DIALOGUE SOCIAL SCIENCE REVIEW

UNEMPLOYMENT IN PAKISTAN: THE ROLE OF EDUCATIONAL TIERS IN DRIVING JOB MARKET OUTCOMES

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ABSTRACT
The main purpose of this study is to explore the impact of various categories of education on reducing unemployment in Pakistan over the period from 1980 to 2018. Education is widely recognized as a key driver of economic development and a critical tool for poverty reduction. The primary variable of interest in this research is educational attainment, segmented into primary, secondary, and tertiary levels. In addition, the study incorporates key control variables, including government expenditure on education and health, to provide a comprehensive understanding of the dynamics at play. To assess both the long and short-run associations among these variables, econometric techniques were employed, revealing that approximately 43% of disequilibrium adjusts toward the long-run equilibrium in each period. The Wald test was utilized to explore causal relationships among the variables. The empirical findings indicate that tertiary education plays a significantly more influential role in reducing unemployment compared to primary and secondary education, suggesting that lower levels of education alone are insufficient to tackle unemployment in Pakistan. Moreover, government expenditures on education and health were found to have a positive impact on employment generation. Based on these findings, the study recommends increased public investment in higher education and health sectors as a means to strengthen human capital, enhance employment opportunities, reduce economic inequality, and promote overall societal

welfare

Key words: Unemployment, Education, Economic development.

INTRODUCTION

BACKGROUND OF STUDY

Unemployment is a huge economic concern around the world therefore; it is an essential topic for researchers to explore. It can be defined as "the situation of not having a job or being out of work, or the proportion of persons who are able to work and actively looking for work but are unable to find it Mohr (2020). Unemployment is determined yearly as an extent of the workforce that cannot look for a decent job,' as indicated by an IMF report from 1998.

Education plays a vital role in promoting self-sustaining economic growth by enhancing human capital and increasing productivity (Psacharopoulos & Patrinos, 2004)." The vicious cycle of poverty can be broken by improving educational opportunities. Individuals from privileged backgrounds with well-connected social networks may have greater job possibilities and access to additional educational opportunities. In this context, the expansion of educational opportunities at all levels has contributed to economic growth, either by developing a more educated and skilled workforce or by creating large-scale employment opportunities."

Unemployment remains a growing challenge in Pakistan. One contributing factor is the substandard quality of education, which fails to align with international benchmarks, making the education system partly accountable for the high-level unemployment proportion. In scenario of Pakistan, 63.9% of literate individuals are unemployed. Among them, 28.43% have attained only primary or secondary education, 16.4% have completed matriculation, and 9.29% and 9.38% possess intermediate, postgraduate, or Ph.D. qualifications, respectively. Age-wise, unemployment exhibits a U-shaped distribution. International Labour Organization reports that the unemployment rates in Pakistan are 10.28%, 1.56%, and 14% across different groups. (ILO, 2012& Cheema, A.2014). Therefore, the aim of this study is to categorize which level of education—primary, secondary, or postsecondary—is most effective in reducing unemployment. The objective is not only to contribute to the existing literature but also to support future research with a more comprehensive foundation. Moreover, the findings are expected to offer valuable policy recommendations aimed at minimizing unemployment and addressing socio-economic disparities such as inequality.

STATEMENT OF PROBLEM

Unemployment is major phenomenon, which effect all the developing regions of world. Today's unemployment rate in Pakistan is widespread at all levels. Highly qualified individuals, such as doctors, engineers, and MBAs, no longer spared. It affects illiterates, skilled, non-skilled, and educated people, as well as professionals. Most newly created and marketed positions geared at highly qualified professionals, who account for only 3.6 percent of total employment.

Although number of studies have explored the relationship between education and unemployment, there is limited evidence specifically addressing which level of education—primary, secondary, or

tertiary—has the most significant impact on employment rates. Moreover, this study aims to fill that gap by analyzing the effectiveness of various educational levels in reducing unemployment in Pakistan during the period from 1980 to 2018.

OBJECTIVES OF THE STUDY

The main objective of this study is to

Find out which level of education (primary, secondary, and tertiary) has the most impact on Pakistan's unemployment rate.

HYPOTHESIS

1. H_0= There is no significant impact of education (primary, secondary, and tertiary) on unemployment in Pakistan.
2. H_1= There is significant impact education (primary, secondary, and tertiary) on unemployment in Pakistan.

