THE ROLE OF FISCAL POLICY IN REDUCING UNEMPLOYMENT

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Abstract. Reducing unemployment to ensure economic growth and stability is a priority for all countries today. Various policies and reforms can help lower unemployment in the short term, and also address high natural rates of unemployment in the medium term. This article examines key strategies, such as reducing non-wage labor costs, expanding active labor market programs, and redesigning wage benefit systems.

Key words: Unemployment, Fiscal Policy, Economic Growth, Labor Market, Taxes

Introduction. Unemployment is a complex issue that affects not only individuals but also society as a whole, significantly impacting social and economic stability. Indeed, many economic problems stem from unemployment. The increasing automation and technological advancements are leading to the replacement of human labor with machines, resulting in decreased demand for labor and rising unemployment levels.

Despite positive trends in the global labor market, significant economic disparities persist between high- and low-income countries. Specifically, 2023 data reveals a job disparity rate of 8.2 percent in high-income countries, compared to 20.5 percent in low-income countries. Similarly, the unemployment rate shows substantial differences, with 4.5 percent in high-income countries and 5.7 percent in low-income countries. These figures highlight the deep-seated nature of economic inequality on a global scale.[1]

In Uzbekistan, the unemployment rate remained relatively stable at around 4.53 percent in 2023, showing no significant change from 2022. However, it is noteworthy that this rate represents the lowest value recorded during the observation period in 2023. This may suggest the effectiveness of anti-unemployment measures and positive economic developments. Nonetheless, a comprehensive understanding and evaluation of the unemployment issue requires considering the limitations of the unemployment rate indicator, as well as the employment status of the economically inactive population.[2]

Research methodology. Such methods of tax policy as the study of existing scientific research on reducing unemployment, the study of statistical data and economic comparison and analysis, logical thinking, scientific abstraction, and data grouping were widely used.Fiscal policy plays a vital role in stabilizing economies and mitigating unemployment. While some economic theorists express skepticism regarding fiscal policy's effectiveness in this domain, policymakers and political leaders tend to hold an optimistic view of its potential. Currently, numerous countries experiencing recession are employing diverse fiscal policy

IBAST | Volume 5, Issue 01, January

instruments, ranging from tax reductions to large-scale public infrastructure projects, to stimulate economic growth and bolster employment.

Main part. The term "fiscal," derived from the Latin fiscalis (referring to fiscus, a money basket), denotes a key concept related to economic regulation and public financial management. In Italy, il fisco signifies the tax-collecting agency, underscoring fiscal policy's importance in public resource management. The term "fiscal policy" itself was first introduced by Edwin R.A. Seligman, a prominent professor of public finance at Columbia University, in the early 1920s. Seligman, while critiquing the ideas of German economist Adolf Wagner, emphasized the government's responsibility to ensure economic equity through income redistribution. The Keynesian revolution fundamentally shifted the concept of fiscal policy, expanding its scope beyond taxes and revenue to encompass both government revenues and expenditures. Among Keynesian and contemporary economists, fiscal policy is now understood as the manipulation of taxation and government spending to influence aggregate demand.[3]

Developed economies possess opportunities to enhance employment through optimized tax and spending policies. This process typically involves strategic fiscal spending and careful mitigation of negative impacts on equity. Fiscal measures should be targeted towards specific labor groups for optimal effectiveness. In the short term, reducing labor tax rates, lowering employer social security contributions, and expanding wage subsidies for low-wage earners are effective strategies for lowering unemployment. These measures can be implemented alongside the expansion of active labor market programs, such as training and job assistance programs, which can improve the alignment of labor supply with labor demand, thereby addressing unemployment issues in the labor market.[4]

It is important to acknowledge that measures designed to increase labor supply may require a longer timeframe to yield results. Consequently, labor supply incentives that positively impact employment are more likely to demonstrate significant benefits in the medium term, particularly for women and older workers. Examples of such incentives include targeted tax relief for single parents and secondary income earners, benefits specifically designed to encourage parents of school-aged children to enter the workforce, and reforms to pension and disability programs. Furthermore, the integration of social benefits with employment, such as in-work benefits, is also anticipated to contribute to increased employment in the medium term. These strategies can expand opportunities to improve both economic stability and social welfare.

