

The “Basic Income” Road to Reforming Iran’s Subsidy System¹

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Abstract

Is Iran going to be BIEN's pioneer country? Is this developing, Middle Eastern, Islamic state on the verge of becoming the first country in the world to provide a basic income grant to all its citizens? Only time will tell but the main ingredients seem to be coming together one by one, almost by default and largely unnoticed. This paper explains the development of the main component of Iran's forthcoming economic reform plan – the replacement of fuel and food subsidies with direct cash transfers to the population – and shows how a system of universal, unconditional and regular cash transfers is beginning to emerge, rather haphazardly but inexorably, as a by-product of an attempt to transform an inefficient and unfair system of sharing the country's oil wealth with the population through price subsidies. Lessons of this experience are drawn and their relevance for other countries touched upon.

Introduction

Iran is a relatively rich developing country that can do away with the poverty and vulnerability that bedevil some sections of its population. The country not only has the resources it needs to address the worst aspects of deprivation, it is also committed to doing so in line with its Islamic ideology and national development goals, as proclaimed in its Constitution and 20-year Perspective Plan and regularly reiterated in official pronouncements at the highest levels. Misguided policies are largely to blame for the current state of affairs but recent developments are opening up an unprecedented window of opportunity to correct some of the past errors and give effect to that commitment.

In January 2010, as the first and most important component of a new economic reform plan, the *Majles* – Iran’s parliament – adopted a law to phase out price subsidies and replace them with cash transfers to the population. The subsidies cost some \$100 billion² annually, mostly on energy and food, and benefit the well-off more than those with modest incomes. Up to one-half of the proceeds from subsidy cuts are to go directly to households in the form of cash, while the rest would be used to boost the development of agriculture and industry and to strengthen the country’s social security system.

In the course of the evolution of the law over the past two years, some of its key provisions have been the subject of intense debate, often pitting the government against its detractors in the parliament. As a result, the content of the law and its implementation modalities reflect compromises aimed at minimising political resistance and popular backlash on the one hand, and facilitating implementation on the other. Remarkably, the end result ushers in a cash transfer scheme that resembles a national basic income grant in all but name, even though this was never the intention. This unique experience powerfully highlights the potential of basic income in smoothing the way towards improved resource allocation and income redistribution, the main objectives of Iran’s reform plan, not to mention its other merits. The experience is all the more significant as it is happening in a country largely unaware of the wider discourse on basic income. The concept’s very simplicity and logical coherence appear to account for its emergence in the national search for a feasible and appealing alternative to an inefficient and unfair system of subsidies. It just seems to make sense.

² *Note on currency conversion:* The Iranian currency, *rial*, is subject to a managed floating exchange rate regime that has effectively kept it pegged to the US dollar for years at rates hovering around US\$1 = Rs10,000. For the sake of simplicity, *rial* figures in this paper are given in equivalent dollar terms using this exchange rate. All references to dollar are to the US dollar.

The purpose of this paper is to review this experience and assess the prospects of a basic income in Iran. The stakes are high. On the one hand, Iran could well be the first nation to institutionalise the idea in the very near future. But on the other, it could just as easily fail to seize the opportunity. The paper seeks to clarify the issues involved and considers future options for the consolidation of the process. Reference is also made to the relevance of Iran's experience for other countries.

Socioeconomic context

Before embarking on the discussion of the main issues, it is necessary to set the stage by recalling some of the salient characteristics of Iran's socioeconomic situation.

The country has a population of 74 million, of which two-thirds live in urban areas. Its per capita income hovers around \$3,500. The overall inequality fell sharply immediately after the Revolution in 1979 but has since remained fairly stable, with a Gini coefficient of around 0.44. Poverty, on the other hand, appears to have been falling almost steadily, from over 40 percent in the late 1980s to about 12 percent in 2006 (Salehi-Isfahani, 29 January 2009).³ Iran's economic growth in recent years has been modest at best and persistent unemployment and inflation have been the norm.

The country is fairly rich in human and material resources. Primary education is virtually universal and the number of university students approaches four million, nearly two-thirds of them women. Oil and gas exports bring in annual revenues of the order of \$70 billion, or about \$1,000 per capita per year.⁴ The revenues go entirely to the government and finance at least half of the budget. A good portion is used to finance welfare-oriented programmes, but the country falls far short of guaranteeing the welfare rights of its citizens. These rights are constitutionally defined thus:

“To benefit from social security with respect to retirement, unemployment, old age, disability, absence of a guardian, and benefits relating to being stranded, accidents, health services, and

³ The number in brackets is the corresponding Iranian year. Iranian years run from the beginning of spring to the end of winter. The current year, 1389, started on 21 March 2010. For ease of reference, an Iranian year is taken to correspond to the Gregorian year in which it starts and with which it overlaps for over nine months.

⁴ According to the Central Bank of Iran, revenues from oil and gas exports during the four-year period from 2005-2009 [years 1385-1388 in the Iranian calendar] amounted to \$280 billion. See <http://www.presstv.ir/detail.aspx?id=91305§ionid=351020101> [Accessed 1 August 2010].

medical care and treatment, provided through insurance or other means, is accepted as a universal right. The government must provide the foregoing services and financial support for every individual citizen by drawing, in accordance with the law, on the national revenues and funds obtained through public contributions.” (Article 29, Constitution of the Islamic Republic of Iran)

The social protection system is a complex web of public, semi-public and private programmes of varying scale that reach a large part of the population but not all. While the coverage in the public sector appears to be fairly comprehensive, the situation in the private sector is less reassuring, and that in the informal sector patchy. Apart from the Ministry of Welfare, *Komite Emdaad* – a semi-public national relief committee established immediately after the Revolution – plays a major role in implementing the government’s anti-poverty programme. It reaches millions of needy Iranians, providing a wide variety of services as well as cash transfers in some cases. It is funded largely by the government, although private donations are accepted as well. Nonetheless, many Iranians continue to be marginalised by the economic system and its lacklustre performance and fail to get their fair share of state assistance.

