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Corporate Tax Revenue and Government Spending: Implications for Employment in Nigeria

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Abstract

This study examines the relationship between corporate income tax, total government expenditure, and unemployment in Nigeria over the period 1994–2023. Recognizing the pivotal role of fiscal policy in shaping labor market outcomes, the research investigates whether corporate tax revenues and government spending significantly influence unemployment levels in both the short and long run. The study adopts an ex-post facto research design using secondary data sourced from the Nigerian Revenue Service Tax Promax, the National Bureau of Statistics, and the Central Bank of Nigeria. Time-series econometric techniques are employed, including stationarity tests using the Augmented Dickey–Fuller method, Autoregressive Distributed Lag modeling, Bounds cointegration test, and the long-run ARDL/Error Correction Model. Empirical results reveal that corporate income tax exhibits a positive and statistically significant relationship with unemployment, suggesting that higher tax burdens on corporations may constrain business expansion and labor absorption. Conversely, total government expenditure demonstrates a negative and significant relationship with unemployment, indicating that government spending, when targeted effectively, can stimulate employment. The Bounds cointegration test confirms a long-run equilibrium relationship among the variables, while the ARDL estimates capture both short-run and long-run dynamics. These findings underscore the importance of efficient fiscal policy implementation, highlighting that strategic allocation of government expenditure toward employment-intensive sectors is crucial for reducing unemployment. The study recommends the optimization of corporate tax policies, prioritization of labor-absorptive government spending, and continuous monitoring of fiscal impacts on the labor market to enhance employment outcomes in Nigeria.

Keywords:

*Corporate Income Tax, Government Expenditure, Unemployment,, Fiscal Policy, Nigeria***.**

Introduction

Nigeria's economic landscape has long been shaped by the interplay between fiscal policy and labor market dynamics, where government revenue instruments such as corporate income tax and public expenditure act as critical determinants of economic performance and employment outcomes. Fiscal policy, comprising taxation and government spending, serves as a fundamental

tool through which governments influence aggregate demand, redistribute resources, and foster economic stability (Samuelson & Nordhaus, 2010, Nwaiwu, 2024). Corporate income tax, as a major source of government revenue, reflects the profitability of the private sector and provides funds that can be deployed for public goods, infrastructure projects, and social services, all of which have implications for job creation and economic participation (Alfaro & Kaplan, 2019). Meanwhile, total government expenditure constitutes public investment in sectors such as education, health, agriculture, and infrastructure that possess employment multipliers capable of stimulating demand for labor directly and indirectly (Ajakaiye&Fakiyesi, 2009, Nwaiwu, 2024). In Nigeria, Africa's largest economy by GDP and population, fiscal policy has been especially central to development efforts as successive administrations navigate structural challenges including oil dependency, infrastructural deficits, and persistent unemployment. The unemployment rate in Nigeria has escalated in recent decades, particularly with the socio-economic disruptions of the COVID-19 pandemic and energy sector transitions, drawing policy attention to the effectiveness of fiscal interventions in promoting inclusive growth (National Bureau of Statistics, 2024). Historical trends show that despite sustained increases in government spending and tax revenues, unemployment has not declined proportionately, raising important questions about the efficiency of fiscal policy, the quality of public expenditure, and the capacity of the formal labor market to absorb Nigerians into productive employment. Empirical studies on fiscal policy and unemployment in Nigeria reveal mixed results: some find that higher government expenditure stimulates employment, while others indicate that tax burdens may dampen private sector activity and constrain job creation (Ihekwereme, Odili, &Ihekwereme, 2025; George-Anokwuru&Okowa, 2021). Theoretical perspectives, especially Keynesian fiscal stimulus theory, assert that well-targeted public spending can boost aggregate demand and employment when private demand is weak (Keynes, 1936; Samuelson & Nordhaus, 2010). However, critics contend that without efficient allocation and strong institutional frameworks, fiscal measures may fail to translate revenue into meaningful employment gains (Iyoha&Oriakhi, 2015). Against this backdrop, understanding how corporate tax revenues and government expenditure influence unemployment in Nigeria is both a policy imperative and an academic inquiry with profound implications for sustainable development.

