

Universal Basic Income by Default: Lessons from Iran’s “cash subsidy” programme

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This paper considers Iran’s nationwide universal cash transfer programme which was launched in December 2010 as compensation for massive cuts in subsidised prices of energy and other basic products. We focus on the unusual manner in which the programme emerged and its potential lessons. Of particular interest is the impact on incomes and expenditures, labour supply, inflation, income distribution and poverty in the immediate aftermath of the launch of the programme, as well as its implications for similar schemes such as financing a UBI by carbon taxes. Given an extremely adverse broader environment however, the programme, while still continuing after eight years, has lost much of its lustre as the purchasing power of the transfers has been largely wiped out through inflation.

1. Introduction

Iran’s universal cash transfer programme, launched in December 2010, consists of paying all Iranians irrespective of age, sex or work status, a fixed sum of 455,000 *rials* per month—equivalent at the time to US\$45 / person at the official exchange rate¹—which, for a household of average size, amounted to two-thirds of the minimum wage. Officially labelled a “cash subsidy”, this scheme, strictly speaking, is not a basic income as it is not paid to individuals but to household heads in proportion to their household size. Otherwise, it shares the key features of a Universal Basic Income (UBI): it is paid by the government on a regular monthly basis, covers the entire population, and is unconditional. The amount did not cover the basic needs (not a requirement in a typical UBI) and its purchasing power has dropped dramatically over the years. But the scheme has been popular and shown a remarkable staying power, despite a hostile economic environment, political vicissitudes and considerable controversy throughout. This resilience highlights an important lesson of a UBI: once begun, it is very difficult to halt it. And if it is not framed from the outset as the citizens’ right to a basic income, it can be allowed to fizzle out through inflation, as seems to be the case in Iran. However, given the size, duration and universality of Iran’s cash transfer scheme, other valuable lessons from this experience, in terms of its mode of financing and various impacts, may be learnt.

This chapter presents Iran’s cash subsidy scheme, beginning, in the next two sections, with an overview of its genesis and actual implementation. This is followed by an assessment of the impact of cash transfers on incomes and expenditures, labour supply, inflation, income distribution and poverty. Section 5 then turns to the evolving state of debate and policy on the scheme itself and its future prospects. The concluding section highlights some lessons of Iran’s experience that might be of relevance to similar efforts elsewhere.

¹ The Iranian currency, the *rial*, was at the time subject to a managed floating exchange rate regime that effectively kept it pegged to the US dollar for years at rates hovering around US\$1 = IRR10,000. Unless noted otherwise, dollar figures in this chapter are based on this exchange rate.

2. Genesis: Price subsidy reform and the triumph of a *de facto* UBI by default²

As a major producer and exporter of oil for decades, Iran's easy access to oil revenues has spawned a culture of resource management that tends to favour short-term expediency over long-term transformation. A major manifestation of this lax culture has been the cheap fuel policy in the domestic market. Before the reform of 2010, gasoline cost was equivalent to US10¢ a litre and diesel fuel only 1.6¢ throughout the country. Gas, water, and electricity were similarly cheap, as were some staple foods such as bread. The result was overconsumption, inefficient production, waste, pollution, smuggling to neighbouring countries, and, last but not least, a lopsided distribution of benefits as the bulk of subsidies went to the better-off sections of the population who consumed more. By official estimates, price subsidies were costing over \$100 billion a year, of which 70 per cent went to only 30 per cent of the population, mostly in the urban areas.

A variety of policies were attempted over the years to improve the management of the oil wealth but they bore little fruit. The reform of price subsidies in particular, while widely acknowledged as necessary, was always marginal and old practices continued. In 2008 however, the government of the then President Mahmoud Ahmadinejad came up with a radical plan that entailed massive increases in subsidised prices coupled, in compensation, with the redistribution of much of the resulting proceeds to the public in the form of cash. "Cash subsidies" would thus replace the implicit and explicit price subsidies that Iranians had been enjoying for decades. In addition to fuel products, the reform would also extend to electricity and water services, transport, bread, and some other items, but over 90 per cent of the subsidies concerned fuel.