The level of employment is a crucial metric for assessing the economic potential of both developed and developing nations. However, low employment rates observed in many countries reflect not only cyclical economic downturns that have persisted since the global financial crisis, but also underscore deep-seated structural weaknesses within their labor markets. Since 2007, global economic activity has weakened, leading to a marked increase in unemployment rates. This problem is further exacerbated by the already elevated levels of unemployment in developed countries prior to the crisis. For developing economies, structural reforms in labor, capital, and product markets often take precedence over fiscal reforms in strengthening employment outcomes. Well-designed fiscal policies are,

IBAST | Volume 5, Issue 01, January

nevertheless, essential to stimulating employment and preventing the transition to the informal economy, as developing economies expand their capacities through welfare systems.[5]

Several developing countries face challenges with high labor tax rates and inefficient pension systems, creating opportunities to address these distortions. Countries can benefit from effective labor market policies and the development of personal savings accounts to mitigate specific risks. Furthermore, country-specific approaches are essential for formulating appropriate development strategies. The effectiveness of particular reforms may hinge on various economic factors, including labor market institutions, the nature of employment problems, and administrative capacity. It is also crucial to recognize that employment promotion policies may sometimes require trade-offs with other public policy objectives, a situation that must be evaluated in light of fiscal constraints. Therefore, a comprehensive and strategic approach is necessary for the successful implementation of employment policies in developing economies.

The labor markets in both developed and developing economies exhibit several key weaknesses. Primarily, skill gaps among workers, workplace insecurity, and poor working conditions contribute to reduced levels of employment. These issues are particularly acute in developing countries, characterized by a shortage of formal employment opportunities and a high incidence of informal sector work.

Tax and expenditure policies are significant determinants of employment levels. Government spending can exert a direct influence on the labor market; for instance, increased social protection for workers through social programs or investment in infrastructure projects can generate new employment opportunities. Furthermore, tax policies offering benefits to enterprises can expand their capacity to employ a greater labor force.

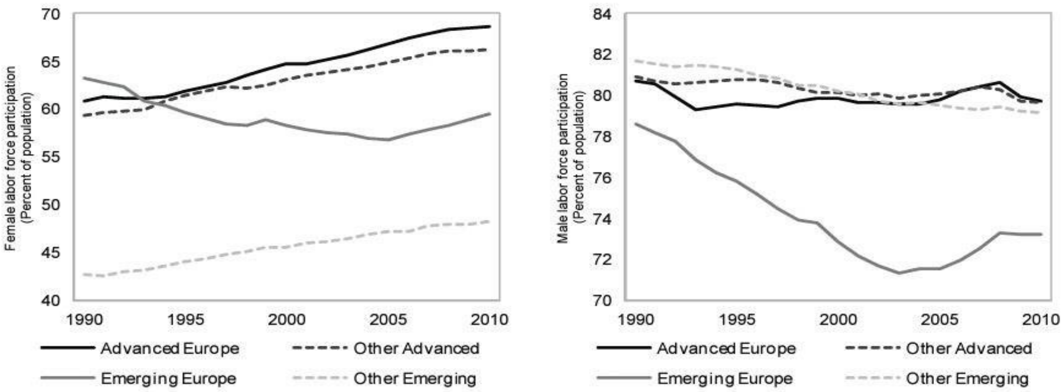

Figure 1. Labor force participation rates in European countries, 1990–2010. [6]

Results. This document proposes the following tax and expenditure measures designed to bolster employment:

1. Education and Training: Investing in training programs to enhance the skills of workers.

2. Infrastructure Projects: Generating new jobs through improvements in transport and communication infrastructure.

IBAST | Volume 5, Issue 01, January

3. Social Protection Programs: Strengthening social programs that provide support for the unemployed.

The primary emphasis should be on incentivizing work, with fiscal policy designed to influence both labor supply and demand. The impact of fiscal policy on labor markets is primarily channeled through the design of tax systems and the architecture of social benefits. Evaluating labor market efficiency necessitates considering three core metrics: labor force participation, the employment rate, and the unemployment rate, all of which are shaped by economic policies.

Average labor force participation rates are measured as the percentage of the population aged 15-64 that is either employed or actively seeking employment. Over the past two decades, increased female participation in the labor force has significantly contributed to rising participation rates. While developed countries have generally experienced an increase in female participation, some developing countries have, conversely, witnessed a decline in this metric (Figure 1). Given that female participation rates are, on average, approximately 20 percentage points lower than male rates, there is considerable potential for future growth by increasing women's participation. This represents an important source of future labor force expansion.

Labor force participation among older men is notably lower compared to other age demographics. Despite recent increases, the participation rate for men aged 55 to 64 remains substantially below that of those aged 25 to 54. The average participation rate for this older demographic is approximately 67 percent, which can be attributed to factors such as the reduction of the retirement age and the introduction of early retirement programs during the 1970s and 1980s. Furthermore, the expansion of disability and unemployment benefits has incentivized workers to retire earlier.