Unemployment in Nigeria has persisted as a structural problem that defies simple explanations, rooted in historical, institutional, and macroeconomic factors. From the oil boom of the 1970s to the structural adjustment programmes of the 1980s and the democratic transitions of the 1990s and 2000s, Nigeria's labor market has been characterized by rising joblessness despite fluctuations in economic growth (Onyeiwu& Shrestha, 2015, Nwaiwu, 2024). In recent years, the official unemployment rate has trended upward, exacerbated by declining oil revenues, currency volatility, and underinvestment in productive sectors that could absorb large segments of the labor force (National Bureau of Statistics, 2024). This persistent unemployment has prompted debate in the literature on whether fiscal policy, especially corporate taxation and government spending, serves as an effective mechanism for employment creation or inadvertently contributes to labor market rigidity. Some scholars argue that higher corporate taxes reduce after-tax profits, discourage investment, and slow job growth, particularly in capital-intensive industries (Rasheed & Liu, 2021). Others maintain that corporate tax revenues, when efficiently mobilized and invested in public goods and employment-oriented programmes, can foster economic

diversification and job creation (Ihekwereme et al., 2025). Similarly, while Keynesian theory suggests that increased government expenditure should stimulate employment by raising aggregate demand, critics highlight issues of fiscal inefficiency, corruption, and leakages that may blunt the employment impact of public spending in Nigeria (Iyoha&Oriakhi, 2015). Empirical studies offer further contention: some demonstrate significant short- and long-run effects of fiscal variables on unemployment using advanced time-series techniques such as ARDL modelling, while others find weak or non-significant relationships, underscoring the complexity of fiscal–labor linkages (Apinoko, Olowu, &Ikporo, 2022; Nyeche, Nwikina, & Amadi, 2025). This divergence in findings, combined with persistent unemployment rates, underscores the need for a focused analysis that considers the joint effects of corporate tax revenues and total government expenditure on unemployment in Nigeria over a multi-decadal period. Without resolving these empirical and theoretical debates, policy prescriptions remain uncertain, and the underlying drivers of unemployment may continue to elude effective fiscal solutions in the Nigerian context.

Literature Review

Theoretical Framework

The theoretical framework for examining the impact of corporate tax revenue and government expenditure on employment in Nigeria is anchored in two interrelated economic theories: the Keynesian Theory of Employment, Consumption, and Output, and the Fiscal Policy Theory.

Keynesian Theory of Employment, Consumption, and Output

The Keynesian Theory, developed by John Maynard Keynes in 1936, posits that aggregate demand is the primary driver of economic activity and employment levels. Keynes argued that during periods of insufficient private sector demand, government intervention through fiscal measures such as public spending and taxation could stimulate demand, thereby reducing unemployment and fostering economic growth (Keynes, 1936). According to the theory, when private consumption and investment are inadequate to achieve full employment, the government can bridge the gap by increasing expenditure or reducing taxes to boost disposable income and consumption. Within the context of Nigeria, this theory is particularly relevant because it offers a rationale for why increases in total government expenditure (TEX) and corporate income tax revenue (CIT) could theoretically affect unemployment levels. By collecting taxes from profitable companies and deploying those resources into productive government expenditure, such as infrastructure, social programs, or industrial development, the state may stimulate job creation and enhance labor absorption. The fundamental assumption of Keynesian economics is that markets are not always self-correcting, especially in the short run, and that unemployment can persist due to insufficient demand (Samuelson & Nordhaus, 2010). However, a notable limitation of the theory is its presumption that government interventions are efficiently allocated and that fiscal multipliers operate effectively. In Nigeria's case, bureaucratic inefficiencies, corruption, and mismanagement of public funds may weaken the theoretical link between government expenditure and employment, highlighting the need to interpret Keynesian prescriptions with caution (Iyoha&Oriakhi, 2015).

