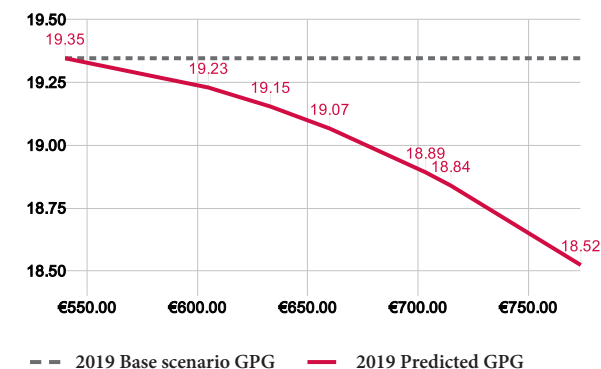


Figure 2. Actual annual reduction of the pay gap compared to the projected additional decline

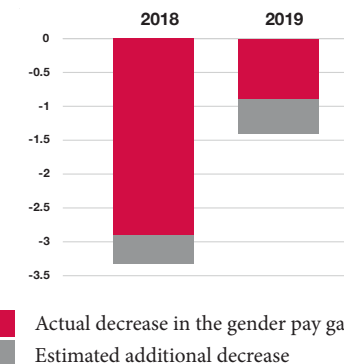


Figure 1. Predicted change in the gender pay gap in hypothetical minimum wage scenarios.

ADDITIONAL MATERIAL

- EUROMOD makes it possible to assess the direct impact of an increase in the minimum wage on indicators of social inequality. The impact on behavioral indicators, such as employment, should also be assessed separately in order to assess indirect effects.
- As a result of this study, a digital tool will be developed for public use to assess the impact of a freely chosen minimum wage level on selected social indicators.
- Using a similar methodology, the impact of other tax or benefit reforms on the gender pay gap and other indicators of inequality and / or poverty can also be assessed.