

## The Effects of Fiscal and Monetary Policy on Labour Demand

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**Abstract:** Employment of human forces is the most crucial objective and of high importance in every country. Hence, expansion of human forces and work management are rather new debates dealt with by the scholars and management specialists in the industrial and developed countries and are recently being brought up in developing countries which in turn have led to creation of specific behavioral and practical approach with regard to work affairs. To this end, attempts have been made in the present study to take into account the monetary and financial policies influencing the work forces demand. Such hypotheses as Direct and Indirect Tax, country development projects and insurance coverage have been of interest in financial policies domain. In the monetary realm. The interest rate and inflation rate are also take into consideration. On the basis of theoretical economic discussion, another important and influential factor on work force demand is the monetary wage which at the present study has been under consideration. The finding of this study reveals that monetary policies, wage rate and financial policies have been the most effective factors on work force demand respectively. The governmental and country economical planning authorities are recommended to devote more attention particularly to the most effective factors on work force demand since any slight alterations in monetary policies, wage rate and financial policies would influences on work force demand, occupation and finally on causing crisis and recession and the creation of inflation in the long run.

**Key words:** Work-force-Demand • Financial and Monetary policies • Wage rate • Taxes • Inflation rate

### INTRODUCTION

Unemployment in the recent years has been one of the main problems of Iran, in that employment has been one of the principle challenges of Islamic Republic of Iran government in the 4<sup>th</sup> development program. If the Iranian economy remains on the basis of resources in the economic process, about 23 millions of work force are needed in the year beginning March 2009. According to the 3<sup>rd</sup> development program documentation, only 5775 thousand employment opportunities, during the two decades of 1976 to 1996, have been created for the country's economic activities. In order to show the growth of employment of more than 55.2% that arises requests of more than 289 thousand people, annually on average, in other words, the rate of 26% is increased, on average, to the unemployed population, in 1999 this had become twice that rate in 1996 (statistical yearly records, 1998).

International labor organization (ILO) divides the working requests policies into two classifications of direct and indirect active and passive items: Active policies like direct creation of employment, training skills, flexibility in training program, etc; and passive activities are like amendment of unemployment pension, subsidizing for low wages, giving facilities and subsidies to entrepreneur clients and .... those two policies have reciprocal effects. According to ILO theory, a collection of those policies, as an optimized package, can help the decision makers to solve the unemployment problem, in a quicker way.

Accurate and close recognition, of the real Conditions of financial and monetary policies on related work force requests in the country, of course by viewing and emphasis on rapid economic occurrences and evolutions, like expanding the economic globalization and the trend of integration in today's world, may have special effects on better recognition of potentials in various economical

sections in Iran (agriculture, industry and services). This is also to remind that Iran is among the developing countries. In this respect, following different country's experiences, from the viewpoint of applied policies in employment requests and analyzing their conclusion, not only prevents the loss of human resources and financial losses, but also provides the quicker way to the main aims of employment.

**Importance of Research:** Investigation and determination of the effects of monetary and financial policies on the demand for work force in Iranian economy, not only show the existing potentials and deficiencies of the country, but also they provide the backgrounds for discussing new subjects about different country's employment and present the experiences created in those countries. Especially, analyzing the active policies of employment could state the development policies by focusing on human resources and scientific development and the importance and necessity of doing this research and future investigations regarding employment. Demand for work force is the effect of monetary and financial policies in the demand for the programmers and policy makers and the employment sections of the country and together with making effective policies, it provides the approach towards employment of the main purposes and removing unemployment in the country.

**Investigation Aims and Theories:** Employing the work force is the most important and principle aim of planning in each country. Therefore, work and work force development management is one of the rather new subjects that, by the management specialists and experts, has been discussed and considered in the industrial and developed countries and recently in developing countries and has caused to express the special behavioral and practical methods in relation with working factors. Hence, the main purpose of this research has been to investigate the problems regarding the effects of monetary and financial policies on the demand for work force and in continuation, it is tried to consider the special purposes for presenting suitable strategies of employment and determination of relevant solutions. Accordingly, the following hypotheses are considered, for analyzing the a.m. matters:

- Receiving direct and indirect taxes on the demand for work force have meaningful effects.

