



## Investigating and Comparing the Effects of Corporate Income Taxes and Government Expenditures on Unemployment Rates in Iranian Provinces

### 1. Introduction

Unemployment is one of the challenges that Iran faces, and addressing it is a key goal of the government. The high unemployment rate leads to the loss of potential active labor force that could contribute to national production and prosperity. Government fiscal policies can be effective in changing the unemployment rate. The government can adjust its expenses and costs in a manner that promotes employment. Government expenditures can indirectly impact the economy, such as influencing inflation, and, in turn, affecting the unemployment rate. The impact of corporate income taxes on employment can vary, depending on factors such as the financial structure of companies, the type of economic activities, and economic conditions. In other words, the impact of corporate income taxes on employment can be positive or negative. This study examines the impact of corporate income taxes and government expenditures on the unemployment rates in the provinces of Iran and evaluates the hypothesis that “the impact of corporate income taxes on unemployment in Iranian provinces is greater than the impact of government expenditures.”

### 2. Theoretical Framework

The positive impact of government expenditures on employment is well-established in economic literature, with the government being a significant player in the economic cycle. On the other hand, government expenses do not necessarily have a significant impact on reducing the unemployment rate. Increase in government expenses in capital and infrastructure sectors does not necessarily lead to increased labor demand. Inefficient government spending leads to the misallocation of resources and reduces the disposable income of economic actors and the private sector. As a result, they may reduce their consumption and investment, leading to decreased employment and increased unemployment.

Increase in the corporate income tax rate leads to reduced investment in the country, causing investors to seek investment opportunities abroad, resulting in a reduced demand for labor in the country and consequent reduction in employment

and wages. Additionally, investors from other countries may refrain from investing in this country, leading to a significant decrease in overall demand and an increase in unemployment.

### 3. Methodology

The sample studied in this research comprises 30 provinces of Iran. It should be noted that the statistics of the Alborz province have been integrated with Tehran province in recent years, and the data available during the period of 2008-2021 have been used to estimate the model. The software Eviews was utilized for data analysis. Due to the limited time period studied in relation to the number of provinces examined, one of the important methods for estimating the research model among provinces is the use of dynamic panel data approach. As unemployment is influenced by its past values, it is necessary to include the unemployment variable lag in the model, which makes the model dynamic. Therefore, the generalized method of moments (GMM) is used for estimating the research model.

### 4. Discussion

Corporate taxes have a significant and meaningful positive impact on unemployment in the provinces of Iran. This finding is consistent with the theoretical foundations and empirical evidence. An increase in corporate taxes leads to reduced investment in the provinces, resulting in reduced labor demand and, consequently, reduced employment and wages. Furthermore, investors from other countries also refrain from investing in the country, leading to a significant decrease in overall demand and an increase in unemployment. Since the share of investment in providing employment for human resources is significant, reduced investment leads to increased unemployment within the country. Another significant impact of corporate taxes is through the labor market supply and demand. As mentioned, increased corporate taxes reduce capital investment, leading to reduced final labor productivity and wages.

Government expenditures have a significant negative impact on the unemployment rate. This result is consistent with the theoretical foundations and the economic evidence in Iran. This might be due to a significant portion of human resources being employed by the government. In fact, in response to high unemployment, the government, with increased employment, leads to increased expenses. Furthermore, it could be argued that in various provinces, government expenses contribute to strengthening entrepreneurial conditions and employment due to the weak infrastructure in most provinces. Both phenomena occur depending on the circumstances, leading to the negative impact of government expenses on the unemployment rate. The government plays a constructive role in the economy and can promote the development of various economic sectors with its budget policies. According to economic theories, excessive government intervention is not necessary, and ultimately, it may lead to reduced growth.

## **5. Conclusion and Suggestions**

In this study, using the GMM approach, the impact of corporate taxes and government expenditures on the unemployment rate in the provinces of Iran during the period from 1387 to 1400 were examined and compared. The findings of this study showed that an increase in corporate taxes leads to an increase in the unemployment rate in the provinces of Iran, and an increase in government expenses leads to a decrease in the unemployment rate. However, considering that the estimated coefficient of corporate taxes is larger than the estimated coefficient of the government expenses variable, it is suggested that economic policies move towards reducing corporate taxes. This is because an increase in government expenses leads to increased government size and suboptimal economic interventions, resulting in increased tax rates. Because most government expenses are funded more from the budget than from taxes, it was shown that an increase in corporate taxes, which is mainly the government's tax revenue, has a greater damaging effect on employment. Therefore, it is recommended that economic policymakers consider different tax rates for companies in different regions based on economic conditions and the unemployment rate of each province.

## **6. Ethical Considerations**

### **6.1. Compliance with ethical guidelines**

The author of the article declares that research ethics have been observed in this article.

### **6.2. Funding**

The author of the article has not received any budget from any organization or company to conduct the research.

### **6.3. Authors' contribution**

The author of the article declares that all aspects of this research have been conducted by them.

### **6.4. Conflict of interest**

The author of the article declares that there is no conflict of interest in this research.

### **6.5. Acknowledgments**

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