There followed some two years of intense debate, much of it in public. There was little disagreement that the system of price subsidies needed reform. Nor was there much controversy about the need to compensate the lower-income people with cash transfers, which are fairly well established in Iran through various aid programmes. Some critics questioned the timing of the reform in an uncertain environment, others cast doubt on the implementation capacity of the government, but the most widespread concern was the fear of runaway inflation and its implications for livelihoods.

Less controversial was the targeting of cash transfers. While views differed as to whether the transfers should cover the lowest two deciles of the population, or five, or seven, or even the entire population, the issue was overtaken by events when the government rushed to put in place a targeting mechanism pre-emptively, long before the reform plan was to be considered by the parliament. To this end, heads of households were invited towards the end of 2008 to apply for the transfer by filling out a Household Economic Information Form, which, apart from demographic information, enquired about the socioeconomic status of household members, in particular their incomes and assets. With about 70 per cent of the population earning less than the average national income, a methodology was developed to identify three groups of households: (1) the bottom four deciles that would be entitled to

² This and the next section draw mainly on Tabatabai (2011, 2012a, and 2012b).

the highest transfer amount per person; (2) the middle three deciles that would receive somewhat less; and (3) the top three deciles that would not receive any.

The results, however, did not please everyone and many households objected to their group assignment. Over time, the chorus of protests grew loud enough for the government to abandon the exercise and declare everyone eligible for the transfer. This about-face was billed as temporary and the door was left open to revive targeting at some later date when a more satisfactory methodology could be developed. This universal coverage by default heralded in turn the uniformity of the transfer amount for all. Although the amount could in principle vary by such easily ascertainable criteria as age or region of residence—higher amounts for the more deprived provinces was one of the options considered—in the end the simplest option of uniform payment was adopted. As regards the transfer amount, no official figure was available until the reform went into effect, but speculation was rife, with most estimates being in the range of \$10-25 per person per month, depending on the underlying assumptions. Such estimates were generally based on the provisions of the subsidy reform bill that was under consideration in the parliament.

3. Implementation: A process derailed

If the government tried to put in place a targeting mechanism so early on, it was because it was of the view that it already had the authority to undertake the reform and no new legislation was needed. But given the scope of the envisaged reform and its potential implications, this view did not pass muster and the parliament formally took up the discussion of a reform bill towards the end of 2009. The debates led to a patchwork of compromises that, while allowing the passage of the law, made implementation problematic. The Subsidy Reform Law³ was enacted in January 2010, despite government objections to some of its provisions. The main provisions of the law authorized the government to reform prices of fuel, electricity, water, transport, and postal services as well as of some subsidized food items over the five-year period 1389-1393 in Iranian calendar (March 21, 2010—March 20, 2015). Domestic sale prices of gasoline, diesel fuel, and other fuels were to be raised *gradually* to reach at least 90 per cent of Persian Gulf Free On Board (FOB) prices. For natural gas, domestic prices would be increased to eventually exceed 75 per cent of average export price, and for electricity and water to reach their full cost price. In the case of wheat, rice, cooking oil, milk, sugar, air and rail transport, and postal services, arrangements were to be made for the gradual elimination of subsidies over the same five-year period.

The net revenues thus generated were to be used to compensate the population and to facilitate the structural transformation of the economy. The law authorized the government to spend up to 50 per cent of the net proceeds for (1) cash and noncash subsidies to all households countrywide, *taking into account the level of household income*; and (2) implementing a comprehensive social security system for the targeted population. Cash payments would be made through the banking system to the head of each eligible household. The payments would be exempt from income tax.

³ For the text of the Law in English, see Guillaume et al., 2011, Appendix I, pp. 24-28.