The bulk of state assistance takes the form of subsidies. Although a good portion goes to education, health care and infrastructure most consist of price subsidies on fuel products and a few basic food items (flour, milk, cooking oil, and sugar). Food subsidies are relatively small, accounting for less than 10 percent of a subsidy bill of \$100 billion a year, or about 30 percent of GDP. The overwhelming part consists of (implicit) energy subsidies as domestic prices of fuel products are kept exceedingly low: \$0.10 a litre for petrol and under \$0.02 a litre for diesel fuel (a single dollar buying some 60 litres!).^{5 6} The same applies to natural gas, electricity and water charges.

By all accounts, the subsidy system is economically inefficient, costly and unfair. It has bred excessive consumption of energy, environmental pollution, smuggling to neighbouring countries, and wasteful processing, transportation and consumption of foodstuffs. The subsidy bill has also been growing rapidly over

⁵ Iran’s domestic oil consumption is approximately 1.7 million barrels/day, or about 100 billion litres/year. On average therefore, fuel is subsidised to the tune of about a dollar a litre.

⁶ In June 2007 a rationing system was introduced that limited private cars to 100 litres/month (now reduced to 60), at the price of \$0.10 a litre. Purchases beyond quota are at \$0.40 a litre. Rationing will disappear when subsidies are scrapped. See <http://www.dw-world.de/dw/article/0,,5761988,00.html> [Accessed 1 August 2010].

the years with rising consumption and widening gap between international and domestic prices. And being non-targeted, subsidies have mostly benefited the rich who consume more, with 70 percent of the total benefiting the richest 30 percent of the population.⁷ Successive governments have sought to tackle the problem but backed away at the slightest sign of resistance. The current government has been less prone to giving up in the face of opposition to its plans, not least from some of its own supporters among the so-called “Principalists” majority in the parliament. The support of the Supreme Leader, Ayatollah Ali Khamenei, has been crucial in keeping the reform process on course, despite widespread concern and misgiving.

Reforming the system of subsidies

On 23 June 2008, President Mahmoud Ahmadinejad unveiled a far-reaching economic reform plan whose centrepiece was the replacement of energy and food price subsidies with direct cash grants to the population. The long-heralded plan would also overhaul the taxation, customs, banking, foreign exchange, insurance, and distribution systems, with a view to reducing wastage, promoting competitiveness and preserving the environment. The proposed reforms are designed to improve resource allocation by enlarging the scope for market forces on the one hand, and to redistribute oil rent in favour of lower income people on the other. With this plan, Ahmadinejad appeared to be trying in part to honour his election pledge of 2005 to put the oil wealth on every Iranian family’s *sofreh* (dinner table). He also promised that the reforms would put an end to poverty, rein in inflation and eliminate unemployment within a few short years.⁸

The details of the plan were sketchy at first; indeed some aspects of implementation are still being worked out two years on. Yet the government was very keen on putting it into effect expeditiously. Considering at the time that it did not even need new laws to proceed, it went ahead and invited all those wishing to be considered for cash grants to fill out an application form [the Household Economic Information Form], providing information on their socioeconomic situation. This information was needed to determine eligibility for cash grants since the intention initially was to target only the lower deciles of the population.

⁷ TV address by President Ahmadinejad, 23 June 2008; see http://www.tehrantimes.com/index_View.asp?code=171601, 25 June 2008 [Accessed 1 August 2010].

⁸ For an account in English of his TV address, see http://www.tehrantimes.com/index_View.asp?code=171601, 25 June 2008 [Accessed 1 August 2010].

The exercise was carried out rapidly towards the end of 2008 by the Statistical Centre of Iran. Nearly 70 percent of households applied.

However, the radical nature of the subsidy reform and the government's evident rush to launch it sounded alarm bells, notably in the parliament. There were two main concerns: first, suspicions about the government's motives in handing out cash to large sections of the population only a few months before the next presidential elections set for June 2009; and, second, widespread fears, even among government's own supporters, of adverse effects in terms of inflation, poverty and social unrest, particularly if price supports were removed too quickly and implementation was poorly managed. Despite government protestations to the contrary, many believed that adequate preparations had not yet been made and more time was needed to discuss the proposed reform and thrash out the details. The government was thus obliged to submit its plan to the parliament, which it promptly decided to put on hold until after the presidential elections and pending thorough examination by a special parliamentary committee set up specifically for the purpose. It was not until a year later, towards the end of 2009 and several months after the disputed June elections, that the [full] parliament took up the discussion of the bill.

The "Targeting Subsidies Law"⁹ was eventually passed in January 2010.¹⁰ It differed from the original bill in several important respects, mostly having to do with the delineation of the population targeted for transfers, the pace of implementation, and the exercise of control over the resources generated from the removal of subsidies. In the next section we turn to the key features of the cash transfer provision of the law that bear on the prospects of a basic income grant.

Cash transfers: The main issues

Since the economic reform plan was publicly announced two years ago, a variety of contentious issues had to be discussed and decided, mostly in the parliament. Few of these were resolved to the satisfaction of all concerned, although enough compromises were made along the way to enable passage of the law with a slim majority and the start of its implementation, now set for the second half of the

⁹ This common translation of the "*Ghanoon-e hadafmand kardan-e yaraneha*" may sound incongruous in English since the law is in fact designed to *eliminate subsidies* and replace them with *universal* cash transfers. The "purposeful redirection of subsidies" might be a better, if less literal, translation of the Persian original, with the term "*yarane*" referring both to the price subsidies as well as to the transfers from the government that replace them.