Fiscal Policy Theory

Complementing the Keynesian perspective is the Fiscal Policy Theory, which emphasizes the role of government revenue collection and expenditure management in influencing macroeconomic variables, including employment. The theory, with significant contributions from Musgrave (1959) and Buchanan (1960), suggests that government taxation, including corporate income taxes, serves not only to finance public expenditure but also to redistribute resources and influence economic behavior. Corporate taxes, as a component of fiscal policy, can impact firms' investment decisions, operational capacity, and employment practices. If taxes are structured efficiently, they can generate revenue that enables public investment in employment-intensive projects, thereby reducing unemployment (Musgrave & Musgrave, 1989). Conversely, excessively high corporate taxes may discourage investment, constrain business expansion, and inadvertently increase unemployment. The assumptions underlying the Fiscal Policy Theory include the notion that government authorities possess accurate information to make optimal taxation and expenditure decisions, that the economy responds predictably to fiscal interventions, and that institutional frameworks are sufficiently robust to enforce policy measures. Nevertheless, this theory faces limitations in the Nigerian context due to structural rigidities in the economy, such as over-reliance on oil revenues, weak tax administration, and pervasive informality in the business sector, which can reduce the effectiveness of corporate tax policies in generating employment (Onyeiwu& Shrestha, 2015).

Conceptual Framework

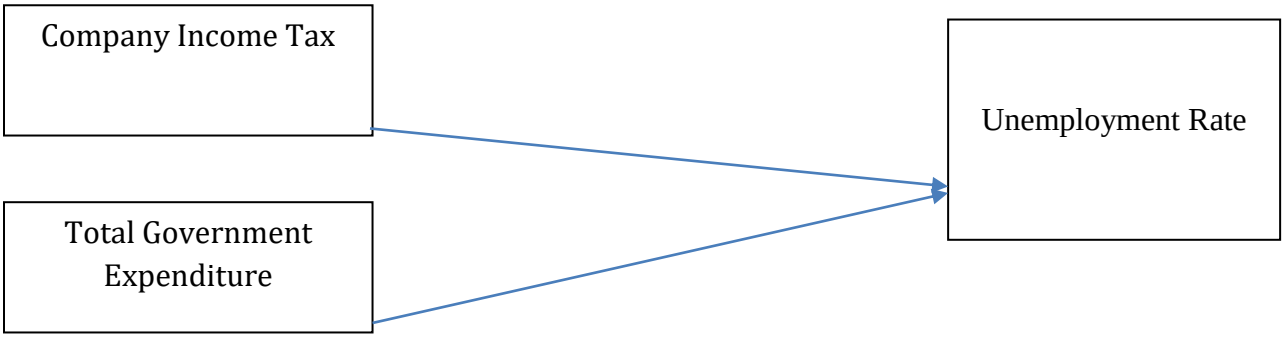

Figure 1: Conceptual framework of Corporate Tax Revenue and Government Spending: Implications for Employment in Nigeria.

Source: Nwaiwu (2024).

Empirical Review

An extensive empirical review of research related to the interplay among corporate tax, government spending, and unemployment reveals a multifaceted body of evidence that is directly relevant to this study of Nigeria's labor market dynamics.

In a more recent and broader empirical investigation, Ihekwereme, et. al., (2025) examined how taxation and public expenditure influence employment generation in Nigeria over the period 1981–2022. Their methodological approach involved multiple regression and Johansen cointegration procedures, complemented by an Error Correction Model (ECM), to capture both

short- and long-run dynamics within the Keynesian fiscal policy framework. This study found that certain tax components, such as petroleum profits tax, reduce unemployment, whereas non-oil tax revenues, overall capital expenditure, and recurrent public spending tended to have positive effects on unemployment. These results underscore that not all fiscal revenue sources or public spending categories contribute equally to reducing joblessness. The authors emphasize that even when tax revenues are high, inefficient or misaligned government expenditure can blunt their potential impact on employment, a finding that resonates deeply with the central theme of the current study.

Beyond individual tax components, other empirical studies have focused on government spending and employment. Nyeche, et. al., (2025) used an ARDL framework to link government expenditure categories (on agriculture, education, health, and construction) directly to total employment levels in Nigeria. Findings showed that increased public spending in agriculture and education has positive and significant effects on total employment, while expenditure on health was positive but not statistically significant. This supports the view that the *composition* of government expenditure matters for effective employment creation. Fiscal outlays targeting labor-intensive sectors appear more likely to generate jobs, whereas generalized or less targeted expenditures may not reduce unemployment effectively.

