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The Impact of Increase in National Income Per Capita on Labor Force Participation Rates in Emerging Markets and OECD Countries

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Abstract

The labor market indicators provide important information about the functioning of economies and social dynamics. One of these indicators is the participation rate in the labor force. Numerous variables have different effects on labor participation rates. The effects of these variables vary from country to country. In this study, OECD countries and ten Emerging Markets Countries, where labor markets are expected to be large in the future, were discussed. For these two groups of countries, the impact of rising per capita incomes on labor force participation rates has been analyzed in both short-run and long-run. The behavior of women and men in the labor market is often different. Gender is one of the decisive factors in terms of preferences and behaviors in the labor market. For this reason, the impact of increases in national income per capita on the participation rates of women and men has been analyzed separately. In the study, data on per capita incomes and labor force participation rate are obtained from World Bank. This data is annual frequency and covers the period from 1990 to 2015. The method used is panel data analysis. In the first phase of the analysis, the presence of cross-sectional dependency was tested. Unit root tests were then performed. VECM was used for the analysis of short-term relationships after long-term relationships between variables were revealed. Findings have shown that per capita income increases have different effects on labor force participation rates for different gender and country groups. When a long-term relationship is examined, it is clear that for OECD countries in the higher income group, there is a negative relationship between female labor force participation and national income per capita. It is found that a 1% increase in the national per capita reduces labor force participation rate by approximately 0.6%. However, in OECD countries the relationship for men is uncertain. For the Emerging Market Countries findings show that there is a positive relationship between the increase in the national per capita income and the participation of women and men in the labor force. Further it is understood that this relationship is stronger for men. The findings for short-run relationship were similar to long-run results.

Keywords: Labor Force Participation, Panel Data Analysis, Vector Error Correction Model

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