- There is a meaningful and positive relation between people with social welfare insurance organization and the demand for work force.
- There is a negative and meaningful relation between the changes of daily wages rate and the demand for work force.
- Inflation rate (increasing of the prices) has a meaningful effect on the demand for work force.
- There is a meaningful and negative relation between the rate of profit and the demand for work force.
- The growth of the demand for work force is impressed by the war period, transformations of the country's development plans and issuance of work regulations.

**Researching Method:** The present research is an analytical descriptive study which is conducted by using statistical tools and economy calculative method. The coefficients of the model are calculated with economy calculative methods and by ordinary squares (OLS). Before the estimation of the confidents, the equations are recognized from the point of view of behavior and after that, too, the results are analyzed according to the theoretical basis and the state of data processing and also the model of economic information.

The time of research is from the 1474 to 2004 and its statistical population is the macroeconomic sections of Iran. The research statistical data are collected from the published time series from the country's management and planning organization, statistics center and central bank, prepared economic reports from enormous varieties and people's and housing census of the considered years.

The consideration of the data has been performed by the technics of descriptive statistics and regression analysis by Excell and EvIEWS software's.

**Theoretical Basis and the Research Background:** Since Adam Smith's studies, lots of analytical and experiencing studies have been done, regarding the basis and the reasons of the nations wealth growth. Different resources have been recognized. In these studies for the nations wealth growth Classical economists, like Adam Swith and Ricardo believed that for optimization of the role of work force, competitiveness, according to personal benefits and free market mechanisms, is necessary. He was the only economist who emphasized on the role of investment in industrial production.

At the end of 14<sup>th</sup> century and the beginning of the 20<sup>th</sup> century and by the second industrial revolution, a new idea was introduced in economic science which later was known, as the Neoclassic ideology and people like Marshall and Stewart Mill emphasized on the role of investment in economic and industrial development theories, in which the role of the work force is focused by the economists. Moreover, the other source, which is specially considered in the theories of economists, is the source of science that has made the economists pay special attention to, in the past 10 years. The work force economy, in which people, families and institutions are considered due to controlling principle economic behavior, consists of supply and demand of the work force [1]. Economical policies are all the actions and decisions that are used for achieving defined economic purposes. The above policies have mainly been consisting of monetary and financial policies that have different applications in various economic conditions. Decisions about the above policies could have effects on the trends of macroeconomic variables and mainly on the country's economy, to some extent [2].

Since, economic researches usually are based on an economic measurement model and its equations estimations, a great accuracy should be made for selecting the models and their behavioral condition and the relationship between the variables of each equation. Hence, studying similar foreign and internal researches could be a proper way for the research on laws and regulation in the Iranian works marketing; the items regarding the banking regulations, foreign investments and tax are the items that are investigated in the country. The result indicate that the subjects of investment and production depend on the banking system and due to the high banking rate, the necessary financial credits provision faces problems. On the other hand, the foreign investment, too, has enormous effects on economic activities, due to the judicial, administrative, legal and political obstacles. The regulations of charges and taxes are not quite clear and are not suitable for economic institutions. The other problem in economic sections is the high payments for imports letters of credit, which should be reduced by 10 to 20%. The considered compensations, in the part, are not suitable regarding the violations and therefore performing them has negative effects on investments and production [3].

In another research, the policies of the Iranian works marketing have been investigated with regards to the regulations articles 78 to 57 of the 3<sup>rd</sup> developing program

and have been compared with the policies of works marketing in developed countries comprising of 16 European countries and 5 non-European countries including America and Japan. The results of this research includes the recommendations in using active works marketing policies with suitable contents [4]. The obtained results in another investigation, called "Analyzing the effective factors on supply and demand of the work force in Iranian economy" showed that the factors like wages, economic growth, investment stock, trading volume, paid subsidies, government's civil expenses and add values on the demand for work force are effective [5].

In another investigation in Canada, the relationship between the monetary policies and unemployment rate is considered. The results of this investigation shows that increasing unemployment is different, with regards to the monetary policies shocks, in that increasing the banking rates increases the unemployment and banking facilities can reduce the unemployment rates fluctuations, to some extent [6].