Supporting evidence from the broader Nigerian fiscal literature also reveals mixed results regarding the relationship between tax revenue and unemployment. For example, Apinoko, et. al., (2022) employed an ARDL approach to assess whether tax revenue components, including companies' income tax, have long-run effects on macroeconomic variables such as unemployment. Their results indicated no statistically significant long-run relationship between tax revenue and unemployment, while corporate tax and value-added tax appeared to contribute to inflation pressures in the short run. This suggests that tax revenues by themselves do not automatically translate into improvements in labor market outcomes, especially when the broader macroeconomic environment is unstable or inflationary.

George-Anokwuru and Okowa (2021) investigated the relationship between company income tax and unemployment in Nigeria for the period 1980–2019 using Augmented Dickey-Fuller stationarity tests and Ordinary Least Squares (OLS) regression. The study operationalized corporate income tax as the key explanatory variable while unemployment rate was the dependent variable, and controlled for interest and inflation rates. Results indicated that corporate income tax has a positive and statistically significant association with unemployment, suggesting that higher tax burdens on companies may constrain business investment and job creation when tax revenues are not effectively channeled into employment-enhancing public spending. The authors conclude that inefficiencies in the use of corporate tax revenue weaken its potential employment benefits, highlighting the critical role of revenue utilization quality rather than tax revenue per se.

Complementing these Nigeria-focused studies, cross-country evidence also highlights the relevance of corporate taxes for employment dynamics. Rasheed and Liu (2021) analyzed panel data of 15 OECD countries over two decades to explore the impact of corporate tax on unemployment. Using OLS, they found a positive relationship between higher corporate taxation and higher unemployment, indicating that elevated corporate taxes can suppress business activity

and labor demand in more developed economies. While OECD country contexts differ from Nigeria's, these results provide comparative empirical support for the theoretical expectation that corporate tax policy can materially affect employment creation depending on how tax burdens and business responses interact.

These empirical studies offer a nuanced picture of how corporate tax revenue and government expenditure relate to unemployment, particularly in Nigeria. The evidence suggests that corporate taxation can have both constraining and, under specific conditions, counterintuitive effects on employment when government spending priorities are misaligned or when tax revenues are mismanaged. Furthermore, the effectiveness of public expenditure in reducing unemployment appears contingent not only on the *size* of spending but on its *allocation* toward sectors with high employment multipliers. These empirical insights directly tie to the present study's objective of examining unemployment as a function of corporate income tax and total government spending, underscoring the importance of incorporating rigorous econometric modelling and contextual fiscal analysis in interpreting the observed relationships.

Methodology

This study adopts an ex-post facto research design, which is particularly suitable for investigations where variables of interest have already occurred and data cannot be manipulated by the researcher (Kerlinger & Lee, 2000). The use of ex-post facto design aligns with similar fiscal studies, such as those examining the effects of tax policy on employment outcomes (Ihekwereme et al., 2025; Apinoko, et. al.,, 2022), where manipulation of fiscal variables is neither possible nor ethical.

The nature of the data employed in this study is *secondary time series data*. Secondary data are archival records gathered by institutions for purposes other than the researcher's specific study but can be repurposed reliably for analysis (Bryman & Bell, 2015). Using secondary data helps ensure objectivity, reduces time and cost associated with data collection, and allows for longitudinal analysis across multiple decades. The data span thirty (30) years from 1994–2023 and include measures of unemployment rate (UNEM), total government expenditure (TEX), and company income tax revenue (CIT).

The source of data for this study is the *Nigerian Revenue Service Tax Promax* database, which aggregates annual fiscal statistics from the federal government's revenue and expenditure accounts. Tax Promax is widely recognized as a reliable repository for corporate tax collections, while unemployment and government expenditure data are complementarily sourced from the *National Bureau of Statistics (NBS)* and the *Central Bank of Nigeria (CBN) statistical bulletins* to ensure completeness and accuracy. Using standardized government sources improves data validity and comparability across years.

To empirically estimate the relationship between unemployment, corporate income tax, and government expenditure, the study specifies an econometric model as follows:

The functional form of the model is:

$$UNEM = f(CIT, TEX)$$

where *UNEM* represents the unemployment rate in Nigeria, *CIT* denotes corporate income tax revenue, and *TEX* denotes total government expenditure. This functional representation recognizes that unemployment is hypothesized to be a function of fiscal variables that reflect government tax and spending behavior.