The Law also set aside 30 per cent of the net proceeds to help producers adopt energy saving technologies, to compensate part of losses to companies and municipalities providing utility services, to develop and improve public transport, and to promote non-oil exports. The remaining 20 per cent of the net proceeds, commonly known as the government share, would be used to compensate the impact “on spending and the acquisition of capital assets,” with no further specification. The imposition of five years for the implementation process, instead of three that the government wanted, was aimed at ensuring a more *gradual* pace of reform and dampening its inflationary effects. This gradualist intent was underlined by limiting the net proceeds from higher prices in the first year to a maximum of \$20 billion, a provision that the government had vigorously opposed as unrealistic, demanding a cap of \$40 billion instead to allow for a faster initial pace of reform. This conflict about the pace of reform proved to be fateful as it prompted an implementation process that, while sticking to the letter of Law, comprehensively violated its spirit, with reverberations that continue to this day.

Having failed to get its way in parliament, the government took advantage of a loophole in the Law and delayed launching the reform for the first nine months of Iranian year 1389 (last three quarters of 2010). The delay was ostensibly to allow for more thorough preparation but it served to vastly accelerate the pace of reform as the government then set out to generate a good part of the new proceeds authorized for the first year in only its final quarter. The scale of price increases—from 75 per cent to 2,000 per cent depending on the item—thus went far beyond what would have been required to collect the authorized revenues over a 12-month period. Such acceleration was of course what the government wanted all along, since more drastic changes in relative prices would have more of an impact on the behaviour of consumers and producers and more rapidly. The main reason for the delay, however, was to allow the transfer amount to be set at a much higher level than it would have been possible otherwise, since the “inflated” revenues collected over three months would also be distributed over the same three months. The transfer amount was set at the equivalent of \$45 per person per month, nearly three times the maximum amount consistent with strict adherence to the (implicit) provisions of the Law, which was about \$17. This seems to have been regarded by the government as necessary for a more radical transformation of the economy while ensuring public support. A cash subsidy of about \$17 per month per person—only 5 per cent of the minimum wage—would have had little incentive effect and might well have scuttled the reform from the start. Plausible as this argument may have been, it had the downside effect of derailing the finances of the scheme and jeopardizing its future as we shall see below.

Cash transfers to households started at the same time that price increases went into effect on December 19, 2010. They are deposited in household bank accounts throughout the country at one pre-announced midnight towards the end of each month. But while payments to households have been regular, those destined for businesses and the government have been anything but, and for good reason. Once the “inflated” household payments are made, there is rather little, if anything, left for businesses and the government. The universality of payments, their “inflated” level (relative to revenues collected), and, to make matters worse, the apparent overestimation of expected revenues compelled the government to mobilize other sources of funds to top up the proceeds from

higher prices of subsidized goods, a practice that is completely at odds with the original idea of a self-financing reform. It is thus not surprising that most observers were sharply critical of the implementation process. Ali Larijani, the speaker of parliament, echoed that feeling by lamenting that the parliament never imagined that the government would go about implementing the Law in the way it did.⁴

The partial reform of price subsidies in December 2010 was meant to be only the first stage of a five-year process, to be followed by further reductions in price subsidies and concomitant increases in cash subsidies, which President Ahmadinejad claimed could be increased four or five fold in due course. However, with the economic turmoil gathering momentum as international economic sanctions intensified in 2011 and the departure of Ahmadinejad in August 2013, the follow-up process fell by the wayside. Ahmadinejad's argument, often labelled as populist, that far more of the country's revenues could be distributed directly to people in cash has had few takers.⁵

The new government of President Hassan Rohani regarded the cash subsidy programme as an inherited albatross that it could do without but was difficult to shake off. It was not alone in this perception. Much of the political class and the vast majority of experts have been critical of the scheme as designed and implemented from the start. One criticism concerns the drain on public resources. Many consider that the large funds distributed in cash could have been redirected to other priorities such as health, education and infrastructure, all of which suffer from underinvestment. While on the surface this was indeed an option, even perhaps an economically preferable option, it ignores the principal political reason why the previous government opted for cash subsidies, namely, to win public support for the massive cuts in price subsidies that would otherwise have been inconceivable. The revenues thus collected could therefore not be viewed as fungible funds that could be allocated among various priorities as are other public resources. As a matter of fact, this concern was so acute that the Law set up a special fund separate from the public budget to allay fears that the new revenues would not be returned to the public in cash. But if cash subsidies were indispensable at the start of the reform process, ending them altogether after three years of disbursement was simply not an option, all the more so as lower-income recipients became even more dependent on them as inflation reached 40-45 per cent by the end of Ahmadinejad's mandate. The new government thus reassured the public early on that cash subsidies would continue, albeit perhaps for only the "needy" households eventually.