Since the 1990s, many countries have undertaken reforms aimed at extending the working lives of older individuals. However, additional reforms in this area are generally considered necessary. Enhancing labor market efficiency through strategic optimization of fiscal policy is a significant objective. Consequently, social benefit systems and tax policies must be developed in a harmonized manner to create optimal conditions for the labor market.

Discussion. Effective implementation of fiscal policy requires careful consideration of its impact on both employment and labor supply. The initial state of many labor markets is often characterized by unemployment, which suggests that the effects of fiscal policy will differ depending on the time horizon – short-term versus medium-term. As illustrated in Figure 2, high levels of unemployment indicate that labor supply exceeds demand. In such situations, policies designed to increase labor demand are generally more effective in promoting population-wide employment. These short-term, initial-stage strategies can help ensure that workers are able to find employment. However, in the medium term, such strategies may lead to upward wage pressures. Consequently, employers might need to adjust their labor cost structures, which can have implications for overall economic performance. Therefore, the primary effect of fiscal policy in this context is stress reduction rather than generating a specific, predictable outcome.

The state plays a crucial role in this process. For fiscal policy measures to be effective, they must be well-integrated with other sectors of the economy and implemented in accordance with labor market dynamics. Thus, an integrated approach is essential to increase employment through fiscal policy, requiring consideration of both economic and social

IBAST | Volume 5, Issue 01, January

factors. In the medium term, labor incentives are vital for shifting employment to sustained, higher equilibrium levels. For countries facing weak labor demand after a significant output shock, policies designed to directly increase labor demand offer the most viable solution. Such an approach can help to stimulate both employment and production in the short term, leading to improved economic stability. To bring employment to a new, higher equilibrium level over the long term, an increase in labor supply is necessary. Activities that enhance the alignment of labor supply and demand can also have a lasting positive impact on employment by mitigating labor market frictions.

If we conceptually assume that labor demand falls below the initial equilibrium level (W0E0), a significant output shock will cause the labor demand curve to shift to the left. Consequently, the unemployment rate increases (E1E0). Even without full wage flexibility, the equilibrium between supply and demand will not be restored. Policies aimed at increasing labor demand can lead to higher employment and output, thereby reducing unemployment. However, if policies to increase labor demand do not include adjustments to wages, they will not necessarily result in increased labor supply.

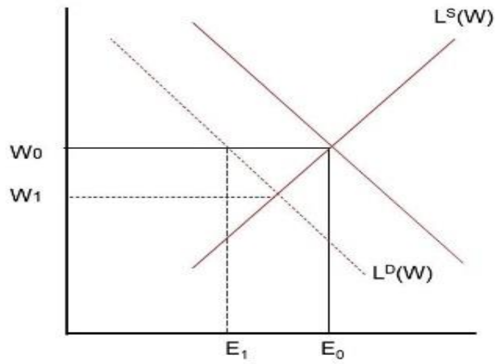

Figure 2. Conceptual framework for employment promotion policy.[7]

In the medium term, both demand-side and supply-side policies can be effective. For example, reduced labor tax rates or lower welfare benefits can incentivize labor force participation and increase working hours. Such measures shift the labor supply curve to the right, positively impacting overall economic development. Combined with flexible wages, a greater labor supply can lead to a gradual increase in average wages. Thus, additional labor supply is absorbed by additional labor demand, which supports the sustainable development of the economy.

Conclusion. In summary, medium-term labor promotion policies are crucial not only for increasing employment but also for fostering economic stability. By implementing these strategies effectively, countries can achieve significant positive changes in their economies.

Reducing unemployment to ensure economic growth and stability is a priority for every nation today. A variety of policies and reforms can contribute to decreasing unemployment in the short term and mitigating high natural rates of unemployment over the medium term. This article has examined key areas such as reducing non-wage labor costs, expanding active labor market programs, and redesigning wage benefits.

The unemployment rate, as a key indicator of the number of individuals who are employed and seeking employment, reflects the fundamental state of the economy. It represents the portion of the working-age population that is not employed during a specific period and is typically considered one of the most sensitive economic indicators of the labor market. A decline in unemployment indicates a healthy economy, while an increase signifies economic slowdown or stagnation. Therefore, governments should closely monitor changes in unemployment. Fiscal policy, including measures aimed at reducing unemployment, is an important tool for achieving macroeconomic goals. Through strategic management of investment, spending, and taxation, governments attempt to increase employment and reduce unemployment.

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