

# On Iran's universal cash subsidies

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# Purpose

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To present Iran's nationwide cash subsidy scheme (genesis, impact, prospects and lessons).

- Launched in Dec 2010, the scheme consists of paying all Iranians a fixed amount of cash, 455,000 rials / person, each month (at the time eq. to \$45 / person; 2/3 minimum wage / household of average size)
- Cash subsidy is not a Universal Basic Income (UBI)
  - Shared features: paid by the government, universal, unconditional, regular, same amount to all citizens.
  - Main differences: not meant as UBI, not sufficient to cover basics, paid to HH head for all HH members.

# Genesis (1): Subsidy reform

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Scheme devised as compensation to win popular support for reform of massive price subsidies.

- Subsidised items: Fuel, electricity, water, bread
- Pre-reform give-away prices: petrol 10 US cents / litre; diesel under 2 cents; ...
- Annual subsidy bill: \$100 billion (mostly on energy)
- Subsidy system being:
  - ▣ Inefficient: wasteful consumption, pollution, smuggling to neighbouring countries, etc.
  - ▣ Costly: rapidly rising bill
  - ▣ Unfair: 70% going to richest 30% of the population

# Genesis (2): Cash compensation

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Grand idea: Replacing price subsidies with cash subsidies to HHs, enterprises, infrastructure dev.

- Initial plan: Target 70% of population (below mean national income) using demographics, education, income, car & house ownership, bank loans!
- HH (mis)classifications caused widespread discontent  
→ Targeting abandoned in favour of universality (with plea to the well-off to voluntarily abstain!)
- Coverage eventually rose to a peak of 96% of population (74 million at the time)
- Law passed in 2010; Implemented in Dec. 2010

# Impact (1)

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Methodological difficulties in assessing impact of a universal programme (lack of control groups, many intervening factors, ...).

Easily discernible effects:

- ❑ Established right to universal cash benefits
- ❑ Established a nationwide constituency that resists roll-back
- ❑ Novel funding mechanism (higher energy prices rather than government budget, in theory!)
- ❑ Spread banking services throughout the country (monthly cash subsidies are deposited automatically in bank account of HH heads)
- ❑ Roll-out handled smoothly (confirming implementation capacity)
- ❑ Loss of 70% of purchasing power over the 7 years of programme due to inflation (no change in nominal transfer, see [Table](#))

# Trends in cash subsidy per person: nominal and real indices, 2010-2017

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<b>Year</b>	<b>Urban CPI (2016=100)</b>	<b>Cash subsidy nominal index (fixed amount throughout)</b>	<b>Cash subsidy real index (2010 =100)</b>
<b>2010</b>	<b>33.2</b>	<b>100.0</b>	<b>100.0</b>
<b>2011</b>	<b>40.3</b>	<b>100.0</b>	<b>82.4</b>
<b>2012</b>	<b>52.6</b>	<b>100.0</b>	<b>63.1</b>
<b>2013</b>	<b>70.9</b>	<b>100.0</b>	<b>46.8</b>
<b>2014</b>	<b>81.9</b>	<b>100.0</b>	<b>40.5</b>
<b>2015</b>	<b>91.7</b>	<b>100.0</b>	<b>36.2</b>
<b>2016</b>	<b>100.0</b>	<b>100.0</b>	<b>33.2</b>
<b>2017</b>	<b>110.0</b>	<b>100.0</b>	<b>30.2</b>

# Impact (2)

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## Some tentative conclusions based on available studies:

### More analytical impacts:

- Energy consumption: Only short term impact (the reform process weakened over time)
- Poverty: Most likely positive
- Income distribution: Most likely positive
- labour supply (conflicting accounts)
- Presumed pressure on government budget, already battered by sanctions, as transfer amount had been set too high relative to extra revenues from higher prices (for both political and practical reasons)

# Prospects (1)

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Although very popular, political class and experts generally against the scheme.

Among reasons advanced:

- ❑ Drain on government resources
- ❑ Preferred alternatives for use of resources (health, education, infrastructure, etc.)
- ❑ Little justification for universality (why pay the rich?)
- ❑ Promotes a culture of hand-outs
- ❑ Ex-president Ahmadinejad (scheme's initiator) now politically ostracised

“Solution” sought: Target “the needy”, with possibly larger transfer amount.

“Solution” in practice: Inflation (70% loss of transfer value in 7 years)



# Prospects (2)

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## Lukewarm attempts at targeting so far

- ❑ Dropping 5 million out of 75 million, but 1.5 million (30%) restored after complaint
- ❑ In 2016, 840,000 dropped but 60% restored
- ❑ More recent exclusions beset with more errors
- ❑ Further exclusions may affect over 30 million
- ❑ Criteria for further exclusions: Not specified yet, but confusing leaks and confused discussion

# Lessons

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## What accounts for the emergence of world's largest universal cash transfer scheme?

- ❑ Not labelled as UBI (a concept virtually unknown in Iran)
- ❑ Identified as part of solution of a widely acknowledged problem (price subsidies)
- ❑ Novelty of funding mechanism
- ❑ Systematic preparation and information dissemination
- ❑ Weakening the scheme: Poor arithmetic, turbulent environment (international sanctions), exceedingly politicised

Thank you