¹⁰ For the full text of the law, see <http://www.dolat.ir/NSite/FullStory/?id=186120> [Accessed 1 August 2010].

current Iranian year between 21 September 2010 and 20 March 2011. In some cases, the government itself went back on its earlier intentions as they proved impractical. The changes have moved the reform towards a cash transfer system akin to a basic income grant for all, which was far from the original intention of either the government or the opposition. It appears that, to borrow from Van Parijs (2006), the “simplicity and power” of the basic income concept have proved themselves compelling in the to-and-fro of discussions as compromise solutions and easier implementation modalities were sought to bring this “economic surgery” to fruition. This section discusses the main points of contention and their eventual resolution, with a focus on showing how some key features of basic income began to emerge one after another.

From subsidies to cash transfers

Cash transfers are not new in Iran and a variety of policies and programmes have been in place for years. Millions of needy Iranians have been receiving cash and in-kind assistance from *Komite Emdaad*, mentioned earlier. The ongoing privatisation of public enterprises includes, among other measures, the allocation, for free, to millions of Iranians of “justice shares,” which were initially valued at about \$500 per recipient in 2006 but have since been raised to \$1,000. Plans have also been announced for the government to open a saving account for each Iranian baby born from now on [1389 in Iranian calendar] with an initial deposit of \$1,000, supplemented afterwards with regular contributions from the government (\$100 each year) as well as, if possible, parents (at least \$20 a month), for use by the child after he/she reaches 18 years of age.¹¹ Numerous other cash transfer programmes exist as well, for example in the form of New Year bonuses equivalent to two to three times the minimum wage for workers covered by the labour law. However, most of these policies and programmes are rather *ad hoc* and some are criticised for being wasteful, discriminatory or misguided.¹²

Similarly, proposals to distribute a large share of the oil revenues to the population in the form of cash have been around for years, indeed decades. These however have generally been advanced by private individuals with no influence on official state policy. The sole one that was politically significant was that of

¹¹ See <http://www.farsnews.net/newstext.php?nn=8905030650> [dated 26 July 2010; 4 Mordad 1389] [Accessed 1 August 2010].

¹² The allowance for the newborn, for example, is decried by some for fear that it might undo one of the crowning achievements of the country in the 1980s and 1990s, namely, a dramatic reduction in the birth rate and population growth as the fertility rate dropped from 6.8 children per woman in 1984 to 2.2 in 2000 (Abbasi-Shavazi, 2002, p. 425). See, for example, <http://www.shafaf.ir/fa/pages/?cid=18629> [Accessed 1 August 2010].

Mehdi Karrubi, a reformist presidential candidate in 2005.¹³ Karrubi's election platform pledged to distribute to every Iranian over 18 years of age the equivalent of \$50 a month financed from oil exports, savings in the national budget, reduced consumption of petrol and replacement of some other transfers.¹⁴ The payments were to be regular and unconditional. It is unclear to what extent this particular pledge of a basic income for adults contributed to Karrubi's 5.3 million votes but it was widely dismissed at the time as populist election *avaamfaribi* (demagoguery) that would turn every Iranian into a "beggar". With his election loss, the proposal became moot and was forgotten.

But while cash grants may not be new in Iran, the psychological barrier to their universal distribution without a *quid pro quo* ethic underpinning them is real, as the dismissive reactions to Karrubi's basic income plan showed. In Ahmadinejad's plan, cash transfers are not a handout. They are rather justified and perceived as a means of compensating the population for the removal of subsidies to which they have become accustomed. Many view cheap oil as a benefit to which they are entitled as a major oil producing nation, and the metamorphosis from price subsidies to cash transfers is seen as merely a change of form in that entitlement. Thus the idea of replacing price subsidies with direct cash payments, which many other countries have also tried, faced no psychological hurdle as such; it was just that the terms of this exchange had to be acceptable to Iranians.

This is where the magnitudes involved begin to play a major role. The novelty is in the enormous scale of the price hikes envisaged and of the revenues generated from them. The implicit subsidies of some \$100 billion actually exceed the revenues of around \$70 billion from oil exports.¹⁵ *Given the magnitudes involved, it is difficult to conceive of any realistic alternative to cash transfers in compensation for the withdrawal of subsidies.*

¹³ Karrubi, a cleric formerly regarded as one of the pillars of the regime, was the speaker of the parliament twice during 1989-1992 and 2000-2004. He finished third in the first round of presidential elections in 2005, just behind Tehran mayor Mahmoud Ahmadinejad who went on to win the second round against the former president Akbar Hashemi Rafsanjani. Karrubi stood again as candidate for president in the disputed June 2009 elections. He, along with the better known Mr Mir Hossein Mousavi, is now spearheading the opposition movement in Iran.

¹⁴ Karrubi's interview, published on <http://sharifnews.ir/>, 4 May 2005 [14 Ordibehesht 1384]; the website is no longer operational.

¹⁵ It should perhaps be emphasised that this comparison does not imply that the two figures are related; they are not. Subsidies being mostly implicit, they are not financed by oil exports or budgetary resources. They arise because domestically produced oil and gas (the sector is nationalised) are sold cheaply on the local market, with the government not collecting the extra revenues it could have had if fuel were sold at international prices. The purpose of the reform is now to collect these extra revenues and redistribute them in the form of cash transfers.

The conversion of implicit subsidies into cash payments also solved one of the greatest obstacles to the introduction of a meaningful basic income anywhere, namely, adequate and secure funding. The potential revenues from subsidy cuts that may be distributed to households in cash are, by law, up to 50 percent of the subsidy bill of \$100 billion, or about 15 percent of GDP. Thus adequate resources would not only be available for a comparatively generous universal basic income; they would also imply no burden on the government budget or oil revenues. *It is the people themselves who would fund it directly by the higher prices they pay for the goods and services that would no longer be subsidised.* What is involved is simply a massive redistribution of existing household incomes in favour of the lower income strata of the population.