This reference to "needy" households was reminiscent of the previous government's (passing) pledge to target the transfers eventually when it opted for universality following public protests against its own targeting attempt. But it too was mostly ignored. Matters rested there for about two more years as cash subsidies continued to flow into bank accounts. As it approached the end of its term however, the opposition-dominated parliament, still reeling from its loss three years earlier at the presidential elections, saw fit to fire a parting shot by adopting a new law in April 2016 that set a ceiling for the total amount to be distributed in cash to "needy" households, leaving it to a sceptical

⁴ <http://www.fararu.com/vdca0mna.49ny015kk4.html> (accessed July 22, 2011; page no longer accessible in 2019).

⁵ <https://www.youtube.com/watch?v=BAfZGv0je2Y&list=PLs82DMNFFmK2aK5-pXm1z2cUxPgEH6Cke&index=> (accessed 25 January 2019; in farsi).

government to determine the criteria for inclusion in, or exclusion from, the scheme. This implied the exclusion of some 24 million recipients (30 per cent of all).⁶ Many viewed this as a not so subtle stratagem by a lame-duck parliament to tie the hands of the Rohani government and cut into its popularity, an inevitable result of cutting off cash subsidies to nearly a third of the population just a year before the next presidential elections. This appears to be how the government saw it too as it dragged its feet in putting the new Law into effect. As a result, no more than only 5 million people were thrown off the rolls, although, interestingly, 1.5 million of them (30 per cent) had to be restored after complaint due to wrongful application of vague and often mysterious targeting criteria. In 2016, the latest year with such data, 840,000 were dropped but 60 per cent had to be restored, suggesting that later exclusions were beset with more errors. The process has been plagued with uncertainty as periodic announcements about massive exclusions are scaled back or put on the backburner depending on political conditions. In the latest example, millions were supposed to be excluded from the programme in 2018 but the idea was quietly dropped following widespread unrest in some hundred cities in the country in January 2018.⁷

4. The impact of the cash transfer scheme

Given the size and universality of cash transfers their impact would necessarily be significant and multifaceted. The influence of international economic sanctions and other intervening factors over the course of the scheme, however, makes an assessment of its impact difficult.

Some of the qualitative effects are easier to discern. The scheme established and institutionalised universal entitlement to cash transfers and gave rise to a nationwide constituency that resists its roll-back. It further resorted to a novel funding mechanism that relied mainly on higher domestic energy prices rather than on taxes or oil export revenues, which is akin to carbon taxes being increasingly discussed in more advanced countries. The scheme also helped spread banking services throughout the country. The smooth handling of the roll-out confirmed the implementation capacity of the government when the political will is behind a programme (Guillaume et al., 2011). And all this in a large country of 80 million where the notion of basic income was and remains virtually unknown, let alone thought of as a right of citizenship! Indeed, a legitimate case may be made that this lack of knowledge about and affinity with the concept actually was a key factor in allowing a *de facto* basic income programme to emerge in an attempt to ensure public support for a reform of an inefficient and unfair system of price subsidies.

The impact on the economy was multifaceted and complex. Furthermore, various other internal and external shocks, particularly those associated with the introduction of the UN sanctions within a year of the implementation of the subsidy reform, which were followed

⁶ <https://www.nytimes.com/2016/04/14/world/middleeast/iran-parliament-subsidies.html>.

⁷ Symptomatic of management by confusion is this example: On 27 June 2018 the government officially announced that the top three deciles of recipients will be dropped from the scheme, except for the rural and nomadic populations. <http://www.alef.ir/news/3970407126.html>. Two days later however the government spokesman denied it! <http://www.alef.ir/news/3970408072.html>.

by the precipitous fall in economic activity, collapse of the exchange rate, and the resulting inflationary pressures, adds to the complexity of investigating the subsidy reform. For this reason most of the empirical studies of the cash transfer programme have focused on the impact during the first year of the reform.⁸ We shall similarly begin by considering the short-term impact of the cash subsidy scheme in the first year of its implementation. We would then reflect on the longer term impact by examining the scheme's sustainability in the face of changing economic circumstances.

