

Female Labour Force Participation and Economic Development

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Abstract

One of the essential indicators of economic growth and development is the participation rates in the labor force. Even though the efficient use of production factors takes place based on economic development, the distribution of labor (labor force) factor is a foremost factor facing the gender inequality problem. Participation rates in the labor force, which have vital preventive measures for an economy, are scattered across women worldwide. Along with the Industrial Revolution, women who are a significant production component outside the labor market from the 1750s to the present have begun to work for paid employment. However, since those years, women have always been seen as a labor force with lower wages. From the past to the present, even though women's participation in the labor force market increased gradually within economic crisis periods, this increase might change between different countries, even between regions in the same country boundaries depending on the factors such as the traditions of the societies, religious beliefs, and wealth level. Generally, it has been noted that women and men are not employed equally in the global labor force. Women are seen working at a lower rate than men in almost all countries. Therefore, it is indicated that the increase in female labor force participation rates creates an opportunity for countries to increase their workforce size and achieve additional economic growth. One way to explore women's importance to economic growth is to consider adult women's share in the labor market. The female labor force participation rate augments the country's total economic output. The paper investigates the relationships and impacts of female labor force participation and economic development.

Keywords: Female Labor Force Participation, Developing Countries, Industrialization, Gender Disparity, Economic Growth

Theoretical Framework: Tracing the Relevance

The economic literature emphasizes the role that women's participation in the labor force plays in countries' economic development. Structural

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change of economies from agriculture to industry and service sector reduces women's participation in developing countries' labor force. Many factors affect women's participation in the labor force. The most crucial agents affecting women's participation in the labor force are education level, family and community structure, number of children, and the country's economic development level. Women's labor force activity is increasing in the developing universes of economic development with the increase of the dynamics of education and economic activity. As the economy grows, women have more accessible and better jobs and are therefore encouraged to be more economically active, which increases women's participation in production activities. Women's participation in the labor force is desirable both in terms of equality and productivity. At the point of equality, women's participation in the labor force ultimately improves their economic situation and contributes to economic efficiency by increasing the country's development potential.

According to modernization theorists, economic growth is related to women's participation in the labor force through changes in the professional structure and increases in educational opportunities and household responsibilities. The modernization process is associated with increased labor demand, socially accepted education and employment of women, and lower fertility rates (Heckman, 1978). Some theoretical and empirical studies in the literature have found that female labor force participation has positive and robust links with economic growth. Worldwide trends indicate that women have a relatively more stable relationship between labor market participation and economic growth. A large majority of empirical research shows that women's participation in the labor force tends to decline in the first economic growth stages. In contrast, after reaching a certain level of per capita positive relationship, women's participation in the labor market is increasing in the process (Lechman and Kaur, 2015). This implies that the relationship is a U-shaped statistical relationship between women's participation in work and economic growth.

Sinha (1965) suggests that a long-run U-shaped relationship can define the increase in women's numbers in the labor force and economic growth level. Since then, a significant portion of both theoretical and empirical findings have focused on the above relationship and have continuously updated information on this topic. Although the relationship between women's participation in labor and the level of economic growth is relatively stable and correlated with time, research findings still differ between different countries and groups of countries (Lechman and Kaur, 2015). Understanding the relationship between economic development and women's participation in the labor force is vital for many reasons. The U-shaped hypothesis states that there is some trade-off between

gender equality and economic growth in developing an economy. Examining this relationship is vital for scholars and policymakers to know the trends in participation in the labor force and design and implement policies from this point (Chapman, 2015).

The Concept of Labour Force Participation and Its Approach in Developing Countries

McConnell, Macpherson, and Brue (2009) argue that "the labor force participation rate is determined by comparing the actual labor force with the potential labor force or what is sometimes called the "age-eligible population." In the US, the actual labor force consists of people who are employed and those who are unemployed but searching for jobs, whereas the potential labor force can be categorized as the "age-eligible population" which excludes young people under 16 years of age and people who are institutionalized, such as in penal or mental institutions or nursing homes or over age 64. The female labor force participation rate is defined as the proportion of the female population of working age who are employed (included self-employed) or are seeking work. However, the concept seems to be particularly challenging to apply to developing countries because of the problem in defining work and non-work in a subsistence economy. It is quite challenging for western analysts to distinguish between work and non-work in developing countries because both activities (work and non-work) are combined. The usage of terms such as cash and non-cash production in a subsistence economy seems to be ambiguous. In this society, a family may produce goods for its consumption and share them with other relatives or sell it in the traditional market.