Coverage: Targeting that wasn't to be

The extent of coverage of the population in the cash transfer programme was a thorny issue and the final result – universal entitlement – is a pragmatic way of avoiding the practical difficulties of managing any type of means-tested targeting, a lesson that the government had to learn the hard way.

Understandably, the government's initial intent was to limit the transfers to the less well-off sections of the population, primarily for reasons of social justice. These were said to include the seven lower income “deciles”¹⁶, a majority of the population that had hitherto received less than a third of the subsidies. But the government also tried to placate the three better-off “deciles” by promising them non-cash benefits in the form of insurance coverage as well as the prospects of joining the transfer programme at some later stage.

But the preliminary consultations in 2008 revealed that some lawmakers considered this coverage excessive and wanted to limit the transfers to the poor only, i.e. to the bottom two “deciles”. As a compromise, the bill that was sent to the legislature proposed to cover the lower five “deciles” of the population.

Meanwhile the technocrats were struggling with ways of making sense of the massive amounts of data they had collected from millions of households upon registration for the transfers. Their idea was to divide up the population into three groups or “branches” (*khoosheh*): (i) the bottom four “deciles” that would be

¹⁶ The term “decile” is the literal translation of the Persian term “*dahak*” that is confusingly also used in this context to refer to specific target groups, such as the beneficiaries of *Komite Emdaad*, farmers, teachers, etc. But in the aggregate, seven “deciles” do actually comprise a significant majority of the population, if not exactly 70 percent of it.

entitled to the highest transfer amount per person; (ii) the middle three “deciles” that would receive somewhat less; and (iii) the top three “deciles” that would not receive any. Having accomplished this breakdown, they invited the public to find out the group to which they belonged by visiting the website of the Statistical Centre of Iran, or through SMS, telephone call, etc. The classification methodology has not been revealed¹⁷ but the results led to a great deal of discontent (and not a few jokes) as many people were surprised to learn of the group to which they had been assigned. The exercise became so embarrassing that the government eventually decided to suspend it, at least for the time being.¹⁸ Henceforth, all Iranians were declared eligible for cash payments. *Universal coverage had arrived through the back door.*¹⁹ The failed attempt at means-tested targeting had starkly highlighted some of its common drawbacks (errors of inclusion and exclusion, low take-up, stigma, work incentive, cost, etc.), particularly when most of the population is meant to be covered.

Pace of implementation

There has been relatively little discussion of how far the price reforms would go to eliminate existing subsidies; it has been taken for granted that they would go practically all the way to bring the final prices broadly into line with international prices in the cases of tradable goods (fuel and food), and with the cost of production in the case of services (water and electricity).²⁰ This implies that current prices would have to rise severalfold, in some cases tenfold or more. A key issue was therefore the pace of implementation.

There were two opposing perspectives, mainly focused on the inflationary effects. On the one hand, the government was keen to carry out the reforms fairly quickly,

¹⁷ The assignment of the households to the three *khoosheh* used a model that estimated household income on the basis of various proxy indicators such as habitable area per person, car ownership, etc. on which data were collected at the time of registration. If the estimated income was higher than the self-reported income it was used for the classification; otherwise the reported income was used. See interview with the former head of the Statistical Centre of Iran, see <http://www.farsnews.com/newstext.php?nn=8904301822>, 23 July 2010 [1 Mordad 1389] [Accessed 1 August 2010].

¹⁸ See the interview with the former head of the Statistical Centre of Iran who resigned over the issue, <http://www.farsnews.com/newstext.php?nn=8904301822>, 23 July 2010 [1 Mordad 1389] [Accessed 1 August 2010].

¹⁹ It is not known if certain categories of populations (the 4-5 million Iranians in foreign countries, institutional populations such as prisoners, etc.) are eligible to apply, directly or through their families.

²⁰ The law allows the government to stabilise domestic prices of the goods concerned as long as the fluctuations in international prices do not exceed 25 percent. Otherwise, domestic prices would have to be adjusted.

in two or three stages over as many years, considering that the inflationary effects would thus be one-off or short term. Others feared that massive increases in prices of indispensable goods and services risked being unbearable for many and socially disruptive if imposed too quickly, even if accompanied by direct cash transfers. Fearing, too, that inflation might get out of hand otherwise, they favoured a more gradual pace. The latter perspective eventually prevailed in the parliament, with the law foreseeing progressive implementation of the reform over a five-year period. For the first year, the law specifically limits the amount of revenues that are collected through price hikes to \$10-20 billion.

The government however balked at this provision of the law, in part because a slower start would also mean smaller initial transfers, which would be less appealing to the public and could undermine their cooperation.²¹ This was of all the more concern as revenues from oil exports were already being squeezed by falling international prices and as coverage had been extended to all rather than limited to only part of the population. The government demanded that it be allowed instead to collect \$40 billion in the first year of implementation, insisting that it would otherwise not be able to implement the law. And to back that up, it failed to begin implementation in March 2010 as foreseen in the law.

This hard-line stance raised a constitutional issue regarding the authority of the government to defy the parliament and refuse to implement the law of the land. The stalemate was eventually resolved with the intervention of the Supreme Leader and a compromise was struck whereby the law would remain unchanged but the government would be permitted to delay implementation for some months, ostensibly to allow for more thorough preparation. What happened next was predictable: the government put off implementation until the second half of the [Iranian] year, or the period from 21 September 2010 to 20 March 2011.²² This

²¹ Prices, too, would of course be correspondingly higher since the initial cuts in subsidies would be deeper, but this is likely to be more beneficial to the poor and preferable in terms of redistribution.