SIGNIFICANCE OF THE STUDY

The education is basic tool which plays a fundamental role in determining a nation's economic landscape. It not only drives economic growth but also contributes to poverty reduction and the promotion of political and social stability. At various levels—primary, secondary, and tertiary—education can significantly influence employment outcomes by enhancing individual capabilities and employability. However, traditional metrics may underestimate the broader private and social benefits of education, particularly its role in mitigating unemployment.

The importance of maintaining high-quality education is recognized globally. For effective educational planning, it is essential to identify deficiencies within the education system that hinder its potential to reduce unemployment. This study contributes empirical evidence to support the view that education enables individuals to better adapt to economic fluctuations and labor market changes. Furthermore, it positions education as a proactive, long-term strategy—serving as a preventative alternative to reactive, government-led employment support programs.

Ultimately, this research seeks to determine which level of education is most effective in reducing unemployment in Pakistan. The findings are expected to inform policymakers by highlighting areas for targeted educational investment and offering strategic insights into how education can be leveraged to reduce unemployment and associated socio-economic disparities.

ITERATURE REVIEW

Unemployment remains a major concern for both developed and developing nations. According to **Qayyum (2007)**, less developed countries have long struggled to reduce widespread unemployment. The global financial crisis of 2007–2008 severely impacted labor markets. **Cheema et al. (2014)** report that over 34 million people lost their jobs globally due to the crisis,

and youth unemployment rose from 73.5 million in 2007 to 77.7 million in 2010. The **ILO (2012)** projected that global unemployment would reach 202 million by 2014.

In Malaysia, **Noor (2011)** notes that unemployment exceeded 7% in the 1980s. Though it fell to 3.6% in 2003, economic restructuring caused unemployment to rise again post-1998. In South Asia, **Imran et al. (2015)** observe that unemployment is persistent, especially following economic crises. In 2011, unemployment rates were 5%, 6%, and 10% in Pakistan, Bangladesh, and India, respectively (**World Bank**). Structural weaknesses, poor governance, and corruption have aggravated the issue in Asia.

Thayaparan (2014) analyzed unemployment trends in Sri Lanka, noting a decline from 15.9% in 1990 to 4% in 2012, despite fluctuations. **Rehman (2021)** highlights that Pakistan's transition from a backward to a developing economy has been challenged by its inability to absorb a growing labor force. Khan, M. **(2014)** report a 5.5% unemployment rate in Pakistan and a youth unemployment rate of 7.73%, ranking 113th out of 129 countries.

Tahir et al. (2014) identify Pakistan's tax and education systems as contributing to unemployment. With 63.9% of unemployed individuals being educated, a mismatch between education quality and labor market needs is evident. **Akram (2012)** supports this, noting that skill demand often does not match supply, and Pakistan's literacy rates remain among the lowest in the region.

Maqsood (2014) emphasizes that Pakistan, India, and Bangladesh are in a demographic transition phase marked by high birth rates, contributing to rising unemployment and socio-economic challenges. According to the **Pakistan Economic Survey (2013–2014)**, population growth and limited female education in rural areas hinder family planning and employment initiatives.

Riddell et al. (2014) and **Keynes (1936)** concluded that investment in education and training is crucial for reducing unemployment. Keynes argued that unemployment stems from insufficient aggregate demand. **Woodley & Brennan (2000)** show that the rapid expansion of higher education during the UK's early 1990s recession coincided with rising graduate unemployment.

In Pakistan, **Nasir & Nazil (2000)** found that higher education levels lead to better income outcomes, while the **International Labour Office (2000)** highlighted education as a vital factor for labor market entry. **Baccaro et al. (2005)**, using OECD data (1969–1998), linked unemployment inversely with productivity and positively with real interest rates.

Echebiri (2005) studied youth unemployment in Nigeria, revealing strong links between joblessness, education, and job preference. **Schneider (2007)** observed that in Germany, states with higher higher-education enrollment also had higher unemployment, indicating possible overeducation or skill mismatch.

Rumana (2007) examined the impact of education on women's earnings in Pakistan, concluding that higher education levels significantly raise monthly income. **Schoeman et al. (2008)** found that in South Africa, unemployment was positively associated with oil prices and exchange rate volatility.

Finally, **Kamran (2014)** identified major unemployment drivers such as investment patterns, interest rates, wage policies, and labor market regulations. The study recommends job training and income support programs to reduce unemployment surges.