The United Nations states in its national account that the labor force consists of persons of either sex who supply labor for the production of economic goods and services (Anker, Khan, and Gupta, 1988). The United Nations' definition of the labor force is that all production of goods and services can be classified into "economic" (labor force) activity. In contrast, activities outside the production of "goods and services" are classified as non-economic (non-labor force) activities. All market-oriented activities related to salary or wage employment are considered labor force activities. Thus, according to the UN definition above, all the goods and services production of primary products, whether they will be sold into the market or for barter and self-consumption, such as subsistence-agriculture, are included in the concept of labor force activities. Regarding the measurement of female labor force participation, Durand (1975) classified female labor force participation according to industry sectors or occupation, expressed by the number of women employed in a given sector as a percentage of working-age females.

Importance of Labour Force Participation in the Process of Development

The participation rate of an economy in the labor force is expressed as one of the most crucial production factors that pave the way for economic growth and development. Participation rates in the labor force, which have vital preventive measures for an economy, are scattered across women worldwide. Labor participation rates vary widely between men and women. In relation to this, Boserup (1970) argues that men's preferential access to education and new technologies can deprive women of work during their first years of growth. However, as growth grows, women have access to education and technology.

This situation indicates an increase in the form of the female labor force participation rate. Another argument (Boserup, 1970, 1990, Goldin, 1995) suggests that women work in productions on workshops in family farms or near homes when the income situation is low. As the economy develops, the focus of production shifts from households to factories and from family companies to other companies, making it more difficult for women to work to carry out reproductive and production activities together. Social norms show that manual work in factories is less useful for women. As the economy further develops, on the other hand, the manufacturing sector is becoming more of a retail production and office work. The work done in this way becomes less, cleaner, and more pleasant in various forms. As a result, women's participation in the labor force is increasing (Tam, 2011). Goldin (1995) thinks that the income and substitution effect contributes to a U-shaped pattern. When income is low, and agriculture is dominant, women's participation in the labor force is high. As income increases, the demand for child ownership also increases. This kind of income effect leads to a decrease in the labor force participation rate of women. Also, the increased use of machinery creates a substitution effect (such as men being physically capable) in women's labor force participation. Therefore, both income and substitution effects lead to a decline in women's labor force participation rate and an increase in income (Tam, 2011). Another important mainstream idea of investigating women's participation in the labor force and economic growth is that this relation is associated with long-term structural changes and lapses. Many researchers think that as long as following specific development plans of the countries, renovated approaches experienced in structural changes affect women's active participation in the labor force to a large extent. In the beginning phase of the economic development in which the large majority of society is low-skilled and uneducated, and the economy itself remains weak in labor force production, a significant part of the labor force is employed in the agriculture sector. As countries proceed to the upper steps of development and as industrial sectors start

to provide relatively more contribution than the agriculture sector, women's involvement in the labor force decreases. Therefore, gradually increasing labor force demand within entirely industrial sectors such as mining or construction makes less suitable conditions for women's labor force participation. In this respect, it is observed that women's existence within the labor force decreases mainly in the dynamic industrialization process. Besides, when the national economy enters the development process, and the service industries become progressively more dominant, the labor force market provides employment opportunities to women again

Some economists believe that there is a strong link between female labor force participation and economic development. These economists show how increased female labor force participation contributes significantly to increased economic development. It can also lead to an increased aggregate economic efficiency as well as the development of the country. According to Borjas and Katz (2005), the female labor force participation rate increase was more pronounced in developed countries than in less developed countries. This increase has usually been attributed to higher wages and technological developments within the domestic sphere. He also said that the decline of time spent on women's domestic work is due to women seeking work outside their home, such as in formal or paid workplaces. However, Borjas pointed out that differences exist in females' labor force participation between countries and attributed such differences to different cultural values and institutional frameworks that impact women's decisions and workability.

The coordination between the female labor force participation and economic growth

Economists today agree that gender-specific determinants have an essential impact on growth. Recent theoretical and empirical studies suggest that women's labor market participation unambiguously promotes growth. The rising recognition of gender-specific growth determinants came with the evolution from exogenous to endogenous growth models. These models endogenized technological advancement by integrating education and labor market participation as growth determinants. A model by Knowles et al. (2002) suggests that gender-specific disparities in education negatively impact a country's growth. When gender-specific differences in education are large, rates of return from women's education are higher than those from men's education due to falling marginal returns of human capital. Consequently, investments in women's education raise a country's capital stock and therefore promote macroeconomic growth.

