Law Encorcement on Tax Imposed and Economic Growth

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Abstract

Classical economic theory states that one factor that causes market failure is tax imposed. With tax imposed, the allocation of goods and services in free market is not Pareto efficient. Studies on the impact of tax on economic growth result various conclusions. It can be negative (Lee, Young, and Gordon 2005), negative and unclear (Gale and Samwick 2017), andpositive (Brys et al. 2016). This study is conducted to study the association between tax imposed and economic growth in 116 countries from 2005 to 2017. The data used in this study came from the World Development Indicators of the World Bank and were analyzed using univariate, bivariate, and multivariate analyses employing the fixed effects regression model for panel data. The dependent variable was GDP, while the independent variables were taxes on income, profits, and capital gains (% of total taxes), other taxes (% of revenue), labor tax and contributions (% of commercial profits), andaccess to electricity (% of population). The results of analyses show that taxes on income, profits, and capital gains, labor tax and contributions, andaccess to electricitytaxesare positively and significantly associated with economic growth ratestatistically, while other taxes is negatively and significantly associated with economic growth rate statistically.

Keywords: Tax Imposed, Economic Growth, Neoclassical theory, market failure, Random effect.

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