It is concluded that unemployment continues to pose serious challenges across both advanced and developing countries. The global financial crisis of 2007–2008 led to widespread job losses, with young people being especially affected. In countries like Pakistan, Bangladesh, and India, unemployment has remained a long-term issue, often worsened by weak governance, economic instability, and limited job creation. In Pakistan, a notable portion of the unemployed population holds educational qualifications, which points to a disconnect between the education system and actual labor market needs. Factors such as population growth, low female participation in the workforce, and limited access to education in rural areas add further strain. Across the literature, researchers agree that improving the quality of education, offering skill-based training, and reforming labor market policies are crucial steps toward reducing unemployment and promoting economic stability.

RESEARCH METHODS AND TECHNIQUES
THEORETICAL FRAMEWORK

The **Endogenous Growth Theory**, which emerged during the 1990s, provides a conceptual framework for understanding the role of core factors—particularly human capital—in driving economic development. Unlike classical growth theories that emphasize external influences, endogenous growth models highlight the significance of investment in human capital, innovation, and knowledge as key drivers of sustainable economic growth.

Romer's (1986) model was foundational in this context, linking technological advancement directly to human capital. According to Romer, allocating labor to research and development (R&D) activities leads to technological innovation and sustained economic growth. His model demonstrates that economic agents, through purposeful investment in knowledge and innovation, can influence the rate of technological progress within an economy.

Similarly, **Lucas (1988)** emphasized the role of knowledge and skills in economic development. He introduced the idea of "knowledge spillovers," where the benefits of education and skill development extend beyond individuals to society at large. Lucas argued that education increases worker productivity, which, in turn, contributes to economic expansion.

Further supporting this framework, **Ullah (2014)** suggested that economic growth enhances living standards. Increased income levels enable individuals to access better living environments, consume higher-quality food, and engage in regular physical activities, all of which improve overall well-being.

In summary, the endogenous growth framework underlines that investment in human capital—through education, training, and health—plays a fundamental role in enhancing productivity, fostering innovation, and sustaining economic development over the long run.

Figure- 1: CONCEPTUAL FRAMEWORK
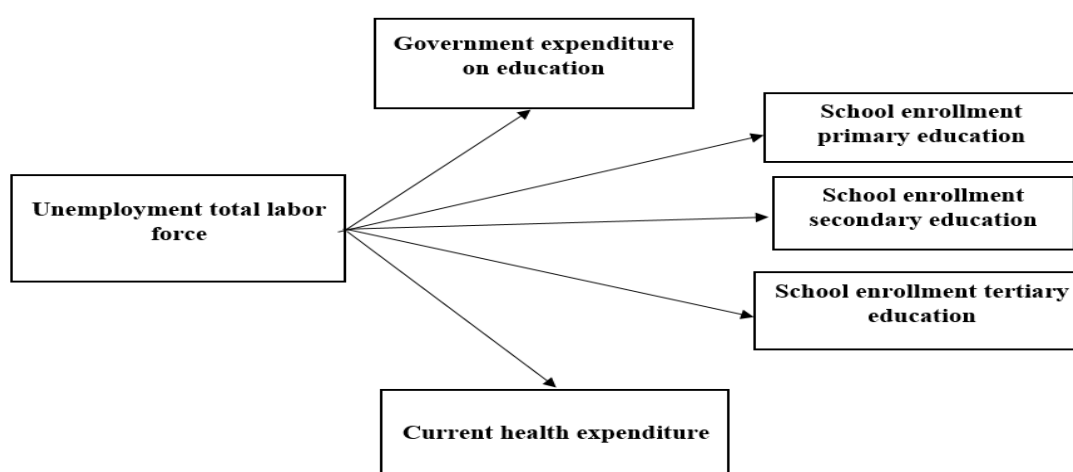
MODELING FRAMEWORK

Empirical Model Specification:

LNUT=f (LNSEP, LNSES, LNSET, LNHE, LNGEE) …………… (1)

The Mathematical Form:

$$LNUT_t = \beta_0 + \beta_1 ln\,SEP_t + \beta_2\,lnSES_t + \beta_3\,lnSET_t + \beta_4 lnHE_t + \beta_5 lnGEE_t \dots (2$$

The Econometric Form of the model specified below:

$$LNUT_t = \beta_0 + \beta_1 ln\,SEP_t + \beta_2\,lnSES_t + \beta_3\,lnSET_t + \beta_4 lnHE_t + \beta_5 lnGEE_t + \mu$$

UE= unemployment of total labor force of a country in %

GEE= Government expenditure on education % of GDP

HEE=Current heath expenditure % of GDP

$ß_1$ $ß_2$ β_3 β_4 β_5 are slope coefficients or parameters.