²² The Minister of Economic Affairs and Finance, the principal government spokesman on economic issues, recently announced that implementation will start at the beginning of the second half of the year, that is on 21 September 2010. Three days later, another government spokesman, the Minister's deputy heading the technical preparatory team, nuanced that announcement by saying that, although implementation would begin during the second half of the year, the launch date may not necessarily be at the start of this period. See http://www.donya-e-egtesad.com/Default_view.asp?@=215130, 15 July 2010 [24 Tir 1389] [Accessed 1 August 2010]. Such ambiguous and contradictory announcements have been rather common and should be treated with caution. They may be a deliberate ploy designed to counter possible hoarding before price rises take effect. There is at least one precedent: When the fuel rationing system was launched in 2007, the definitive official announcement came only a couple of hours before it went into effect at midnight. A more pessimistic view points to the repeated delays in launching the

effectively doubles the pace of implementation in the first year since the price hikes and the resulting revenues that were mandated by law to be spread over one year will now have been squeezed into six months or less, thereby allowing the initial transfers to be twice as high. The payments are expected to start somewhat earlier so as to precede the rise in prices.²³

Transfer amount

There has so far been no official announcement of the transfer amount. Tentative figures have been mentioned by the president himself and other officials, or estimated by experts and journalists, over the past two years. These vary widely, depending on the underlying assumptions. The basic arithmetic however is simple enough. Subsidies are estimated at around \$100 billion a year.²⁴ If they were to disappear entirely, as envisaged, a maximum of \$50 billion would be available for distribution to the public since the law sets aside up to 50 percent of the proceeds from subsidy cuts for this purpose.²⁵ *This implies an average of about \$720 per person per year, or \$60 per month, if the coverage is universal.* This amount falls short of what the president has hinted at in the past, which was around \$100 or more. The two main reasons are the recent weakening of oil prices in international markets²⁶, as well as the extension of coverage to all the population. On the other hand, given the number of applications so far, some 10 percent of the population is likely to forego their entitlement voluntarily because of the modest amounts involved, reluctance to provide the required information on incomes and assets, lack of information about the programme, or simply heeding the government's pleas to the better-off to refrain from applying for the grant if they can do without it, thereby leaving more funds available for those who need it more.

Several other points are worth noting in this connection. First, the law mandates a period of five years for the gradual withdrawal of subsidies. The initial amount of

programme and wonders about the government's resolve in the matter, see <http://www.jahannews.com/vdcdo90fsyt0xz6.2a2y.html> [Accessed 1 August 2010].

²³ The government is allowed to temporarily use other budgetary resources to make this possible, until revenues from the reduction of subsidies become available.

²⁴ The main subsidised items are fuel products with fixed domestic prices and variable international prices. Domestic prices will be raised to about 90 percent of market prices in the Persian Gulf. The (variable) gaps between the two sets of prices are used, along with relevant quantities consumed, to arrive at aggregate subsidy estimates. The calculations also take into account subsidies on a number of other items (mainly bread).

²⁵ The other half would be used in the main to compensate industry and agriculture for their loss of subsidies and to strengthen the country's social security system.

²⁶ This decline narrows the gap between domestic and international prices of fuel products, reducing the amount of revenues that can be generated from cuts in subsidies.

the transfer will thus be well below the indicative figure of \$60 per person per month calculated above, which refers to the accumulated amount at the end of the implementation process as it is progressively increased. Given the limits set by the law, the initial amount of the transfer is likely to be around \$25 per person per month at the start of the implementation phase towards the end of 2010.²⁷

Second, the law calls for the consideration of *household* income in setting the transfer amount, implying that poorer households should receive larger transfers. It appears that this requirement is being fulfilled in a fashion through (i) paying the same amount of transfer *per person*, making the amount per household proportional to household size, which tends to be negatively correlated with household income in per capita terms; and (ii) the declared intention to pay a somewhat higher amount per person in rural areas and in the more deprived regions of the country, as compared to the rest of the country.

Finally, it may be noted that the full amount of the transfer, to be reached at the end of the implementation process, will be well below the various poverty lines that are available. The aggregate amount for a household of five however, i.e. about \$300 per month, would be comparable to the minimum wage of \$303 per month in 2010.²⁸

Implementation modalities

The implementation modalities of the reform are currently being finalised in anticipation of its launch in the next few months. This section summarises some of these modalities.

Registration: *Registration is voluntary but required for those who wish to receive the grant.* It involves the head of household filling out the Household Economic Information Form through the Internet or at post offices and other locations, providing information on household composition, incomes and assets, participation in state assistance programmes, etc. To the extent possible, the information supplied is verified against other databases available to the

²⁷ The law limits the revenues generated from subsidy cuts to \$10-20 billion during the first year of implementation, which is supposed to be the current Iranian year that started on 21 March 2010. The government will likely try to collect the maximum amount of \$20 billion allowed for the first year during the second half of the year, i.e. between 21 September 2010 and 20 March 2011. Since up to 50 percent of that amount can be transferred to households, that would mean distributing about \$10 billion to over 65 million people (90 percent of the population) over a six-month period, which works out at about \$25 per person per month.

²⁸ See <http://www.presstv.ir/detail.aspx?id=88372§ionid=351020102> [Accessed 1 August 2010].

government (birth registration, car registration, social assistance received, bank loans, etc.). The original purpose of collecting such data was to determine eligibility for the grant and its amount.