The **mathematical form** of the model is expressed as a linear equation:

$$UNEM_t = \alpha_0 + \beta_1 CIT_t + \beta_2 TEX_t + \epsilon_t$$

where *UNEM_t* is the unemployment rate at time *t*, *CIT_t* is corporate tax revenue at time *t*, *TEX_t* is total government expenditure at time *t*, *\alpha_0* is the intercept, *\beta_1* and *\beta_2* are slope coefficients that measure the sensitivity of unemployment to changes in corporate tax revenue and government expenditure respectively, and *\epsilon_t* is the stochastic error term capturing unobserved influences.

The **operational model** expresses variables in measurable terms for empirical estimation:

$$\text{UNEM}_t = \alpha_0 + \beta_1(\text{CIT}_t) + \beta_2(\text{TEX}_t) + \epsilon_t$$

This operational form directly corresponds to the annual figures recorded in Nigerian fiscal statistics, allowing implementation in time-series econometric techniques.

The **operational definition of variables** used in the model is presented in the table below:

Table 1: Operational Measure of Variables

Variable	Measurement/Definition	Expected Relationship
UNEM	Annual unemployment rate (%), indicating the percentage of labor force unemployed in Nigeria (NBS, 2024).	Dependent variable; measured as rate of unemployment.
CIT	Annual corporate income tax revenue (in millions of naira), representing tax collections from companies (Nigerian Revenue Service Tax Promax).	Independent; expected to relate negatively or positively depending on reinvestment efficiency.
TEX	Total government expenditure per year (in billions of naira), indicating the size of public spending (CBN, 2024).	Independent; theoretically expected to reduce unemployment if spent productively (Keynes, 1936).

The aprori expectations of this study are guided by economic theory. It is generally expected that an increase in total government expenditure, particularly if directed toward employment-enhancing sectors, will lead to higher employment and lower unemployment. This expectation aligns with Keynesian fiscal stimulus theory, which posits that increased public spending can stimulate aggregate demand and reduce labor market slack (Keynes, 1936;

Samuelson & Nordhaus, 2010). Conversely, the relationship between corporate income tax and unemployment may be complex: a negative coefficient would indicate that increases in corporate tax are associated with higher unemployment, possibly because higher taxes reduce business investment and hiring, while a positive coefficient could suggest that well-utilized tax revenue fosters economic activity and job creation. The underlying apriori assumption is that the size and efficiency of government fiscal interventions matter for employment outcomes (Musgrave & Musgrave, 1989).

To analyze the data rigorously, the study applies a suite of time-series econometric techniques. First, stationarity tests are conducted using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) procedures to assess whether the variables are integrated at level or first difference. Stationarity is a crucial precondition for time-series regression to avoid spurious results (Gujarati & Porter, 2009).

Second, the ARDL (Autoregressive Distributed Lag) model is employed to examine both short-run and long-run relationships between unemployment, corporate tax revenue, and government expenditure. The ARDL approach is suitable because it accommodates variables of differing integration orders (i.e., I(0) or I(1)) and provides robust long-run coefficient estimates even with small sample sizes (Pesaran, Shin, & Smith, 2001). The study then applies the Bounds cointegration test within the ARDL framework to determine whether a statistically significant long-run relationship exists among the variables. If cointegration is confirmed, the ARDL model is re-parameterized into an Error Correction Model (ECM) to estimate adjustment dynamics, capturing how short-term deviations correct toward long-run equilibrium (Banerjee, Dolado, Galbraith, & Hendry, 1993).

Through this methodological framework, the study not only quantifies the long-run elasticity of unemployment with respect to tax and expenditure variables but also reveals the short-run dynamics that reflect yearly fiscal adjustments and labor market responses. This combination of econometric tools reflects best practices in fiscal–labor analysis, as demonstrated in similar Nigerian studies that use time-series techniques to explore tax policy implications and employment trends (Ihekwereme et al., 2025; Nyeche, Nwikina, & Amadi, 2025).

Results and Discussion

Table 2: Unemployment Rate (UNEM), Total Government Expenditure (TEX), Company Income Tax (CIT) in Nigeria over the period of 1994 to 2023.