$ß_0 =$ Intercept term for model 1

$\mu =$ Stochastic error term.

DESCRIBTION OF VARIABLES

Table-1: Overview of Selected Variable

DATA SOURCE AND TIME PERIOD : The data was collected from the World Development Indicator (WDI) on a yearly basis (1980-2018) with a total sample length of 39 years

Variables	Dependent	Value
UT	Unemployment total (labor force national estimate	Percentage
Independent		
SEP	School enrollment primary education	Gross Percentage
SES	School enrollment secondary education	Gross Percentage
SET	School enrollment tertiary education	Gross Percentage
GEE	Government expenditure on education	Percentage of GDP
HE	Current health expenditure	Percentage of GDP

ESTIMATION STRATEGY

To examine the dynamic relationship among the variables, a comprehensive time series econometric approach has been utilized. The methodology is structured in three major steps to ensure the robustness and validity of the results.

First, **unit root tests**—specifically the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests—were conducted to determine the stationarity properties of the data series. These tests help identify the order of integration for each variable, which is a crucial prerequisite for conducting

cointegration analysis. The null hypothesis of a unit root was tested against the alternative of stationarity. Only variables integrated of the same order, typically I(1), are suitable for cointegration analysis.

Second, after establishing that all variables are integrated of the same direction, the **Johansen Cointegration Test** was applied to investigate the existence of a long-run equilibrium relationship among the variables. This test uses trace and maximum eigenvalue statistics to determine the number of cointegrating vectors. The presence of cointegration indicates that the variables move together over the long run, despite short-term deviations.

Finally, to explore both short-run dynamics and long-run relationships, a **Vector Error Correction Model (VECM)** was estimated. The VECM incorporates the error correction term (ECT), which captures the speed at which the system returns to long-run equilibrium following a short-term shock. A statistically significant and negative ECT confirms the existence of long-run causality, while the short-run dynamics are captured through the lagged differences of the variables in the model.

This step-by-step methodological approach ensures a comprehensive understanding of both the short-term fluctuations and long-term equilibrium relationships among the variables, in line with the objectives of the study.

RESULTS AND DISCUSSION

UNIT ROOT TEST

The unit root test was employed to determine whether the variables of the are stationary. The findings of the unit root test are presented in this section of the study. The results, shown in the tables below, indicate that all variables are integrated of order one, I(1), and are statistically significant at the 5% level of significance.

Table-2: Unit Test in Level and First Difference with Intercept

Null Hypothesis: Unit root				
Series	Augmented dickey fuller unit test (intercept)		Philips- Peron unit root test (intercept)	
	Levels	First difference	Levels	First difference

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LNUT	-2.058002	-7.925655	-1.919182	-8.173727
	(0.2621)	(0.0000)	(0.3203)	(0.0000)
LNSEP	-0.685443	-7128282	-0.678818	-7.128282
	(0.8384)	(0.0000)	(0.8401)	(0.0000)
LNSES	0.743317	-5.973843	1.045737	-5.973843
	(0.9916)	(0.0000)	(0.9963)	(0.0000)
LNSET	3.077871	-4.394965	2.614636	-4.421462
	(1.0000)	(0.0066)	(1.0000)	(0.0061)
LNGEE	-3.035090	-4.515139	-2.293424	-4.362227
	(0.0408)	(0.0009)	(0.1792)	(0.0014)
LNHE	-1772400	-4.848404	-1.873274	-4.819055
	(0.3880)	(0.0003)	(0.3409)	(0.0004)

The table above presents the results of the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests for the specified model. The table reports the test statistics at both level and first difference with an intercept.