In U.S.A. the subject of allocating the excess of the country's budget that goes to cases like employment for living securities with observing human rights, promotion of freedom and authority in choosing occupation and encouraging social discussions has been investigated. The results indicate that inadequate wages, unexercised arrangements of the contracts have been clearly evident, in most of the contracts, that accordingly ceases the cooperation of people in economic activities [7]. Analyzing applications of contracted monetary and financial policies and their effects at the same time in the society, indicates that the critical situation should be firstly recognized and then suitable macro economic policies should be used, since using macro economic policies without considering the society's economic situation cannot solve the problem, but leads the economy to an unstable situation [8]. In U.S.A, the effects of shocks, resulted from financial policies on the neoclassical growth model have been considered and inside this frame work, the effects of consumed expenses and governmental investments on employment and the real wages have been investigated. The results indicate that consumable expenses and governmental investments cause the increase of the real wages and employment, but in long terms these financial policies cause coordination and go away from the balance of the growth model from the neoclassical point of view [9].

### Estimation of an Effective Model of Financial and Monetary Tools on the Demand for the Force:

The function of the demand for the workforce, according to algebraic methods, has been extracted from the function of Cap Douglas production with regards to optimization problems and maximizing the total economic production. As Lagrange functions and regarding the other past researches and today's problems of the society, it has been tried to consider the researches and today's problems of the society, it has been tried to consider the respected variables in the research to be new, in order to affect the demand for the work force. Hence, this function is stated in the from of the following relationship. The mentioned function will be calculated according to the period of 1974-2002, by using ordinary least square (OLS) method and using Eviews software and Dickey-Fowler trials extended for getting compatible results<sup>1</sup>:

$$\text{Log EMP} = \alpha_0 + \alpha_1 \text{LogWAG} + \alpha_2 \text{LogRB} + \alpha_3 \text{LogIN} + \alpha_4 \text{LogHT} + \alpha_5 \text{LogMM} + \alpha_6 \text{LogMN} + \alpha_7 D_1 + \alpha_8 D_2 + \alpha_9 D_3 + \Sigma_t$$

in which<sup>2</sup>:

- Log EMP: Logarithm for the demand for the work force in Iran economy<sup>3</sup>.
- Log WAG: Logarithm of wages (the minimum daily wage payment)<sup>4</sup>
- Log RB: Logarithm for the profit rate<sup>5</sup>
- Log IN: Logarithm for inflation rate<sup>6</sup>
- Log HT: Logarithm for the no. of insured people
- Log MM: Logarithm for correct taxes (including: tax on wealth, tax on companies profits and income tax)
- Long MN: Logarithm for indirect taxes (including: tax on imports, tax on consumption and sales)
- D<sub>1</sub>: Imaginary variable for the war period (year between 1980 to 1488-one and the rest, zero)
- D<sub>2</sub>: Imaginary variable for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> economic development programs (since 1989, one and previous years, zero)

D<sub>3</sub>: Imaginary variable for the approving the new working regulations period (since 1979, one and previous years, zero).

### The Result of the Regression Model Is as Follows:

LogEMP=35/018-0/024LogWAG-0/007 LogIN +0/002 LogHT- 0/0022 LogMN (t-rat) (2/037) (-2/59) (-1/14) (1/077) (-1/39)-0/002 LogMM-0/078 LogRB+0/023D<sub>2</sub> +0/99AR(1)+0/884MA (2) (-1/04) (-2/62) (2/62) (22/53) (6/55) 215/4(0/000) D.W=2/27=(0/98 R<sup>2</sup>=0/99 F-(Prob=<sup>2</sup>R)

It is must be mentioned that the imaginary variables of the war period and approving the new working regulations have been considered in the model, but due to their being meaningless they have been omitted from the model. By considering the results of Dickey-Fowler trials and by using self collection, in the fun chon of effective financial and monetary tools on the demand for the work force, second grade MA and first grad AR have been used for removing the problems of self-correlation.

The nose inside the brackets are t-values which indicate the high validation of estimated coefficients (above 95%). D.W no. that is equivalent to 2/27, states that 1<sup>st</sup> grade correlation of the residues are proven and no. F, too, is confirming the obtained correct coefficients, in estimating the model and the assumption of being (zero) at the same time, strongly refuses the slope coefficients. The defining coefficient, equal to 0.99, is acceptable. By the end of estimation, the rate of obtained model errors are tested (according to self-collation method), which is 2/89 for the considered model, that is meaningful more than the 95% level and therefore the model is stable.

**Assumptions Tests:** The obtained coefficient is 0/024 for the wages and expresses that one unit of increase for the daily min. wages, decreases the demand for the work force by 0/024.

<sup>1</sup>Logarithm model has been suggested for this research, by using BM method.

