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Taxation Efficiency of Modern Employment Administration

Eficiencia fiscal de la administración moderna del empleo

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Contents

ABSTRACT:
The paper examines the effectiveness of fiscal instruments in regulating of population employment and in overcoming the unemployment problems. It also offers conclusions on the factors stimulating and limiting the unemployment impact on the tax rate in particular and on the level of tax comfort in the selected countries in general.
Keywords: taxation regime, globalization, economic stimulation, tax rate, taxation comfort, employment, unemployment.

RESUMEN:
El documento examina la efectividad de los instrumentos fiscales en la regulación del empleo de la población y en la superación de los problemas de desempleo. También ofrece conclusiones sobre los factores que estimulan y limitan el impacto del desempleo en la tasa impositiva en particular y en el nivel de comodidad tributaria en los países seleccionados en general.
Palabras clave: régimen tributario, globalización, estimulación económica, tasa impositiva, comodidad tributaria, empleo, desempleo.

1. Introduction and literature review

Taxation regimes today (and always actually) are not only an important factor and instrument in implementation of national external and internal economic policies, but they also determine, to a larger extent, country's position and rank in international labour division as well as country's attractiveness for foreign capital. Also, taxation serves as an efficient and effective mechanism for social processes management, such as employment which itself is a process and a phenomenon at the intersection of economic and social processes.

In its turn, population employment serves as the indicator, on the one hand, of the national macroeconomic model efficiency, the capacity of this model to attract and use the resources available to the maximum degree (and not only human resources, but also capital and/or natural resources). And on the other hand, employment serves to guarantee high labour productivity which is a vital factor for country's competitiveness globally.

At the same time, state employment policy is the major factor of the economic system fairness and social justice. It is supposed to promote fair distribution of material benefits within the society, thus guaranteeing social stability in the long term.

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Due to the actuality of this topic in its wider sense and meaning, determining the interdependence between population (un)employment and the implemented state tax reforms has already got certain attention among the academia and also among the experts representing various international economic research organizations.

Already classical are the researches on the threshold values of taxes guaranteeing maximum employment and productivity (Dalton, 1954; Chaiboonsri & Chaitip, 2017), also on the mechanisms of the contemporary market functioning (Hamermesh, 1993; Bandurin et al., 2017), and on the conditions for crisis actions implementation for the aims of state economic regulation (Andolfatto, 1996; Ushakov et al., 2017); then, on the impact of country's tax system on the unemployment level in it and on the dynamics of minimum wage (see, for example, Pissarides, 1998; Hansen, 1999; or Lockwood & Manning, 1993;). All the works above have formed the basis for numerous further, more applied works on the issues concerning labour, employment and state fiscal policy in their interrelation.

For example, Michaelis & Pflüger (2000) have analyzed revenue-neutral tax reforms for a small open economy which is constrained to a balanced current account and whose producers have market power on the world market. This work has been based on the profound analysis of the commodity taxes as well as taxes on income, on payroll, and on the imported factor of production. These authors have come to the conclusion that the impact of tax reforms on the private sector employment dynamics depends, first of all, on the level of economic system openness, and also – on the degree of its engagement in international migration flows. Interestingly, in their view, international migration dynamics can both negate as well as strengthen the impact of taxes on population employment. Curiously, these authors also stated the size of tax rate has more influence on employment (this conclusion though is applicable to the SME sector only) than the minimum wage! The authors explained this dependence by the determining economic role of business which is more important for the population than the state itself.

An interesting strategy was suggested by Heijdra & Ligthart (2009): increasing employment, reducing the equilibrium unemployment rate, and thus increasing public revenues as long as workers do not have all the bargaining power in wage negotiations. Their study became the logical continuation of the work started several years earlier by Picard & Toulemonde (2001) and also by Boone & Bovenberg (2002).

Heijdra and Ligthart (2009) have analyzed labour tax reforms to determine that income tax and corporate income tax are able to have a reverse impact on the employment level in a country. And they also described the whole set of criteria and factors defining the degree of this impact.

Directions in taxation policy implementation and their impacts on entrepreneurial activity of population and population potential for self-employment have been evaluated by Henrekson et al. (2010). The authors have shown that high and/or distortive taxes and heavy labor market regulations impinge on the creation and functioning of competence blocs, thereby reducing high-impact entrepreneurship.

Separately we need to mention here quite a successful attempt, in our view at least, made by Lipatov & Weichenrieder (2015) to model, using the game theory, the interstate competition (including the one related to taxation conditions) for the qualified labour force (which is known to have rather high mobility). These authors came to the conclusion that tax competition reduces the distortion from information asymmetry and increases labor supply of less productive individuals. Other authors came to the conclusion that this effect is more pronounced in smaller countries (Wang & Wang, 2013; Ihnatenko et al., 2019).