COINTEGRATION TEST

The lag order of model take place in below table

Table-3: Var-Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	97.3875	NA	3.28e-10	-4.809869	-4.551302	-4.717873
1	281.501	300.3957*	1.39e-13*	-12.60532*	-10.79535*	-11.96135*

*Indicate slack request chose by the model

LR: Sequential adjusted LR test measurement (each test at 5% level)

FPE: Final forecast mistake

AIC: Akaike data model

SC: Schwarz data model

HQ: Hannan-Quinn data model

JOHANSEN TEST OF COINTERGRATION

Table-4: Unrestricted cointegration rank test (trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace statistic	0.05 Critical Value	Prob.**
None *	0.801773	124.0912	95.75366	0.0002
At most 1	0.535169	64.21249	69.81889	0.1291
At most 2	0.359279	35.86752	47.85613	0.4031
At most 3	0.270107	19.39656	29.79707	0.4647
At most 4	0.150495	7.746858	15.49471	0.4929
At most 5	0.045219	1.712113	3.841466	0.1907

H_0: there is no cointegration between the variables.

If t -statistic is > critical value. Reject H_0

Decision: Because the t-statistics are greater than the crucial value, H0 rejected at a 5% significant level. As a result, there is just one cointegration in the trace test. As a result, there is one cointegration between the variables at the 5% level of significance. When executing Johansson, our variables (lnUT, lnSEP, lnSES, lnSET, lnHE, and lnGEE) established to be co-integrated. The results show that there is only one cointegration vector in the model, indicating that our variables have a long-term relationship. As a result, VECM should use to establish the short- and long-run connections if any of them have established.

Table-5: Unrestricted cointegration rank test (maximum eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen statistic	0.05 Critical Value	Prob.**
None *	0.801773	59.87867	40.07757	0.0001
At most 1	0.535169	28.34497	33.87687	0.1980

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At most 2	0.359279	16.47095	27.58434	0.6255
At most 3	0.270107	11.64970	21.13162	0.5825
At most 4	0.150495	6.034746	14.26460	0.6087
At most 5	0.045219	1.712113	3.841466	0.1907

Max-eigenvalue test shows one co-integrating eqn (s) at the 0.05 level

* means dismissal of the speculation at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Our factors (lnUT, lnSEP, lnSES, lnSET, lnHE, and lnGEE) are cointegrated or have since quite a while ago run relationship, as shown by Max-Eigen esteem (59.87) being more noteworthy than basic worth (40.07) and p esteem being critical. The consequences of the Johansen co-mix test displayed in tables six and seven. Since H0: zero is critical for the Trace Test (co-mix Rank Test), the theory H0 :(no co-coordination) is dismissed, and all factors are cointegrated.

JOHNSEN COINTEGRATION RESULTS

Table-6: Johnsen cointegration results

VARIABLES	T STATISTICS
LNUT	1
LNSEP	-3.41
	(0.92)
LNSES	14.82
	(1.44)
LNSET	-6.85
	(0.59)
LNHE	-1.16
	(1.30)

LNGEE	-1.40
	(0.58)

$LNUT = ß_0 + ß_1 ln\ SEP + ß_2\ lnSES + \beta_3\ lnSET + \beta_4 ln\ HE + \beta_5 lnGEE + \mu$

$1 = ß_0 + ß_1\ (-3.41) + ß_2\ (14.82) + \beta_3 \text{-}6.85 + \beta_4\ (-1.16) + \beta_5\ (-1.40) + \mu$

The results indicate that primary education has a statistically significant impact on reducing the unemployment rate, lowering it by approximately 3.4 percentage points. The coefficient for secondary school enrollment, however, shows a positive association with the unemployment rate, suggesting that secondary education alone may not be sufficient to reduce unemployment. In contrast, tertiary education demonstrates a significant negative effect on the unemployment rate, reducing it by about 6.8 percentage points. This implies that individuals with higher educational qualifications have better employment opportunities.

Furthermore, health expenditure also has a meaningful impact on unemployment, decreasing the rate by 1.16 percentage points. The health status of workers evidently influences their employability.

VECM ESTIMATION

Table-7: VECM Estimation Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
D(LNUT(-1)	-0.432045	0.116219	-3.717494	0.0012*
D(LNUT(-2)	-0.418381	0.200416	-2.087559	0.0486**
D(LNSEP(-1))	-0.072310	0.202895	-0.356393	0.7249
D(LNSEP(-2))	3.139817	1.665990	1.884655	0.0728**
D(LNSES(-1))	4.942224	2.094945	2.359119	0.0276**
D(LNSES(-2))	1.046200	0.463025	2.259492	0.0341**
D(LNSET(-1))	0.792548	0.491129	1.613725	0.1208
D(LNSET(-2))	-0.438897	0.320212	-1.370645	0.1843
D(LNGEE(-1))	-0.643418	0.345131	-1.864269	0.0757***