As noted before however, this turned out to have been a hasty decision as it was later decided to opt for universal coverage. Targeting was suspended but the door has been left open for its possible revival at a later stage. Households are thus still required to fill out the form if they wish to participate in the transfer programme. So far about 18.5 million households (90 percent of all households and 67.6 million people) have registered.²⁹ The reasons for the failure to register include, *inter alia*, reluctance to provide sensitive information, the modest transfer amounts likely to be involved, lack of information about the programme, and government pleas to the well-off to desist if they can afford to do without the transfer.³⁰

Conditions and conditionalities: *There are neither conditions to be fulfilled to qualify for the transfer (apart from citizenship and registration), nor conditionalities to meet to continue receiving it.*

Payment of transfers: *The entire amount of transfers due to members of a household will be made to the head of the household through the banking system, once every other month. Each household head is required to provide bank account information through the Internet, a process that is advancing province by province and is nearing completion. The bank account details will have to be checked and confirmed by the bank concerned.*

Information flow: Despite the importance of the reforms and their substantial implications for people's livelihoods, the information flow has not been a shining example of consistency, clarity and transparency. Lawmakers, experts and journalists, not to mention the general public, have often complained about the lack of detailed and reliable information.³¹ Government officials and

²⁹ Figures announced by the Statistical Centre of Iran, http://www.jahaneghtesad.com/portal/index.php?option=com_content&view=article&id=4860:1389-04-24-13-06-26&catid=81:1&Itemid=458, 15 July 2010 [24 Tir 1389] [Accessed 1 August 2010].

³⁰ This can be done by not providing a bank account number, even if a household has registered. In fact registration is still encouraged to help build up a national databank on the socioeconomic state of the nation, a secondary objective that has now become the main rationale for seeking such information at registration.

³¹ A recent survey of Tehran's population found that only 20 percent of respondents were more or less aware of the government's declared intention to launch the implementation of the law during the second half of the current Iranian year. The level of public awareness is presumably even less

spokespersons all too often make announcements that prove to be unfounded or contradictory. Part of the reason has no doubt to do with the fact that the exercise is complex and decision making involves laborious processes in a changing environment. Nonetheless, a more timely and coordinated approach to information dissemination is essential to minimise unnecessary confusion and help the population better to prepare for the forthcoming changes.

Mistakes have also been made. The initial plan to target the cash transfers, requiring application forms to be filled out as far back as two years ago, is one glaring example since the subsequent scenario was perfectly predictable. The limited involvement of non-governmental experts in consultation processes could be another. And tasking the Statistical Centre of Iran with the identification of targeted beneficiaries may have been unwise as well since it could compromise public confidence in the confidentiality of information it collects regularly as part of its normal mandate (Salehi-Isfahani, 18 March 2010). But lessons have also been learned to improve the design and implementation of a unique programme of unprecedented scope.

A basic income grant in all but name

The developments discussed above represent a huge stride towards a system of cash transfers in Iran similar to a basic income grant. This section focuses on the extent to which features of this system correspond to, or deviate from, the essential attributes of a fully-fledged basic income grant. But we need first to establish what these essential attributes are.³²

There are many definitions of a basic income in the literature and they are not identical. Supplementing a concise definition provided by Philippe Van Parijs with elements from other definitions, a basic income may be defined as “*a regular cash transfer made by a political community to all its members on an individual basis for life, as a matter of right and without means test or work requirement*”.³³ Its purpose is to ensure access to a certain level of income independently of the recipient’s circumstances. This income may or may not be sufficient to allow a minimal standard of living. It may or may not be provided to

in other parts of the country outside the capital city. See <http://www.hamshahri.org/news-112377.aspx> [Accessed 1 August 2010].

³² Because the primary target audience for this paper is BIEN members who are familiar the concept of basic income, we shall not discuss its rationale. For reviews of arguments for and against basic income, see, for example, Raventós (2007); Standing and Samson (2003); and Van Parijs (2006).

³³ According to Van Parijs (2006, p. 4), “[a] basic income is an income paid by a political community to all its members on an individual basis, without means test or work requirement”.

(long-term) residents who are not members of the community or citizens of the country. While the details may vary, the fundamental characteristic of a basic income is the legal entitlement of the recipients to a stream of income that provides a certain amount of economic security.

Table 1 outlines the typical features of a theoretical basic income at the national level along with those of the forthcoming cash transfer programme in Iran. As may be seen, the transfers in Iran are legal entitlements that are expected to be universal, regular and unconditional, all necessary attributes of a basic income. They are also expected to be fairly substantial by the time they reach their full amount at the end of the implementation phase.

What is less clear is the duration over which the transfers will continue to be made. This issue has been virtually absent from discussions in the country. Since the subsidies are being removed permanently, one might presume that the transfers should continue as long as Iran is producing enough fuel to meet its domestic consumption, fuel that could be sold at subsidised prices but would not be, hence justifying continued transfers. This is likely to be the case for another decade or two at least. The more immediate risks to sustainability are likely to arise from (i) drastic declines in international oil prices that, by narrowing the gap between potentially subsidised domestic prices and international prices, reduce revenues from subsidy cuts; (ii) sanctions hampering oil exports, thereby increasing the budget deficit; or indeed (iii) war if the so-called “nuclear issue” is not resolved peacefully.

The transfers in Iran are going to be universal, except for two main groups, one domestic and one foreign. The first consists of those who voluntarily forego their entitlement to the transfer, mainly the well-to-do who do not need it or do not wish to provide the requisite information about their incomes and assets. There may also be some who are unaware of their right to the transfer, or face administrative obstacles. However, these are take-up issues that affect social transfers around the world. The proportion of the population that has not yet applied (as of July 2010) is around 10 percent. Their generally voluntary non-participation presumably does not violate the universality requirement of a basic income, which would still reach over 65 million people.

More problematic is the case of the second main group: foreign residents in Iran. Iran has a fairly large population of refugees and immigrants, currently numbering over two million and consisting mostly of the nationals of Afghanistan and Iraq. These foreign residents will take the full brunt of the subsidy cuts but, as non-

citizens, do not qualify for the grant. As far as the author is aware, there has been no public discussion of this issue so far.

