

Fair play: More equal laws boost female labor force participation

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Introduction:

1. The participation of women in the labor force is in itself an important social and development goal, but it is also crucial from an economic growth and stability perspective. The World Bank's 2012 World Development Report argues that gender equality matters in its own right, but that it is also "smart economics" because it can enhance economic efficiency. The World Economic Forum's 2014 Global Gender Gap Report finds a positive correlation between gender equality and per capita GDP, the level of competitiveness, and human development indicators.

2. A growing body of literature points to the relationship between female participation in the labor force and economic growth (IMF 2013). Various studies highlight that gender gaps in labor force participation, entrepreneurial activity, and education impede economic growth (Cuberes and Teignier 2014; Esteve-Volart 2004; Klasen and Lamanna 2009). Cuberes and Teigner (2012) simulate an occupational choice model that imposes several frictions on economic participation and wages of women, and show that gender gaps in entrepreneurship and labor force participation significantly reduce per capita income. Figure 1 shows countries for which the gain in GDP from closing gender gaps is at least 15 percent. In rapidly aging economies, higher female labor force participation can directly yield growth and stability gains by mitigating the impact of a decline in the labor force on growth potential (Steinberg and Nakane 2012). The opportunity for women to earn and control income has been associated with broader economic development (Heintz 2006), and total factor productivity gains (Loko and Diouf 2009).

3. Previous empirical work has identified demographic characteristics and government policies as the key drivers of female labor force participation. In terms of demographic drivers, studies have highlighted the role of fertility and educational attainment. Government expenditure policies, including maternity leave and child benefits as well as tax policies, have also been shown to significantly affect women's economic participation. The effect of legal gender-based restrictions on women's labor force participation, however, has been less explored in a systematic way.

4. A novel and rich dataset on legal restrictions allows us to examine their effect on women's labor force participation for a large set of countries over a long time horizon. The World Bank's Women, Business and the Law Database (WBL) presents a number of indicators on legal restrictions and regulations relating to women's economic participation and entrepreneurship, including limitations related to accessing institutions, owning and managing property, getting a job (such as restrictions on women's work, including working at night or in certain industries), building credit, and going to court. The database provides detailed information on the manner in which laws and regulations have been used to establish differences on the basis of gender, generally to the disadvantage of women. For selected indicators, the database allows for tracking legal changes back to 1960, providing ample information to assess the economic effects of such restrictions.

5. The main contribution of this study is to analyze the effect of different legal restrictions on gender gaps in labor force participation for a large panel of countries. In addition to including legal restrictions in the analysis, this note expands empirical coverage used in recent

papers by (1) updating major parts of the comparative family policy database of Gauthier (2011) to include more recent years, and (2) substantially expanding the number of countries compared with previous empirical studies (Steinberg and Nakane 2012).

6. The main finding of this study is that less legal discrimination against women is strongly associated with higher female labor force participation. The empirical results highlight that legal equality in economic rights significantly contributes to explaining the variation of labor force participation gaps across countries and time. In particular, the following factors are all related to a statistically significant decrease in the gender gap in labor force participation: legally guaranteed equality between men and women; equal property rights; equal inheritance rights for sons and daughters; joint titling for married couples; women's liberty to pursue a profession, obtain a job, or open a bank account; a woman's right to initiate legal proceedings without her husband's permission; right to sign a contract; and a woman's right to be the head of a household. These effects come in addition to other factors, such as demographics, education, and family policies that have the expected sign and are statistically significant in the regression analysis.

7. The policy implication of these findings is clear: countries that want to increase female labor force participation would do well to review and reform legal rules and institutions with a view to creating a level playing field. That said, this study does not take a position on a woman's family-work choices. Many studies rightly note the significance of the value added to the economy by women from family-related activities, which are not measured in GDP. The objective of this note is simply to identify policies that would create equal economic opportunities for men and women. To this end, the results suggest that, in addition to adopting family-friendly policies such as child care and maternity benefits, countries should strive to reform legal institutions, regulations, and laws to remove discrimination against women. Having said that, legal changes often closely interact with changes in social attitudes, which are difficult to capture empirically. Changes in the law may follow from changes in social attitudes that themselves can lead to changes in women's economic behavior. At the same time, legal changes enable women to enter into economic activity, which may change social attitudes. It should also be emphasized that the policy recommendations in this note with respect to creating equal opportunity should be considered against the backdrop of countries' broadly accepted cultural and religious norms.

8. This note starts with a short summary of the literature on the drivers of female labor force participation. It is followed by an overview of the data and the key stylized facts that emerge from those data. The empirical results are then presented and policy conclusions drawn.

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