# How Iran could improve its Economic System

Economic system of the Islamic Republic of Iran struggled with over 25 years of intense economic sanctions between 1979 and 2015 (International Monetary Fund). The economic sanctions, imposed by western countries including European nations and the United States, prohibited western companies from trading with Iran. The economic sanctions caused approximately 85% decline in Iranian oil exports causing severe government budget deficits given that 80% of Iran’s government budget is financed by oil revenues. Sanctions deteriorated the Iranian economy, causing a peak inflation rate of 59.02% and approximately 80% devaluation in the Iranian currency (Mohaddes, Pesaran and Esfahani 232). Fortunately, the Iranian economy rebounded after western nations lifted economic sanctions from July 2015. However, the lifting of the sanctions did not bring the much-anticipated growth to the Iranian economy. Closer examination of the slow Iranian economy after the sanctions were lifted in 2015 revealed that the Iranian economy had been ailing from fiscal indiscipline and intrusive state-sponsored economic policies more than from the sanctions. Therefore, Iran must strengthen the discipline of its fiscal practices and withdraw intrusive state policies to improve its economic system.

Regarding fiscal indiscipline, the Iranian government under president Rouhani engages in extravagant spending. The Iranian populist agenda is characterized by high minimum wages for workers, ambitious school-renovation programs, provision of grants to newlyweds, and provision of other direct and wasteful subsidies to Iranian citizens (Mohaddes, Pesaran and Esfahani 229). The extravagant spending by the government causes severe budget deficits for the Iranian government and government-owned companies. Budget deficits are closed through internal borrowing from the Central Bank of Iran. In just one fiscal year between August 2013 and August 2014, president Rouhani’s government borrowed 245.7 billion Iranian rails ($6.57 billion) from the Central Bank of Iran (International Monetary Fund 29). Since 2013, the extravagant spending by the Iranian government has caused a 157% increase in domestic debt owed to the Central Bank (International Monetary Fund). Consequent to the rising domestic debt, the Central Bank of Iran has imposed economic regulations including low interest rates for the banks and increased taxation; hence, worsening the economy through rising inflation rates.

Also, fiscal indiscipline within the Iranian economic system manifest as the imprudent collection and appropriation of taxes. The Iranian Ministry of Finance and Economic Affairs lacks a proper and efficient means of levying taxes. Consequent to the inefficiencies of taxation systems, approximately 50% of Iran’s GDP activities do not remit taxes to the government. Iranian tax systems are not mechanized; hence, providing several loopholes for tax evasion (Mohaddes, Pesaran and Esfahani 235). In particular, major economic activities including trades in fabrics, gold and steel are largely untaxed because of ill-advised tax exemptions on these commodities. Overall, Iranian tax revenues are insufficient; hence, the Iranian government focuses more on its oil revenues to finance its budget. Taxation inefficiencies provide several loopholes for corruption and embezzlement of public funds (Edelman, Edelman and Hard 52). Therefore, suboptimal monetary policies are responsible for the ineffectiveness in the Iranian economic system.

Besides fiscal indiscipline, the Iranian economy also suffers from the intrusive state policies on economic activities. The Iranian president and his cabinet hold limited powers and answer to the hard-line clerical establishment that exercises supreme political power in Iran (International Monetary Fund 17). The clerical establishment directs the government to confiscate properties of individuals and companies deemed unfriendly to the clerics. Also, the clerical establishment exercises direct power in appointing members of the judiciary, including senior judges; hence, the judiciary cannot adjudicate over economic matters objectively (Edelman, Edelman and Hard 15). Moreover, the hard-line clerical establishment dishes out favors in form of arbitrary tax-exemptions to individuals and companies regarded as friendly to the clerical regime. Overall, the economic processes in Iran are highly bureaucratic and restricted by the state; hence, private investment is highly hindered by intrusive state-controlled economic policies.

In response to fiscal indiscipline including the high government debt and inefficient taxation systems, the Iranian government should implement specific austerity measures targeted at lowering government spending and improving tax revenue collection. Austerity measures necessary in the case of Iran include cutting of grants and subsidies to newlyweds and students, reduction of minimum wages to workers, and extending the age of eligibility for retirement benefits. Also, Iran should implement tax-related austerity measures including enactment of tough penalties for tax fraud and evasion, increase of income tax rates, and eliminate tax exemptions on value added taxes for all commodities. Austerity measures have been successfully implemented in other nations including Greece. In 2010, Greece reduced its budget deficit by 21% after imposing 7% salary reductions for all employees and increasing value added taxes (VAT) from 4.5% to 5% on major commodities (International Monetary Fund). Therefore, Iran should limit its budget deficits through well-advised austerity measures.

Also, the Iranian government should privatize major sectors of its economy, particularly the oil and gas sectors. Currently, the highly-nationalized economic sectors in Iran are undermined by corruption and bureaucratic inefficiencies (Mohaddes, Pesaran and Esfahani 227). Contrarily, privatization of state-owned economic resources in Iran would improve the productivity and efficiency of the Iranian economy; hence, optimizing the capitalistic competitiveness of Iran relative to its neighbors including Saudi Arabia. Between 1982 and 1986, the UK government rebounded from a recession after privatizing companies including British Gas, Jaguar, Cable & Wireless and British Telecom (Hooglund and Stenberg, 118). Therefore, Iranian government should consider privatizing some of its state-owned companies including the National Iranian Gas Company and the Iranian Insurance Company to improve the productivity and efficiency of its economy in the global markets.

In conclusion, the Iranian economy has not rebounded fully after the lifting of the sanctions because of intrusive state economic policies and indiscipline in its fiscal practices. In particular, Iran’s economic system is undermined by high government spending and inefficiencies in taxation; hence, Iran should impose appropriate austerity measures targeted at reducing debt and improving tax collection. Also, Iran’s economy is hampered by corrupt and bureaucratic state-controlled economic processes; hence, Iran should privatize its economic resources to minimize the intrusive role of the state.

## Works Cited

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