Table 1: Comparative Features of a Theoretical National Basic Income Grant (BIG) and Iran's Cash Transfer Programme		
Feature	Theoretical National BIG	Iran's Cash Transfer Programme
Legal entitlement to grant/transfer?	Yes	Yes: Targeting Subsidies Law of January 2010
Purpose of programme	Provide a certain level of economic security	Compensate for withdrawal of price subsidies on fuel products and some other goods and services
Political community involved	Nation, National government	Nation, National government
Population covered All citizens? Foreign residents in country? Citizens residing outside country? Institutional pop. (prisoners, etc.)? No. of people covered	Universal Yes May or may not be included Not known Varies by category Case specific	Universal Yes, but the well-off are encouraged to desist Not included Not known Not known Over 65 million (about 90 percent of population)
Cash transfers Regular? Amount/person uniform? Amount/person/month (\$)? Amount relative to poverty line Amount relative to minimum wage Satisfies basic needs? Replaces other cash	Yes No, may depend on age Case specific No necessary relation required No necessary relation required May or may not May or may not	Yes Yes, same for all regardless of age Not known yet, can reach \$60 or more over time Much less For a household of 5, comparable to one minimum wage No, not meant to No

transfers? Recipient	Entitled individual	Household head (on behalf of all household members)
Payment modality	Case specific	Paid into bank account, once every two months
Duration	For life	Not known; in principle continuing as long as domestic oil production can meet domestic demand
Funding Source	Case specific	Revenues from withdrawal of price subsidies
Total amount	Case specific	\$50 billion a year when implementation is completed
Emerged through	Advocacy campaign	Virtually by organic default
Conditions (to join programme) Citizenship required?	Not necessarily	Yes
Registration required?	Yes	Yes
Means test required?	No	No
Work requirements?	No	No
Conditionalities (to stay in programme)	None	None

The basic income should in principle be paid to the adult individual entitled to it. This will not always be the case in Iran since the payments due to household members, whether child or adult, will go solely to the head of the household. Heads of households are overwhelmingly male and there has been some discussion as to whether the entitlement of adults should not be paid directly to them individually, rather than to the head of the household to which they belong. Many cash transfer schemes in other developing countries tend to give the transfer to the women of the household on the grounds that they are more likely to use it to improve the welfare of household members, particularly of children. Intra-household distribution is a significant issue that needs to be carefully studied in the case of Iran's transfers, despite cultural sensitivities that exist. The problem of drug addiction further complicates the matter.

The transfers in Iran would not be paid out of redistributive taxation. It is rather revenues from the abolition of fuel (and food) price subsidies (implicit subsidies)

that are earmarked for the purpose. As far as the author is aware, this approach to funding a basic income has not been discussed in the literature.

Finally, it may be noted that the basic income-like system of cash transfers in Iran is taking shape in the wake of an attempt to correct the misallocation of national resources and their unfair distribution. Its emergence has little to do with the force of arguments typically advanced to justify a basic income, particularly the right-based arguments. Indeed, had such arguments been prominent in the discourse on transfers in Iran, the reform plans might well have fallen by the wayside. The adoption of the reforms and the birth of a *de facto* basic income owe much to the fact that cash transfers are widely viewed as compensation for the loss of subsidies, not as a right or entitlement without a *quid pro quo*. But the compensatory function operates at the aggregate / national level, not at the individual / household level. This is what allows the redistributive power of cash transfers to come into play, reducing income inequalities, at the same time that the removal of price supports improves resource allocation.

If the above interpretation is correct, it is neither necessary nor advisable to be too forceful in pushing the basic income idea into the ongoing policy debate, which is complicated enough but moving in the right direction. But it might well be useful, perhaps even encouraging to Iranians, to draw attention to the distinctive route that is effectively leading to a basic income in Iran, a route that has apparently not been envisaged by its proponents as a possibility. The Iranians were looking for a way to do away with a bankrupt system of subsidies and promote growth and income redistribution. They are getting a basic income in the bargain as well, even if they may not be aware of it or particularly care.

The need for impact evaluation

The impact of major policy shifts or programmes should be systematically evaluated in terms of their own stated objectives (e.g. reducing poverty, income redistribution, etc.) as well as in related areas that may be affected (e.g. child labour). The lessons, positive or negative, will help the formulation of better policies and programmes and improve their implementation, in the country and beyond. But no less important is the fact that building up a solid evidence base for the effectiveness of new initiatives tends to make them less vulnerable to shifting political currents. These were the reasons that prompted Mexico's conditional cash transfer programme, *Progresa*, to incorporate a comprehensive evaluation

component at its inception in the mid-1990s, managed by an international research institute³⁴ to ensure its independence, credibility and quality.

The evaluation of *Progresa* involved numerous researchers from around the world who produced, over the years, a large number of studies assessing the programme and its impact from different perspectives. Many of the studies were subsequently published in reputable journals or disseminated through other outlets. Demonstrating with scientific credibility that the programme was by and large successful and achieving its objectives in a cost effective manner, *Progresa* went from strength to strength as it improved its design and performance on the basis of evaluation findings. It thus not only survived the change of government in Mexico in the year 2000 when the opposition came to power, but thrived even more as the new government expanded it with a change of name to *Oportunidades*. The proliferation of conditional cash transfer programmes around the world owes much to the body of evidence accumulated on *Progresa* as well as on similar programmes in Brazil (*Bolsa Escola*, later *Bolsa Familia*) and elsewhere. Indeed, following in the footsteps of these early pioneers, most new programmes of the kind in other countries routinely build in a substantial impact evaluation component from the start, as an efficiency-enhancing and credibility-inducing mechanism.