The value of cash transfers during the first year of the subsidy reform is estimated at 6.1 per cent of the GDP (IMF, 2014). This was entirely taken up by cash transfers to households and the 50-30-20 per cent (household-industry-government) formula specified in the subsidy reform law fell by the way side. As discussed in the preceding section, this was due largely to the populist political stance of Ahmadinejad's government in setting the level of cash transfers at the equivalent of \$45 per person –which had no relationship to either the stipulations of the subsidy reform law or the economic realities at the time–, exacerbated by overoptimistic estimates of the funds that the price reforms would procure. In fact, according to the IMF estimates, the budget of the Targeted Subsidy Office that was in charge of the household cash transfers had a deficit of about 1.6 per cent of the GDP in its first year of operations. These facts had important implications for short term impact of the scheme as well as its long terms sustainability. We start with the short-term income and labour supply effects of the scheme.

Income effect and labour supply issues

Cash transfers constituted a sizable proportionate increase in household incomes depending on the demographic composition of households and their pre-existing income levels. According to estimates, during the first three months of the reform programme the transfers for a household with average size of 4 with median income constituted 28 per cent of household income (Salehi-Isfahani et al., 2015). During the first year, our estimates in Table 1 indicate that cash transfers were 14.2 per cent of average household expenditure in urban areas and 26.1 per cent for the rural areas. Cash transfers thus certainly reduced the income gap between the rural and urban areas. The same can be said about regional income disparities, which would be narrowed as a result of the lump sum transfers to households.

Similarly, the relative impact of the cash transfers across different income groups would vary inversely with per capita income levels. As shown in Table 1, cash transfers form around 30-40 per cent of household expenditures in the lowest two deciles in urban areas compared to 5-10 per cent in the top two expenditure groups. In the rural areas, the corresponding shares are 60-80 per cent as against 10-20 per cent. The figures for the low and top deciles may be somewhat underestimated as they are based on the lower overall coverage of the population at the early stages which increased over time from about 80 per cent to virtually the entire population.

⁸ For an exception focusing on the importance of incentives, see Gauthier and Tabatabai (2019) which relies, inter alia, on detailed annual income and expenditures data on urban literate households for the six-year period 1388-1393 of Iranian calendar, two years preceding the reform and four afterwards.

The high shares of income transfer reported in Table 1 do not necessarily indicate a net gain of similar magnitude by the recipients. This is partly due to the fact that income transfers were financed by substantial increases in energy prices. However, since the share of subsidized utilities in total household expenditures is relatively small, the net transfer would still remain large and positive. According to the estimates by Salehi-Isfahani et al. (2015) the increase in household expenditures due to price increases in all the subsidized products and services was about 5 per cent for the bottom decile and no more than 2.4 per cent for the top decile. This of course does not take into account the general inflationary effect of cash transfers which we shall discuss shortly below.

Another issue that arises in interpreting the cash transfer rates shown in Table 1 is that they are ex-post accounting figures and do not show the possible negative effect that the transfers may have had on other sources of income, particularly those arising from labour and work. According to conventional neo-classical theory, the income effect of large transfers would lead to the contraction of labour supply and incomes. Alternative theories, however, can predict other outcomes. For example, if the labour supply of low-income households is constrained by a lack of complementary investment and other inputs due to credit constraints, cash transfers can lead to a higher labour supply and an increase in incomes. The counterfactual exercise necessary to discern between the alternative theories is often impractical.

Table 1: Contribution of cash transfers to total expenditure,
by expenditure decile, 2011

Decile	Cash transfer as % of household expenditure	
	Urban areas	Rural areas
1	42.2	79.7
2	32.2	60.3
3	27.7	53.0
4	22.9	43.1
5	20.7	39.5
6	17.9	34.0
7	15.2	29.5
8	12.9	24.3
9	9.6	18.1
10	4.9	9.7
Average	14.2	26.1

Note: Assumes 80 per cent overall coverage and uses Salehi-Isfahani et al. (2015) estimates of probability of inclusion for each decile.

