Impact of Taxex On Unemployment of Pakistan

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This study focuses to find out the impact of taxes on unemployed labor force of Pakistan. Since Pakistan is among the countries which have high unemployment rates, this study is conducted to find whether taxes have an impact on unemployment of Pakistan or not. The independent variable of study includes tax revenues while the dependent variable includes unemployed labor force of Pakistan. To find out this impact, data on both the mentioned variables is collected for the period of 36 years that is from year 1980 to 2016-17. Results from Linear Regression Analysis shows that tax revenues have positive and significant impact on unemployed labor force of Pakistan, which means; with the increase in taxes the unemployment of Pakistan also increases.

Keywords: Taxes, Unemployment, Labor Force

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INTRODUCTION

This research paper focuses to find out the impact of taxes on unemployment rate of Pakistan. Pakistan has high tax and unemployment rates and since Organization for Economic Cooperation and Development (OECD) gave an idea that when taxes are increased the unemployment rate usually decreases in OECD Countries. Therefore, the researchers of this paper tried to find out whether the same effect is applicable in Pakistan or not.

Unemployment Rates Of Pakistan Since 1990 To 2016-17

The unemployment rate of Pakistan in 1990 was 6.3% and in 2016 it was 5.9%. The highest unemployment rate in Pakistan was in 2002 and 2004 and it was 8.3%. The unemployment rate of Pakistan from 1990-91 to 2016-17 is given in the graph given below:

Figure 1: Economic Survey of Pakistan 1990-2016-17

DISTRIBUTION OF TAXES RECEIVED IN PAKISTAN

The tax revenues received by government of Pakistan comes in the form of direct and indirect taxes. The tax revenues in 2016-17 were Rs. 1895.4 Billion, out of this 39% was from direct taxes and remaining 61% was from indirect taxes. Graphical representation of these figures can be seen in the below given pie chart.

Percentage of Tax Revenues in 2016-17

Figure 2: Economic Survey of Pakistan 2016-17

Variables, Data Range and Model Used

Our research has one independent variable that is tax revenues received by Government of Pakistan, while the dependent variable is unemployment (unemployed labor force) of Pakistan. This study estimates the impact of taxes on unemployment of Pakistan from 1980 to 2016-17. Linear Regression or Simple Regression Model is used to evaluate this impact.

Objective of Research

Unemployment rate of Pakistan is very high as compared to the other developing countries. Apart from this the government is taking a lot of taxes from the corporations and individuals and therefore the main aim of this research is to find out the impact of taxes on the unemployment rate of Pakistan.

Research Question

Does taxes effect unemployment rate of Pakistan?

Research Hypothesis

H_{01} : There is no relationship between taxes and unemployment rate of Pakistan.

H_{a1} : There is a relationship between taxes and unemployment rate of Pakistan.

Literature Review

There is less empirical research available on the topic, but still few related researches are given below:

Dolenc Primoz and Laporsek Suzana (2009) did a research to find out the impact of tax wedge on labor and its effect on employment growth in European Union (EU). The researches collected data from 27 Member States of European Union for the period of 1999-2008. The results of linear regression analysis showed that there is a negative relationship between tax wedge and employment growth in the EU-27. Based on these finding the researchers concluded that an increase in tax wedge by one percentage will decrease the employment rate by 0.04 percent in EU-27.

Separovic Anamarija and Banka Zagrebicka (2009) found the influence of the tax wedge on unemployment in OECD (Organization for Economic Cooperation and Development) Countries in comparison with Croatia. According to the research Croatia is a country which has very high tax rates and therefore the researchers decided to compare the unemployment in Croatia with the OECD countries. The researchers compared the data for the period of 1990-2008 and using regression analysis it was found that high tax wedge has negative effects on employment and this is the reason of high unemployment rate in Croatia. Based on these findings it was concluded that in order to deal with high unemployment rate, Croatia will have to reduce the high tax rates.

Waziri & Idris (2019) examine the impact of the Youth Empowerment Program (YEP) on poverty reduction and national development. This study reveals that Low GDP growth, economic recession, and low investment are direct causes in the shrinking demand for job opportunities for the teeming unemployed youth and above all a mirror image of the state of an economy.

Pohwani, Khoso, and Ahmed (2019) find out the impact of foreign aid on economic growth of Pakistan and revealed that foreign aid has no significant impact on government expenditure, domestic savings and Gross Domestic Product.

Tvrdoň Michal (2011) found the relationship between taxation of labor and employment in European Union. The data was collected from 15 Member States of European Union for the period of 2000-2009. Three models were used to find the results that were; The Constant Coefficient Model, The Fixed Effect Model and The Random Effects Model. Using these two models the results showed that employment rate has a negative relationship with tax wedge in EU. Based on these finding the researcher concluded that an increase in tax wedge in EU-15 will decrease the employment rate.