As in most other developing countries however, the culture of evaluating social programmes is unfortunately not well established in Iran. This is a serious gap that needs to be addressed urgently in the case of the forthcoming reforms. The reforms will bring massive changes affecting the entire nation. They should not only be carried out well, they should also be shown to be performing well. One must be mindful of the fact that there is much scepticism surrounding the reforms and they currently enjoy only lukewarm support, if any, on the part of many politicians, experts and the public at large. It is through accumulation of empirical evidence and thorough analysis that the relevant issues may be fruitfully discussed, debated and resolved, instead of them being politicised. As in the case of Mexico's *Progresa*, the risk of derailment due to unwarranted political interference needs to be recognised and guarded against, and the best means of doing so is to promote and facilitate informed discussion and debate.

Apart from the need to know the consequences of the reforms in such fundamental areas as inflation, consumption pattern, poverty and income distribution, there are a host of pending issues that have yet to be definitively settled. For example, while the coverage of the population for cash transfers is

³⁴ The International Food Policy Research Institute (IFPRI). See Behrman (2007).

now universal, there is much talk of targeting the transfers at some later stage when the government gets a better handle on the socioeconomic information collected through the registration process. Would this be a wise move? Another uncertainty has to do with the duration of cash payments. There was talk early on in the discussion of the reforms that cash payments would be transitory and after a year or two, they would be integrated into the country's social protection system. It was not entirely clear what this signified and the idea was soon buried. But there clearly are alternative ways of transferring cash resources to the public that need to be explored and their implications analysed. A further example is the relative merits and drawbacks of making the payments at the household level, rather than separately to individual adults. And, various issues from the perspective of basic income need to be investigated as well. Is this *de facto* basic income grant working reasonably well? Is there empirically supported evidence that the presumed advantages of a basic income are indeed real? These and similar issues, including the appropriate methodology for impact evaluation in such a unique case where comparison groups would be hard to find, are of substantial importance to many researchers and policy makers.

Iran will of course be the main beneficiary of a rigorous evaluation of the reforms, in particular of the cash transfer programme. But the results will be of interest to other countries and diverse groups as well. The Basic Income Earth Network (BIEN) – an international network of many prominent academics and activists promoting basic income as a right – would be especially keen to follow the evolution of this pioneering example of a nationwide *de facto* basic income grant, all the more so as it emerges in a context and manner that was hardly imagined. The interest was clearly evident at the recent BIEN Congress in Sao Paulo, Brazil, where this paper was presented.

Real world examples of basic income are quite rare and small, with the state-level Alaska Permanent Fund Dividend programme³⁵ and Namibia's village-level Basic Income Grant Pilot Project³⁶ being those most commonly cited. Iran's cash transfer programme is going to be the first truly national implementation of a *de facto* basic income grant, even if the concept itself has never been invoked in the country. As such, it is of paramount importance to follow its evolution and assess its consequences as they unfold. The basic income advocates in BIEN, in particular, have a remarkable prospect in front of them. They may soon be able to hold up not just a village in Namibia or Alaska's Permanent Fund Dividend as the closest examples of a basic income grant in existence, but a fully-fledged, nationwide programme of unlikely provenance.

³⁵ See Goldsmith (2005).

³⁶ See Namibia BIG Coalition (2009).

But Iran, too, should be keen to learn from the experiences of such countries as Brazil, Mexico, South Africa and Turkey, all of which boast of large-scale cash transfer programmes for years, conditional or unconditional. The evaluation efforts of these countries would be of much value to analysts, planners and decision makers in Iran. Efforts need to be made to facilitate the exchange of experiences between these countries and Iran, particularly in view of their excellent relations with the country. Such exchanges would be of considerable benefit to both sides and BIEN is well placed to promote them.

Conclusions

The replacement of price subsidies by a cash transfer system of unprecedented scope and scale are placing Iran in the forefront of all countries in advancing towards a nationwide basic income. Equally remarkable is the fact that this development is not a deliberate policy decision but the fortuitous outcome of a process aimed at reforming an inefficient and unfair system of subsidies and making the transition palatable to politicians and the public at large.

This process is characterised by several features. First, the attempt at means-tested targeting failed, demonstrating some of its well known drawbacks, particularly when most of the population is meant to be covered. The main difficulty was the widespread perception, justified or not, of errors of inclusion and exclusion based on self-reported information.

Second, the fact that a basic income is emerging by default tends to substantiate Van Parijs's characterisation of it as "a simple and powerful idea for the twenty-first century". It is indeed the simplicity and power of the concept that has imposed itself as an alternative to the current system of subsidies, even if there is no recognition or mention of it at all in Iran.

Third, the institution of a basic income in Iran requires no new resources and puts no new burden on the government budget or revenues from oil exports. It will be funded entirely through a redistribution of existing household incomes as higher prices for hitherto subsidised goods and services generate the revenues needed for cash transfers.

Fourth, the fact that such a major transition towards a basic income is taking place first in a developing, Middle Eastern, Islamic state, not a developed country in northern Europe as many had presumed, underlines the relevance of the concept for a broad set of countries.

Fifth, given the novelty of the reforms, the scale of the resources involved, and the widespread interest in its outcome around the world, it is imperative that this enormously important shift in social policy is subjected to a systematic, comprehensive and continuing impact evaluation. The results would not only benefit Iran in improving its management of the programme in the months and years ahead, it would also advance awareness and knowledge across the world of a bold and promising initiative that is likely to have beneficial impacts on the livelihood of many millions and, no doubt, weaknesses too that should be identified and addressed as soon as possible.

Finally, the specificities of the Iranian experience should not be ignored however. It is in large part the combined availability of domestic fuel resources and their exceptionally distorted pricing policy that has made it possible, indeed almost inevitable, for a basic income to emerge as part of the solution. The model may have only limited relevance for other countries, although some oil producing nations in the Middle East and elsewhere may be exceptions. But those specificities should not be exaggerated either. There may be scope in some countries with large subsidy bills financed through taxation to explore the feasibility and wisdom of rerouting subsidies to fund a basic income, without additional taxation. Iran's experience may hold some lessons of wider applicability, if they are properly drawn and are convincing.

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