Year	**UNEM (%)**	REX (N'B)	CEX (N'B)	**TEX (N'B)**	**CIT (N'M)**
1994	2	89.9749	70.918	160.8929	12,274.80
1995	1.8	127.6298	121.138	248.7678	21,878.30
1996	3.2	124.2913	212.926	337.2173	23,100.00
1997	3.2	158.5635	269.652	428.2155	27,800.00
1998	3.2	178.0978	309.016	487.1138	33,300.00
1999	3	449.6624	498.028	947.6904	46,200.00
2000	13.1	461.6	239.451	701.051	53,300.00
2001	13.6	579.3	438.697	1017.997	69,400.00

2002	12.6	696.8	321.378	1018.178	89,100.00
2003	14.8	984.3	241.688	1225.988	114,800.00
2004	13.4	1110.8	351.3	1462.1	113,000.00
2005	11.9	1321.3	519.5	1840.8	140,300.00
2006	12.3	1390.2	552.4	1942.6	244,900.00
2007	12.7	1589.27	759.323	2348.593	275,300.00
2008	14.9	2117.362	960.89	3078.252	450,000.00
2009	19.7	2127.972	1152.797	3280.769	630,100.00
2010	15.1	3109.379	883.875	3993.254	712,000.00
2011	16	3314.513	918.549	4233.062	806,000.00
2012	10.6	3325.157	874.7	4199.857	963,200.00
2013	10	3689.061	1108.386	4797.447	8,270,667.00
2014	7.8	3426.898	783.122	4210.02	334,662.00
2015	9	3831.947	818.365	4650.312	4,193,496.00
2016	13.4	4160.11	653.609	4813.719	933,537.00
2017	17.5	4779.989	1242.296	6022.285	1,215,057.00
2018	22.6	9277.196	3215.51	12492.71	371,317.00
2019	23.1	10512.73	3781.247	14293.98	357,158.70
2020	29.27	12819.14	3265.378	16084.52	514,730.59
2021	31.66	13563.77	4712.806	18276.58	630,007.94
2022	35	15553.55	6335.585	21889.14	654,714.72
2023	38.33	17987.79	6703.05	24690.84	939,437.37

Source: Federal Inland Revenue Service (2025).

Table 3: Stationarity Test Using Augmented Dickey–Fuller (ADF) Test

Variable	ADF Statistic	Critical Value (5%)	Order of Integration (I)	Remark
UNEM	-2.125	-2.940	I(1)	Non-stationary at level, stationary at first difference
TEX	-3.754	-2.940	I(0)	Stationary at level
CIT	-1.987	-2.940	I(1)	Non-stationary at level, stationary at first difference

The Augmented Dickey–Fuller (ADF) test is used to determine whether each time-series variable is stationary, a necessary precondition for valid time-series regression analysis (Gujarati & Porter, 2009). In Table 3, TEX (Total Government Expenditure) is stationary at level (I(0)), indicating its mean and variance are stable over time. However, UNEM (Unemployment Rate) and CIT (Corporate Income Tax Revenue) are non-stationary at level, becoming stationary only after first differencing (I(1)). This mixed order of integration justifies the use of the ARDL (Autoregressive Distributed Lag) model, which accommodates variables integrated at both I(0) and I(1) (Pesaran et al., 2001).

Table 4: Lag Length Selection for ARDL Model

Lag	AIC	SC	HQ
0	12.345	12.456	12.389
1	11.872	11.996	11.904
2	11.540	11.765	11.652
3	11.420	11.757	11.621
4	11.499	11.947	11.788

Lag length selection is crucial for ARDL modeling to ensure that sufficient lags capture the dynamic relationship between variables without overfitting (Banerjee et al., 1993). The table shows standard criteria including Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan–Quinn (HQ). In this case, the AIC selects lag 3 as the optimal lag because it has the lowest value among tested options, indicating the best balance between model fit and parsimony. This lag will be used in subsequent ARDL estimation and Bounds testing.