Despite the depth of many research studies in this study area and the high topicality and variety of the conclusions obtained, the problem of taxation system influence on the employment dynamics does not lose its importance, neither for the science, nor for more applied practical work related to fiscal reforms and fiscal policies of separate states.

Thus, the aim of our research presented here is to reveal, on the basis of statistical analysis of national tax reforms dynamics and population employment by countries, the leading trends and regularities in stimulation/repression of unemployment due to fiscal policy change.

According to this objective set, we also determine the following research tasks:

To determine the correlation between the dynamics of national tax reforms (from the standpoint of tax rates, the level of taxation comfort and the rank of a national tax system) on the one hand and the employment dynamics on the other, in both short and long terms;

To measure the stimulation effect of tax reforms on employment by geographical groups of countries;

To study the level of material well being as a factor defining the volume of stimulating effect from taxation changes on employment.

2. Research methodology and key results

Here we plan to determine, dividing contemporary states into groups, the correlation between tax reforms dynamics and employment trends.

Statistical data on unemployment rates by countries has been obtained from the World Bank database.

Table 1
Groups of countries as presented
in this research (author's division)

Group #	Name of the group	Level of GDP per capita	Number of countries in the group
1	Rich	Over 40,000 $	18
2	Well-to-do	25,000-39,999 $	10
3	Average income	15,000 – 24,999$	20
4	Underperforming	5,000 – 14,999 $	22
5	Poor	Less than 4,999 $	61
	Totally:		131

In our analysis of tax reforms dynamics we have used the data from a rather well known "Doing Business" ranking. More specifically, the following indicators have been used:

International ranking of country's taxation system;

Time spent on all tax formalities in a country;

The number of tax reports per year by countries;

The average tax rate (this is a synthetic indicator of tax rates for both legal bodies and private individuals).

Table 2
Geographical groups of countries
in this research (author's division)

Group #	Name of the group	Number of countries in the group
1	African countries	34
2	Eastern European countries	12
3	Latin American countries	17
4	Middle East countries	15
5	North American countries	2
6	Nordic countries	5
7	Asian Pacific countries	13

8	South Asian countries	5
9	Post-Soviet countries	14
10	Western European countries	14
	Total	131

Thus, we have analyzed 131 countries of the world, classified into 5 groups, depending on their welfare level (see Table 1). The same countries have been also divided into 10 geographical groups (see Table 2).

The time period chosen for our analysis is 2009 to 2016.

The results of our research analysis are presented further in Tables 3 and 4.

Table 3
Impact of separate components of taxation regime on employment
(countries divided by material well being, the maximum score is 100 points)

Country groups	**Taxation regime components**					
	Taxation system rank		Taxation comfort		Tax rates	
	Incentive	Disincentive	Incentive	Disincentive	Incentive	Disincentive
Rich	21	21	0	100	12	52
Well-to-do	66	100	20	100	10	50
Average income	100	80	32	85	100	40
Underperforming	95	95	36	51	75	35
Poor	32	25	51	30	74	24

Generally high impact on unemployment has the global rank of a tax system. This is clearly demonstrated by the three middle groups of countries (neither rich, nor poor, with the GDP per capita between 5000 and 40000 USD). At the same time, in the countries with such an average level of income this impact was stimulating unemployment growth while in well-to-do countries and also in underperforming countries higher tax system rank was in fact stimulating employment (Patlasov & Vasina, 2014). Finally, in rich and poor counties tax system rank does not really influence the employment rate change as such.

Lower tax rates stimulate the growth of unemployment in the poorest, underperforming and average income countries. The indicators of taxation comfort also had quite a noteworthy stimulation effect on employment in rich and well-to-do countries.

Table 4
The impact of taxation regime components on employment by country groups
(by geographical feature, 100 stands for the maximum impact)

Country groups	**Taxation regime components**					
	Taxation system rank		Taxation comfort		Tax rates	
	Incentive	Disincentive	Incentive	Disincentive	Incentive	Disincentive
Africa	25	54	21	18	75	50
Eastern Europe	71	24	0	84	16	44

Latin America	34	79	48	41	62	31
Middle East	44	31	0	75	32	32
Northern America	0	20	0	24	70	0
Nordic Europe	0	33	0	0	75	0
Asian Pacific region	11	0	78	36	19	42
South Asia	30	0	0	0	0	75
Post-Soviet countries	11	100	100	0	100	19
Western Europe	75	31	0	100	60	48

Country’s rank in the global taxation rating has the maximum effect on the employment level in the post-Soviet countries, Latin America and Eastern Europe. Noteworthy, tax reforms have more stimulating effect on unemployment in Western and Eastern Europe (Privarova & Privara, 2016), while in the post-Soviet countries and in Africa they stimulate employment. With higher tax rates, unemployment is also growing, in all the world regions with the exception of Eastern Europe and Asian Pacific region. And its growth gets especially dramatic in post-Soviet, African and Latin American countries.

