

World Bank encourages Iran to abolish universal cash transfer

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The World Bank has encouraged the Iranian government to keep cutting wages and social protection.

January the ITUC expressed concern about the widespread protests in Iran, underscoring the “spiralling inflation and the continued decline in real incomes” in the country. Several media have similarly identified declining living standards as the root cause of the protests, including the impact of new budget measures that are supposed to go into effect in March. For example, a New York Times article on 3 January stated: *“The initial catalyst for the anger appears to have been the leak by President Rouhani last month of a proposed government budget [that] proposed to end cash subsidies for millions of citizens, increase fuel prices and privatize public schools.”*

However, few media reports have pointed out that the IMF has urged the country to adopt and implement some of the most unpopular measures. The Fund did so most recently on 18 December after its mission completed an annual Article IV consultation with Iranian authorities. (It should be noted that Iran has not borrowed from the IMF since the early 1960s, but the government appears to have made efforts to regularize its relations with the Fund and comply more closely with its advice since the 2015 nuclear agreement.)

The unpopular measures that will affect most Iranians’ living standards include the end of a universal cash transfer programme introduced in 2011 to compensate for the elimination of cheap (subsidized) fuel. An IMF analysis last February stated that the universal cash transfer scheme had contributed to a significant drop in income inequality, lowering the Gini coefficient by 2¾ points. However, because the transfer has not been increased to keep up with inflation it has lost half of its value since 2011.

Despite the decline in real terms, the IMF paper proposed that the cash transfer programme should no longer be universal but rather made selective by *“targeting transfers more specifically at the poor” so as “to create fiscal space”*, i.e. reduce the government deficit. It estimates that in the first year, targeting would result in savings equivalent to 0.7 per cent of GDP.

In last year’s Article IV consultation staff report for Iran, also released in February, the IMF endorsed targeted rather than universal cash transfers because of the need free up funds to clear public sector arrears and finance bank recapitalization, among other needs. However, it admitted that *“administrative difficulties”* would make it difficult to identify who should continue to receive the benefit and who should not. Experience in other countries has shown that the proxy means tests to target this kind of assistance typically exclude 50 per cent or more of those who should be eligible by virtue of their income level.

Last year’s Article IV report also called for increased tax revenue, notably though the value added tax, a source of revenue that typically has a regressive impact, i.e. the less one earns, the more one

pays as a proportion of one's income. The report observes that *"the VAT rate remains low despite its increase from 3 to 9 per cent"* and is critical of the fact that in Iran *"direct taxes [namely personal and corporate income taxes] still account for almost half of total tax revenues"*.

The IMF's latest Article IV mission to Iran, completed in mid-December barely two weeks before the protest began, expressed enthusiastic support for elimination of the universal cash transfer: *"The IMF welcomes the reform of the universal cash transfer system to target income support to the poor in the proposed 2018/19 budget... The reform of the universal cash transfer scheme to target the poor secures much needed fiscal space."*

The IMF's communiqué follows up on earlier IMF recommendations and supports further measures to create even more fiscal space, notably by removing exemptions to the VAT. The communiqué also calls for a yet-to-be-defined pension reform, again with the objective of reducing public expenditures. It is safe to assume that no one among those participating in the recent protests was consulted by the IMF mission before it endorsed Iran's 2018/19 budget and issued recommendations for its economic and social policies.

These types of policies have been promoted by the IMF in many other countries. An ILO-South Centre-IPD review of more than 600 IMF country reports in *"The Adjustment Decade 2010-2020: A Review of Austerity Trends in 187 Countries"* shows that IMF advice focuses on: (i) eliminating universal subsidies, including on energy, agriculture and food products (in 132 countries); (ii) wage bill cuts/caps, including the salaries of education, health and other public sector workers (in 130 countries); (iii) targeting of safety nets, such as in Iran (in 107 countries); (iv) pension reforms (in 105 countries); (v) labour market reforms (in 89 countries); and (vi) healthcare reforms (in 56 countries). Many governments are also considering revenue measures that can adversely impact vulnerable populations, mainly through introducing or broadening consumption taxes such as VATs (in 138 countries), as well as privatizing state assets and services (in 55 countries).

Contrary to public perception, austerity measures have not been limited to Europe; in fact, many of the principal adjustment measures feature most prominently in developing countries. These measures are not only unpopular, but also not conducive to economic recovery and the achievement of the Sustainable Development Goals. As the above report advises, policymakers should be aware of the high human and developmental costs of poorly-designed adjustment strategies and consider alternative policies that support socio-economic development for all.

Iran : Protests Show Need for Fundamental Reform

The suppression of protests in Iran this week, with the tragic deaths of more than 20 people and the arrest of several hundred, will do nothing to resolve the underlying social and economic discontent across the country. Anger over youth unemployment, as high as 60% in some areas, spiralling inflation and the continued decline in real incomes is being fuelled by resentment at Iran's role in military conflicts abroad while the domestic economy is failing.

The modest increase in GDP after the lifting of nuclear sanctions in 2015 has not lifted living standards for millions of people in the carbon-dependent economy, and the vast social and economic influence of the republican guard and of religious bodies are major barriers to reform.

Non-payment of wages, one of the causes of the protests, is impoverishing many workers, such as at

the Haft Tapeh sugar production complex, where workers have gone for 4 months without pay after a dubious privatisation of the facility. Workers involved in independent trade union activity face severe repression, including imprisonment on false charges such as the cases of Reza Shahabi, Esmail Abdi, Ebrahim Madadi and many others. Iran is ranked in Category 5 « no guarantee of rights » in the ITUC's Global Rights Index.

« Democratic reforms, including gender equality and respect for freedom of association, assembly and speech are the only basis on which real social justice can be achieved. Unravelling the military's domination of the economy and the power of fundamentalist clerics over everyday life are crucial to the prospects of shared prosperity and economic security. The people of Iran desperately need investment in jobs and decent incomes. At the international level, dialogue was vital in forestalling Iran's nuclear weapons programme, and all countries should stand ready to engage constructively in a democratic reform agenda », said ITUC General Secretary Sharan Burrow.

For more information :

<https://www.equaltimes.org/iranian-workers-continue-to#.Wk4ksd-nHIU>

<http://www.labourstart.org/news/country.php?country=Iran&langcode=en>

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