D(LNGEE(-2))	-0.945296	0.417954	-2.261722	0.0339**
D(LNHE(-1))	-1.835554	0.486625	-3.772007	0.0011*
D(LNHE(-2))	-0.440375	0.887534	-0.496178	0.6247

R-squared   0.640090

F-statistic   3.009721   Durbin-Watson stat 1.997210

The variable D(LNUT(-1)) represents the error correction term (ECT), which indicates the speed of adjustment toward long-run equilibrium. In this context, two aspects are being examined: long-run causality and short-run causality. If the coefficient of D(LNUT(-1)) is negative and statistically significant, it confirms the presence of long-run causality running from the independent variables—LNSEP, LNSES, LNSET, LNGEE, and LNHE—to the dependent variable LNUT.

According to the results, the ECT term is indeed negative and significant, suggesting that a long-run causal relationship exists from LNSEP, LNSES, LNSET, LNGEE, and LNHE to LNUT. The estimated coefficient of the ECT indicates that approximately 43% of the disequilibrium from the previous period is corrected in the current period. This means the variables converge to their long-run equilibrium at a speed of 43% annually, which implies a relatively moderate pace of adjustment.

Additionally, the ECT is statistically significant at the 1% level, highlighting the relevance of short-run dynamics among the variables. This implies that short-run fluctuations in LNSEP, LNSES, LNSET, LNHE, and LNGEE contribute meaningfully to the correction toward the long-run equilibrium in LNUT.

The coefficient of determination (R^2) shows that approximately 64% of the variation in unemployment (LNUT) is explained by changes in SEP, SES, SET, GEE, HE, and GINI. Moreover, the F-statistic confirms the overall significance of the estimated model

Discussion

The results of this study highlight the critical role of tertiary education in improving employment outcomes in Pakistan. Unlike primary and secondary education, which appear to have limited influence on reducing overall unemployment, higher education significantly enhances individuals' chances of securing jobs. This suggests that simply expanding access to basic education is not enough; the quality and relevance of education, particularly at advanced levels, are equally important.

Moreover, the positive impact of public spending on education and health underscores the value of investing in human capital. When governments allocate more resources to these sectors, they help create an environment where individuals are healthier, better educated, and more capable of contributing productively to the economy. This, in turn, leads to greater job creation and helps to narrow income gaps across society.

The findings reinforce the argument that education serves as a key engine for economic growth. Tertiary education not only increases employment opportunities but also contributes to higher economic returns, both at the individual and national levels. However, the benefits of education can only be fully realized if the system is made more inclusive, skill-oriented, and aligned with the demands of the labor market.

It is essential for policymakers to focus on making primary and secondary education more effective by integrating vocational training and life skills into the curriculum. For students who exit the education system early, access to technical and vocational education and training (TVET) programs can provide alternative pathways to employment. This approach can help reduce youth unemployment and better prepare the workforce for the evolving needs of the economy.

The study affirms the importance of increasing public investment in education, particularly in expanding access to tertiary and vocational education. A well-educated, skilled population is vital for sustainable development, and addressing educational shortcomings is key to reducing unemployment and promoting inclusive economic growth in Pakistan.

CONCLUSION

The findings of this study indicate that tertiary education is more effective than primary and secondary education in enhancing employment opportunities. Higher levels of education significantly increase individuals' chances of securing employment, whereas primary and secondary education alone are insufficient to reduce overall unemployment levels. The econometric analysis also reveals that government expenditure on education and health has a positive impact on reducing unemployment rates.

Education enhances productive capacity and strengthens human capital. Breaking the cycle of poverty requires the provision of improved educational facilities and greater investment in both education and healthcare. Strengthening these sectors not only boosts human development but also increases employment prospects and reduces economic inequality.

This research further confirms that tertiary education yields better employment outcomes and economic returns. As such, education remains a fundamental driver of national economic growth. It is the responsibility of the government to ensure universal access to quality education,

particularly at the primary and secondary levels. These systems should be inclusive, equitable, skill-oriented, and fully financed by the public sector.

Moreover, skill development and vocational training should be provided to students who leave school at the secondary level, equipping them with practical abilities for the labor market. Ultimately, increasing public investment in education is essential for building a stronger, more inclusive economy and achieving long-term development goals.

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