



## Investigating The Impact of Corruption on the labor Force Participation Rate

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### Extended Abstract

#### Introduction

Labor force as the main production factor has played an important role in the development process of countries and the presence of labor force in economic activities is important from various aspects. Labor force participation rate is one of the main indicators of the labor market and is a function of various demographic, social, economic and cultural characteristics of the country. The desire of individuals to participate in economic activities is on the one hand due to the economic needs of the household and on the other hand satisfies the demand of firms for hiring manpower. Low participation rates have negative effects on the economy. Low participation rates affect the overall level of productivity at the firm and country level, reduce tax revenue and reduce economic growth and development. Therefore, it is important to study the effect of factors affecting the labor force participation rate.

In empirical studies on labor force participation rates, researchers have considered various variables such as age, cost of living, education, and the number of dependents to affect participation rates. In addition, the results show that factors such as marriage and place of residence (city or village) have a positive effect on participation rate. These studies have largely been able to identify the factors affecting labor force participation rates.

But in addition to these studies, the corruption can also be considered effective on the participation rate. In other words, in addition to the factors affecting the labor force participation

rate such as unemployment, wages, etc., corruption is also one of the basic variables that can affect the labor force participation rate.

### **Objective**

In this study, due to the importance of labor force participation rate and also high corruption indicators in Iran and selected MENA countries, and in order to answer the main question of the leading research (What will be the impact of corruption on labor force participation rates in selected MENA countries?).

Therefore, the effect of corruption on labor force participation rates in selected MENA countries has been studied.

### **Data/Methodology**

This paper examines the impact of Transparency International's Corruption Perception Indicators, Kaufman et al.'s Corruption Control Index (2014) and the International Country Risk Guide Index on labor force participation rates in selected MENA countries during the period 2002-2008. Selected MENA countries are: the Islamic Republic of Iran, Egypt, Tunisia, Saudi Arabia, Bahrain, the United Arab Emirates, Oman, Jordan, Qatar, Kuwait and Iraq, whose data are extracted from the World Bank and International Monetary Fund databases.

For this purpose, three models were estimated separately. Also in this research, for obtain reliable results, the Cup-FM Method was used to estimate the model.

### **Results/Findings**

The results show that higher corruption index has a negative effect on labor force participation rate and this effect is statistically significant at 5% significance level.

Per capita income and unemployment rate have a significant negative effect on labor force participation rates at the 5% significance level.

The effect of urbanization rate on labor force participation rate is positive and this effect is not significant at 5% level.

Education and wages also have a significant positive effect on labor force participation rates at the 5% significance level. Also, the high level of economic development has a positive and significant impact on the labor force participation rate.

### **Implications**

Given the negative impact of corruption on labor force participation rates, it is suggested that governments be more serious in combating corruption through greater control and oversight, as well as the enforcement of preventive laws and regulations.

Also prioritize the development of employment, controlling the unemployment rate, prioritizing the improvement of the business environment in the form of granting banking facilities and eliminating unnecessary administrative bureaucracies related to it.

The government should also increase workers' real wages and purchasing power by taking measures such as controlling inflation, raising the approved minimum wage, supporting workers and trade unions.

**Keywords:** Corruption, Labor Force Participation Rate, Cup-FM, MENA Countries.