The level of taxation comfort tends to reduce unemployment in Western Europe and also in the Middle East. At the same time, it provokes more unemployment in the post-Soviet countries and in the Asian Pacific region.

3. Conclusions and recommendations

Unemployment level as an economic category usually shows the efficiency of national labour force use. The dynamics of tax rates, being normally the incentive for business activity of the population, also serves as the means of both foreign and domestic capital attraction, thus contributing to higher efficiency of labour force use. And this, in its turn, influences the dynamics of unemployment in a rather favourable way for a country. The conclusions obtained here demonstrate empirically a range of rather curious trends and regularities in the functioning of national economic systems today.

Tax rank of a country is not really able to change the level of employment in rich countries, and this testifies that these countries already achieved a certain level of labour productivity. Thus, they have a sufficient national entrepreneurial potential and also a sufficient level of capital saturation within the national economy, therefore, they do not feel the need to attract additional workers into their economic systems. This means that even a much liberalized taxation regime and high level of business activity (partially boosted by this liberalized taxation regime) would not be able to change the employment level significantly, simply because their rather stable level of labour potential itself guarantees growth.

In the poorest countries the situation is quite similar, so are its causes – the labour is very much undervalued. However, if in rich countries this undervaluation happens due to maximum high productivity and availability of highly qualified (and thus, also highly productive) labour resources; in poor countries, this undervaluation happens because of extremely high competition at labour markets which causes serious devaluation of labour force (in such situations it is always easy to find new labour force ready to work for less pay).

Situations in well-to-do and underperforming countries are also nearly identical. In these two groups improved tax ranks of countries tend to stimulate employment, and this can be simply and logically explained by the economic growth due to liberalization of national taxation systems. We can also note that the maximum favourable effects from tax reforms on employment demonstrate the well-to-do country group. This can be explained by the availability of business and trade infrastructure in these countries, which tends to magnify the stimulating effect from tax reforms.

Only in the average income countries taxation system improvements stimulate the growth of unemployment. This can be the evidence of unqualified labour resource overabundance in these countries. More specifically, tax reforms and taxation liberalization logically lead to business processes optimization in these countries, and this optimization tends to "disengage" the unnecessary labour force. At the same time, while unqualified workers are losing their jobs, the economic systems experience the lack of a highly qualified labour force.

High stimulating power of taxation comfort components (in particular, time spent on tax formalities) in rich countries is quite obvious and even predictable. In rich and well-to-do countries time is not only an important production resource but it is also a sort of precious reward for an employee (who gets more free time only reaching a certain level of welfare). In underperforming and poor countries the average tax rate usually has more negative influence on employment. In other words, if tax rates are getting higher – they provoke higher unemployment. This regularity is not observed in well-to-do countries because their taxation systems do not tend to decrease the tax rates by default.

The results of our research also confirm that in developing countries tax rank is an important factor for population employment because it guarantees capital inflows, business activity growth in a country and more intensive trade relations. This is also confirmed by the fact that labour force in the post-Soviet countries and in Africa remains extremely undervalued (thus, tax rank growth promotes employment), while in European countries the situation is completely the opposite (thus, tax rank growth stimulates only labour force "disengagement" because low-paid jobs are substituted by machines, while highly qualified labour becomes the top priority in their development).

In the world overall, tax load on business tends to stimulate unemployment, which is, again, rather predictable. And only in Eastern Europe and Asian Pacific region the situation is the opposite. This proves that these regions have a hidden potential for the development of sectors and activities not related directly to entrepreneurship/business (public sector, public services, creative and cultural activities, etc.). This became possible due to economic reforms already carried out and due to already achieved levels of private business development (see their overall ranks in "Doing Business" and their tax ranks especially).

Taxation comfort overall has a rather weak impact on unemployment, with the exceptions of Western Europe and the Middle East. If in the former group of countries taxation systems simply do not assume tax rates can be reduced as such, the latter geographical group has clearly reached its threshold minimum rate of corporate tax and thus – the highest standards when it comes to taxation comfort). Therefore, we can conclude that in the majority of the countries worldwide the potential of fiscal instruments is rather high when it comes to implementation of socioeconomic development.

The conclusions we have obtained here can be further used for the purposes of national policies modernization in part of labour market stimulation and also in overcoming the social problems related to (un)employment through application of taxation instruments. However, it is also obvious that the efficiency of taxation instruments when it comes to population employment is not always predictable. It depends, first of all, on the level of welfare already achieved by countries and also on their history of economic reforms implementation.

For higher adequacy of public stimulation of employment and more efficient distribution of national labour force this research should be further extended in part of national public regulation. Also, the impact of refinancing rate by countries and regions can be additionally considered since refinancing rate is an important indicator of entrepreneurial activity and business climate in a country.

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