Source: Authors' calculations based on Household Income and Expenditure survey, 2011, by Statistical Centre of Iran.

With the appropriate data one can try to estimate the impact of the cash transfers on labour supply, controlling for other factors that influence labour supply. This has been attempted by Salehi-Isfahani and Mostafavi-Dehzoeei (2017), where using a panel data set of receivers

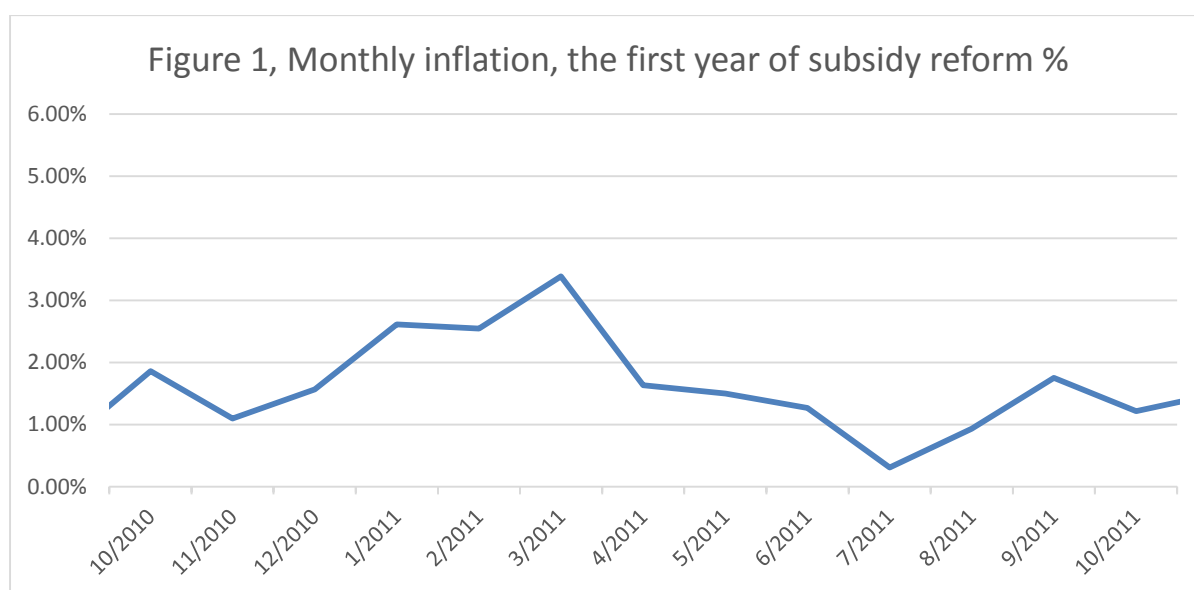
and non-receivers of cash transfers during the early months of the introduction of cash transfers, they estimate the impact on the labour supply of workers in different income and age groups. They find no negative effect of cash transfers on either the hours worked or the participation rates amongst the bottom 40 per cent of income groups. They only find a negative labour supply effect amongst the 20-29 age group which they attribute to the possible effect of cash transfers on increased participation of the youth in tertiary education, which could be regarded as an investment effect rather than as a substitution of work for leisure as in the standard theory. They in fact find a positive labour supply effect in the services sector, which they interpret as the possible effect of cash transfers in relaxing credit constraints on self-employed workers. According to the Statistical Centre of Iran, however, female labour force participation rate declined from 12.1 per cent in 2009 to 10.0 per cent in 2011 (Statistical Centre of Iran, 2017, p. 36). The fact that men, as household heads, were the main recipients of the cash transfers, may have contributed to this phenomenon by strengthening patriarchal gender norms.