<sup>2</sup>All the data have been extracted from yearly books of country's statistics, management and plumbing organization and central bank of Iran

<sup>3</sup>the no. of the demands for the work force is the sum of employed people between 15 to 65 years of age.

<sup>4</sup>the information regarding the wages is according to the report mode by the work and social welfare ministry, in the from of the min, daily wage

<sup>5</sup>By analyzing the real profit rate effects on the growth of the demand for investment is considered. (Important factor in absorbing the investments)

<sup>6</sup>Inflation rate is quite important due to effecting the demands for the work force in long and short terms, since in short term, the increasing work farce demand will cause the increase of wages and reducing work farce demands, in long-tern and hence will lead to economic recession.

Therefore, the 3<sup>rd</sup> assumption of the investigation regarding the meaningful relation between the deviations of wage rates and the demand for the work force is confirmed. There is a negative and meaningful relation for direct and indirect taxes (integrity of the 1<sup>st</sup> assumption). Hence, increasing a whit increase in the number of the insured people, the demand for the cook force is increased by 0/002 (integrity of the 2<sup>nd</sup> assumption).

A negative and meaningful effect between the demand for the work force and the rate of inflation is evident (integrity of the 4<sup>th</sup> assumption)

So a unit increase of the rate of inflation causes a decrease of the demand for the work force by 0/007 unit. About the rate of profit, a negative and meaningful relation is existing, So an increase of a unit of the rate of profit, decreases the demand for the work force by 0.078 of the unit and hence the fifth assumption is also proved. Imaginary variable of "D<sub>2</sub>" (The period of the economic, social, cultural and political development programs of the Islamic Republic of Iran) has a meaningful and positive relation with regards to the demand for the work force (integrity of the sixth assumption), but about the war period and approval of the working regulations, as mentioned before, it is omitted from the regression model because it was meaningless.

## CONCLUSION

The present research has considered the effects of monetary and financial policies on the demand for the work force. Hence, considered indexes for the monetary and financial policies have been defined. In relation to monetary policies, the indexes of the rates of profit and inflation rates have been considered and the indexes for direct and indirect taxes, the developing programs for the country's economy and the number of insured people are discussed for the financial policies.

According to the obtained results, it was found that the profit rates had the most negative effects on the demand for the work force section. These results consist of great effects of the monetary policies on the demand for the work force. The relevant results are guides for the policy makers, in order to pay special attention to the profit rates variations. This factor has an important role in deterring the amount of investments and the replacement of investment for the work force. The direct and indirect taxes that also have negative effects on the financial policies regarding the demanding body for the work force, should be paid special attentions, since the negative effects of financial policies on the demand for the work

force could be clearly observed. In this respect., the government can use tax discounts, for improving the demand for the work force. On the other hand, the economic, social, cultural and political development for the work force. This result, too, can help the government's long term programming horizon. Other concerns about the demand for the work force, are wages and the rate of inflation, of which a special attention has been paid for in this investigation. The results of the investigation show that wages have negative effects on the demand for the work force. Of course, this conclusion is always considered in the economic theory framework. The rate of inflation is another aspect that the results of the investigation indicates as negative. This is one of the important factors that if no great attention is paid to, in the long term, the work force market will make the production factor and even the materials markets and services to become critical and cause insecure investments and eventually unemployment in the country and also it can dearly be mentioned that it will cause economic recessions in the long term. The investigation results express the positive effects of insurance and the numbers of the people under the insurance coverage, on the demands for the work force, since i will make an economic safety for the employees and employers. This aspect could be considered as the strategic index for the country's developing programs.

Therefore, regarding the financial policies, the compensative actions against inflation for keeping up purchasing potentials of the people with constant income, executing civet projects for using more work force in different regions of the country, reducing tax for the clients that employ new work force, supporting research and development, etc., could be proscribed. But for the monetary policies, the items like granting facilities to the private section and cooperative in the less developed regions, paying a part of the profit for the project creating employment, provisions for investment expenses and employment for low-income groups, encouraging savings and boosting for depositing small investments, could be indicated. Regarding the programs and policies for developing participation of private sector in economic activities, the items such as providing necessities for developing investment in private sector and absorbing foreign investment, developing small, intermediate and large industries in agricultural section, tourism industry, export, expanding the coverage of social welfare for reducing the presence of the aged and the children in the working market, removing unnecessary monopolies and developing self-employment in the villages could be mentioned.

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