Women's education also affects a nation's income in more complex ways: it raises women's participation in employment and earnings and

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reduces women's fertility. Galor and Weil (1996) combine a growth model with the endogenous labor supply of women and men with a household model that models a couple's choice between unpaid household activities and paid labor. They show that women's labor market participation provides the household with an additional income, making more significant savings possible. The increase in savings raises the capital stock per worker and increases output (feedback effect). Consequently, the more women actively participate in the labor market, the faster a national economy grows. Klasen and Lamanna (2003) add that high levels of gender-specific discrimination in employment artificially restrict the 'talent pool' of a nation's labor force because less qualified men push potentially highly qualified women out of the job market. As a result, the average available labor force within a national economy is kept artificially low (measured in units of productivity). This hinders a country's ability to be internationally competitive. For example, Klasen's (1999) empirical investigations prove the positive impact of women's labor market participation on growth suggested by theory. Klasen (1999) uses data that includes observations for 109 countries and the years 1960 to 1992. The endogenous variable, which is the change in the purchasing power parity (PPP) per capita, is estimated as a function of, among others, gender disparities in the labor force. The estimation results suggest that gender disparities negatively impact a country's growth performance. Consequently, a reduction in gender disparities in labor market participation benefits women and is also meaningful in economic terms.

Whereas economic theory and recent empirical analysis unanimously suggest that women's labor market participation contributes positively to growth, the reverse impact of growth on women's labor market participation is still much less clear, in theory, as well as on the empirical side. Intuitively, one might assume a purely positive impact. If this assumption is proved right, pure growth-promoting policies would automatically promote women's labor market participation, promoting growth. However, if the impact of growth on women's labor market participation can also be harmful, pure growth-promoting policies would be less effective because reducing women's labor market participation would slow down growth. In this case, further enhancement of women's labor market participation is necessary to ensure a country's economic advancement.

Two different approaches are explaining the impact of growth on female labor market participation on the theoretical side. The first approach suggests a pure increase in female labor market participation across all economic development ('modernization neoclassical approach'

based on Becker, 1957). The second approach suggests a convex impact of growth on female labor market participation ('feminization U' hypothesis, based on Boserup, 1970). The neoclassical approach suggests that any sort of discrimination can only be temporary. It is assumed that all sorts of discrimination in the labor market cannot prevail in a competitive environment because discrimination is not consistent with an agent's optimal behavior that maximizes income or utility. In the presence of capital owners or employers who prefer profits to prejudice, all workers will be employed and paid the same wage. Several studies adapted Becker's model to the case of gender discrimination in employment (Mincer, 1958; Krueger, 1963; Clark, 1991). These studies treat male and female workers as separate groups or sectors as separate countries in an international trade model. Discrimination is analyzed under the assumption that the male sector has a higher ratio of capital to labor than the female sector. The model shows that a capital owner in the male sector who exports capital (or imports labor) to the extent where the marginal products of capital (and labor) are equal in both sectors maximizes his income. Hence, capital owners in the men's sector who do not discriminate against women are better off than those who impose a tax to reduce imports of women's labor. If countries or sectors have to be competitive, gender disparities in employment decrease with increasing growth. According to the 'modernization neoclassical approach,' persisting employment inequalities between men and women are due to differences in productivity (education and work experience) or a 'taste for discrimination of capital owners or employers. A preference for discrimination acknowledges that existing gender gaps in employment may partly be due to the persistence of 'pure discrimination'.

Conclusion

The changing feature of women's participation in the labor force has been a critical attribute in the development process. Though cross-sectional data indicate a (weak) U-shaped relationship between female labor force participation and GDP per capita, this relationship is not robust and is not consistent at the country level. Eventually, women's employment is driven by various factors, including social norms, education, job creation, and the nature of economic growth. Therefore, apart from standard labor force participation rates, policymakers should ensure women's equal access to better jobs and new labor market opportunities. These opportunities and the creation of new jobs in the labor market contribute to the process of development. Moreover, the policies should consider both supply- and demand-side attributes, including better quality education and training programs. The policies should also focus on providing legal measures to ease the burden of domestic work, increase

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women's safety, and promote private sector development in industries for increasing job opportunities for women in developing countries. Special emphasis is needed on providing better access to school education and ensuring that women receive a good quality education beyond the secondary level and can take advantage of training opportunities. Such initiatives will increase their chances of overcoming other barriers to finding decent employment.

Women who raise the generations should not be deprived of the rights men have within society because the countries' all-out development is based on active involvement in production activities without separating women or men. Otherwise, as a prosperous life becomes impossible, the country might even become obliged to get poor and vanish. Thus, increasing woman employment is as important as the man's employment for the development and improvement of the economy. It is expected that women's participation in the labor force and earning an economy will contribute to the gain, development, and acceleration of any country's growth.

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