Another potential negative effect of cash transfers discussed in the literature is one on the consumption of the so called ‘temptation goods’, largely alcohol and tobacco. This may appear to be particularly important in the case of Iran, as cash transfers were delivered to household heads. Some 90 per cent of Iranian households are headed by men who, as the literature indicates, are more likely to spend such transfers on temptation goods than are women. There are no data on alcohol consumption, which is banned in Iran. Keshavarz Haddad and Shahbazian (2016) use panel data of cash-transfer-receiving and non-receiving households for the years 2010, 2011, and 2012 to test this hypothesis with regard to tobacco consumption, controlling for household characteristics as well as time varying covariates. They find no significant relationship between cash transfers and tobacco consumption, a finding that is in line with similar work in the literature such as Haushofer and Shapiro (2016) in the case of Kenya, and Maluccio and Flores (2005) in the case of Nicaragua.

The inflationary impact

One of the important areas of concern about large scale cash transfer programmes such as Iran’s has been their possible inflationary impact. As long as cash transfers are appropriately financed and they do not lead to an overheated economy their inflationary pressure may not be of serious concern. In addition, if cash transfers lead to higher investment and increased production capacity by alleviating credit constraints for low income households, they can in fact reduce inflationary pressures. In the case of Iran, however, it is claimed that the transfer programme had an inflationary bias from the outset. This claim is based on the fact that the Targeted Subsidy Office in charge of cash transfers ran a deficit of 25 per cent in the first year of its operations, which was financed by government borrowing from the Central Bank (Hassanzadeh 2012, IMF 2014, and Salehi-Isfahani 2017). It should be noted however that a considerable part of energy price increases did not accrue to the TSO, but covered deficits in other state sectors. For example, the revenues from the substantial utility price increases were retained by the state-owned utility companies to cover their deficits and finance new investments.

On the whole it is estimated that about 90 per cent of the proceeds from subsidy reform was distributed to households, which should be regarded as a transfer from the government to the private sector. Since 2000 the Iranian private sector has had a savings surplus which partly financed government budget deficits. Given the higher savings propensity of the private sector, such cash transfers in themselves are unlikely to create inflationary pressures. Another indicator of this is that according to the national accounts estimates by the Central Bank, the share of real household consumption in total domestic absorption dropped from 46.4 per cent in 2009/10 to 45.6 per cent in 2010/11, the first year in which the programme was in force throughout the year. As shown in Figure 1 below, inflation rate accelerates in the first six months of the price reform in line with the large increases in prices of energy, utilities, and bread, but rapidly falls in the rest of the first year of the introduction of the reform.



Source: Calculated by the authors based on Bank Markazi Iran (Central Bank) Economic Trends databank, 2018.

The impact on income distribution and poverty

Universal cash transfers are most likely to lead to improved income distribution across households as they would benefit the low-income households proportionally more. This improvement can be enhanced or reduced depending on the way the cash transfers are financed. In the case of Iran, since the transfers were financed by increased prices of energy, bread and utilities, the net effect on income distribution depends on the relative burden of such prices increases on various income groups. Since the share of such necessities as fuel, water and bread are much higher in the consumption basket of the low income households the effect of price subsidy reform on income distribution would be regressive. The net effect of price reform and cash transfers, therefore, will be ambiguous and would depend on the intensity of price increases and the amount of cash transfers. But since 90 per cent of the proceeds from price reform are estimated to have been disbursed to households, the net effect is expected to be positive. According to the Statistical Centre of Iran (2016), the Gini

coefficient of expenditure distribution in the country as a whole declined from 0.41 in 2010/11 to 0.37 in 2011/12, the first year of the subsidy reform. The corresponding decline in urban areas was from 0.39 to 0.38 and in rural areas from 0.38 to 0.34. Simulations by Salehi-Isfahani et al. (2015) also show that the net effect of price reform / cash transfer programme was a reduction in income inequality and a 4.7 decline in poverty by the third month of the subsidy reform compared to the same period in previous year.