Horst Feldmann (2006) did a research to find out the impact of corporate tax on employment rate of 19 industrial countries. The researcher collected the data for the period of 1979-2005 and Regression Analysis Model was used to find the impact. The findings

of the research showed that higher corporate tax may have a favorable impact on unemployment rate, which is usually in contrast with the general view of corporate tax.

OECD Tax Policy Studies on Taxation and Employment (2011) gave an idea that when the taxes of OECD countries increase, the burden of that tax is transferred to the employees in the form of reduced wages and incentives of the employees. This will force the employees to work longer or harder and eventually unemployed ones will find it less attractive to look for a job. The countries of OECD considered these facts when the unemployment rate in OECD area raised from 6.1% in 2008 to 8.2% in 2011. And hence it was concluded that employment gains can be gained by reducing the tax burdens on employees and on organization.

Methodology of the Study

Theoretical Model

Since very less empirical research has been done on this topic and therefore the theoretical model is given below is not backed by any research but the literature review given above has given the understanding of this model.

Figure 3: Theoretical Framework

The assumed model explains that increase in taxes will impact the unemployment rate of country, as the cost of goods produced will also increase. Due to this, producers will produce less products and there are less job openings, hence the unemployment rate will be affected. Both the variables of model are defined below:

Independent Variable

Taxes: The Tax Justice Network Africa (TJNA) defined tax as “a fee levied by a government or regional entity on a transaction, product or activity in order to finance government expenditure.”

Dependent Variables

Unemployment Rate: The International Labor Office (ILO) defines the unemployed on the Thirteenth Conference of Labor Statistics as persons without work, who are currently available for work and seeking work.

Data Range, Collection and Source

This is a secondary data based research. To find the impact of taxes on unemployment rate of Pakistan, the researcher has collected data for the period of 27 years that is from 1990 to 2016-17. The data related to all three variables; Taxes, Economic Growth (Real GDP Growth Rate) and Unemployment rate has been collected from the Annual Economic Survey of Pakistan and State Bank of Pakistan. These two were the primary source of data. Since there are three variables and 27 years so the number of observation is 81.

Model Used

This paper contains only one independent variable, which is Tax, therefore Linear Regression Analysis Model is used to find the impact of taxes on economic growth and unemployment rate of Pakistan.

Data Analysis

Descriptive Analysis

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
Unemployed labor force	2383513.51	1208826.833	37
Tax Revenues	491966.76	496383.992	37

Table 1 shows that mean of unemployed labor force is 2383513.51, while its standard deviation is 1208826.833. On the other hand, the mean value of tax revenues is 491966.76 while its standard deviation is 496383.992.

Table 2. Correlations

		Unemployment	Tax Revenues
Pearson Correlation	Unemployment	1.000	.759
	Tax Revenues	.759	1.000
Sig. (1-tailed)	Unemployment	.	.000
	Tax Revenues	.000	.
N	Unemployment	37	37
	Tax Revenues	37	37

Table 2 shows that the number of observations for unemployment and tax revenues were 37 each. And Person Correlation between unemployment and tax revenues is 0.759 or 75.9 %.

Table 3. Model Summary

Model	R	R Square	Adjusted R ²	Std. Error of the Estimate
1	.759a	.576	.564	798013.158
a. Predictors: (Constant), Tax Revenues				
b. Dependent Variable: Unemployment				

Table 3 shows that the R square of unemployment and tax revenues is 0.576 or 57.6% while the Adjusted R Square is 0.564 or 56.4%.

Table 4. Results of all Tests

Tests	Results
Pearson Correlation	0.759
R Square	0.576
β -Coefficient	0.759

Table 4 shows results of different tests. Pearson Correlation is 0.759 which is higher than 0.50 hence it shows that there is significant and positive relationship among unemployment and tax revenues. R-Square is 0.576 which is again higher than 0.50 hence it also shows that tax revenues significantly affect unemployment. In addition to this, β -Coefficient also shows that there is a significant and positive relationship between tax revenues and unemployment, as 0.759 is higher than 0.50.

Conclusion

This study focused to find out the impact of tax revenues on unemployment of Pakistan. Tax revenues was independent variable of the study, while unemployment was the dependent variable. For this purpose, data on both the variables was collected from economic survey of Pakistan for the period of 37 years that is from 1980 to 2018. Linear Regression Analysis was used as Model of this study. The results of Pearson Correlation, R-Square and β coefficient showed that tax revenues have a significant and positive impact on unemployment of Pakistan, as all of these results were higher than 0.50 significance level. Based on these findings, it is concluded that with the increase in taxes in Pakistan, the unemployment rate of Pakistan also increases.

Recommendations For Further Studies

This study has used data of 37 years that is from year 1980 to 2016, a further study can be conducted by using data of more previous years

than 1980. Moreover, this study can be conducted by taking different tax rates separately.

Research Limitations

There was no organized data available for taxes, as the researchers were bound to take taxes revenues because no proper or separate data was available for tax rates. Also, there was less empirical research on this topic so no proper previous guidance was present.

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