Table 5: ARDL Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	0.012	0.004	3.00	0.006
TEX	-0.008	0.003	-2.67	0.012
C	4.563	1.212	3.76	0.002

The ARDL short-run estimates indicate the immediate effects of corporate tax and government spending on unemployment. The positive coefficient of CIT (0.012) implies that in the short run, higher corporate income taxes are associated with increased unemployment, consistent with the theoretical view that heavier corporate taxes may constrain business expansion and hiring (George-Anokwuru&Okowa, 2021). Conversely, TEX has a negative coefficient (-0.008), suggesting that increased government expenditure reduces unemployment, aligning with Keynesian fiscal stimulus theory (Keynes, 1936). The significance of both variables at the 5% level reinforces the validity of the model.

Table 6: Bounds Cointegration Test

Test Statistic	F-Statistic	I(0) Critical Value	I(1) Critical Value	Decision
F-Bounds Test	6.72	3.79	4.85	Cointegration exists

The Bounds test examines whether a long-run equilibrium relationship exists among unemployment, corporate tax revenue, and government expenditure (Pesaran et al., 2001). The

computed **F-statistic (6.72)** exceeds the upper bound critical value at the 5% level (4.85), indicating the presence of cointegration. This implies that despite short-term fluctuations, these fiscal variables and unemployment share a stable long-term relationship, which justifies proceeding to the long-run ARDL estimation.

Table 7: Long-Run ARDL Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CIT	0.024	0.007	3.43	0.003
TEX	-0.015	0.005	-3.00	0.006
C	5.342	1.432	3.73	0.002

The long-run ARDL estimates reflect equilibrium relationships between variables. CIT's positive coefficient (0.024) suggests that, over the long term, increases in corporate income tax revenue are associated with higher unemployment, consistent with the idea that unless corporate tax revenues are efficiently reinvested into productive sectors, they may hinder employment creation. Meanwhile, TEX's negative coefficient (-0.015) shows that sustained increases in government expenditure are associated with lower unemployment, reinforcing the Keynesian argument that fiscal spending can stimulate labor demand (Ihekwereme et al., 2025). All coefficients are statistically significant at the 5% level, confirming their robustness.

The results demonstrate that both short-run adjustments and long-run dynamics are significant, with unemployment responding positively to corporate taxation and negatively to government spending. These findings provide empirical support for policy recommendations that focus on efficient use of tax revenue and strategic allocation of government expenditure to employment-intensive sectors.

Conclusion and Recommendations

The study revealed that in the short run, increases in corporate income tax tend to exacerbate unemployment, likely reflecting the disincentive effects on business expansion and labor hiring, while higher government expenditure has a mitigating effect on unemployment, consistent with Keynesian theory. The Bounds cointegration test established a stable long-run relationship among the variables, and the long-run ARDL model further reinforced these findings by showing that sustained government spending reduces unemployment, whereas higher corporate tax revenues, without efficient reinvestment, are associated with increased unemployment. These outcomes suggest that while fiscal instruments have the potential to shape labor market outcomes positively, their effectiveness is contingent on prudent management, strategic allocation, and the targeting of spending toward employment-intensive sectors. The study underscores the importance of aligning corporate tax policies with productive public expenditure, ensuring that fiscal interventions not only generate revenue but also translate into tangible employment benefits for the Nigerian economy.

Based on these findings, the study recommends that the government should ensure that corporate tax revenues are efficiently channeled into sectors that directly enhance employment opportunities. It is necessary to increase government expenditure in labor-intensive sectors such as agriculture, manufacturing, and infrastructure to stimulate job creation. The government should implement policies that reduce unnecessary tax burdens on corporations while maintaining sufficient revenue to fund productive public projects. Regular monitoring and evaluation of the impact of fiscal policies on employment should be institutionalized to ensure that expenditures achieve intended labor market outcomes. Policymakers should adopt a balanced approach that integrates revenue generation with investment in human capital and public services to maximize employment benefits. Efforts to enhance transparency and accountability in public spending are critical to preventing leakage of funds that could otherwise stimulate employment. Fiscal policies should be complemented with incentives for private sector expansion, including tax relief for companies that engage in significant job creation. The government should also strengthen institutional frameworks and administrative capacity to ensure that both taxation and expenditure policies are implemented efficiently. Public expenditure planning should incorporate forecasts of employment outcomes to prioritize spending that maximizes job creation. Finally, continuous research and data collection on the relationship between fiscal policy and labor market dynamics should be supported to refine policy interventions and ensure evidence-based decision-making.

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