5. Long term trends and future prospects

The fate of Iran's cash transfer programme in the long run has been associated with the successes and failures of the price subsidy reform itself as well as other external and internal developments that affected the economy in later years. Price subsidy reform was expected to improve energy efficiency by encouraging industries and households to invest in new energy efficient and more productive technologies. This is a long-term process that requires other complementary policies to help the necessary changes in capital structures and induce new energy saving technologies. Neglect of the necessary complementary policies, along with the international sanctions which intensified towards the end of first year of the reforms, meant that producers had to pass the energy price increases to consumers or continue to receive subsidized energy supplies from the government. Lax monetary policy, particularly those associated with Ahmadinejad's populist policies financed by credit from the central bank, contributed to these general price increases. Inflation rate accelerated during the second year of the subsidy reform, and with the sharp devaluation of the exchange rate the annual rate of inflation reached above 40 per cent in 2012/13.

As the Iranian cash transfer programme does not guarantee a basic income in real terms and transfers have been kept at the same nominal level as in December 2010, with increasing general price level the real value of cash subsidies has been eroding. By 2017 about 70 per cent of the real value of cash transfers had been lost (Table 2). An even harsher blow came in the first half of 2018 when the United States withdrew from the nuclear agreement that binds Iran to the international community. By end July 2018, the currency was near collapse and prices skyrocketed. At the official exchange rate of 44,030 *rials* to the dollar, the transfer amount per person is little more than \$10 and at the unofficial rate of over 100,000, it was worth less than \$5 by the end of 2018, a decline of some 90 per cent in real terms relative to eight year ago when the cash transfers began. With such precipitous decline of the purchasing power of cash transfers, the short-term gains in income equality and poverty witnessed during the first year of the programme have also been eroding. The Gini coefficient that had fallen from 0.41 to 0.37 in the first year of the cash transfer programme was back up to 0.39 by 2015 (Statistical Centre of Iran, 2016). What is more, the original subsidy reform itself is being undone as relative energy prices tend to move towards pre-reform levels.

Table 2: Trends in Consumer price index and real household cash transfers

Year	Urban CPI	Cash subsidy real index
	(2010=100)	(2010=100)
2010	100	100.0
2011	121	82.4
2012	158	63.1
2013	214	46.8
2014	247	40.5
2015	276	36.2
2016	301	33.2
2017	331	30.2

Source: Calculated by the authors based on data in Bank Markazi Iran (Central Bank) Economic trends databank, 2018.

Iran's cash transfer programme in 2010/11 appears as a one-off payment to allay political opposition to the abrupt reduction in price subsidies. Since the first round of the sharp energy price increases in 2010/11, energy prices have on occasion been raised in some cases but the nominal value of cash transfers to households has been left unchanged. In effect, the government appears to have pursued a policy of letting the programme bleed to death gradually as inflation cuts it down at a rate of at least ten per cent a year. Some parallel measures that have been or are being put in place more recently confirm the abandonment of universalism in favour of targeted measures.

6. Concluding remarks: Potential lessons of the Iranian experience

Iran's cash transfer programme was not conceived as a Universal Basic Income scheme, and even less as a 'right of citizenship' which has not been a part of the official discourse. The scheme nevertheless can have important lessons for other developing countries pursuing a UBI, particularly in terms of its economic impact in the first year of introduction. These have been discussed in terms of inflation, income distribution, and poverty aspects of the programme in this chapter. The most important aspect of cash transfer programmes which matters most for the impact of the programme is its financing mode. If the necessary finances are procured through appropriate taxation channels the programme would not be inflationary and could be of considerable benefits in terms of income distribution, poverty, and expansion of productive investments by low income households that may be credit constrained.

In terms of their financing methods, cash transfer programmes in resource rich economies have been distinguished as a special case, with extensive discussion in particular of the Alaska cash transfer programme (Van Parijs, 2010; Widerquist and Howard, 2012). Being an oil exporting country, Iran's cash transfer programme may at first also appear an example of financing based on natural resources. This was not however the case. Iran's mode of financing was based on the removal of energy price subsidies and using the funds to finance cash transfers. As such, it is more similar to the proposals to use carbon taxes to finance a basic income. One problem with this type of proposal is that if the scheme turns out to be successful in reducing the consumption of certain energy sources, it will over time

undermine its own source of financing. Such a scheme will also be open to sharp fluctuations in primary energy prices. More general forms of taxation with more stable and predictable income flows would be more appropriate as a financing vehicle for UBI schemes.

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