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# The rent-seeking economy and social justice system in Iran

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**K**eeping in mind the vitality of the social justice movement in the Middle East, as well as the underdevelopment, poverty and conflicts arising therefrom, this research intends to analyze and assess Iran's social justice system, which is one of the most important powers in the region. This research attempts to transcend traditional indications that estimate the extent of quantitative achievement. Instead, it uses a qualitative assessment to judge the system's fairness and sustainability within the framework of the rent-seeking economy (which is mainstream in Iran) and resource-based development. How do these types of economies weaken the quantitative dividends of the economic policies aiming to achieve social justice in Iran, and how does such an economy threaten its existence?

Social justice is a key issue in the study of Iran due to its critical role in the political rhetoric of the Iranian revolution since its outbreak. This issue was not a mere slogan chanted during the revolution. Social justice is the main theme of the revolution's rhetoric. This was evident in the recommendations of the revolution, which described itself as 'the revolution of the oppressed' against the insolent powers, which resembled a radical socialist rhetoric defending the rights of the enslaved against the exploiters. The roots of this issue date back to the social grievances experienced during the era of the Shah. However, as is the case in all revolutions, rosy dreams become grim realities, with the latter revealing the objective considerations that shape the realistic implementation of the revolution's slogans.

From this perspective, this paper will discuss the economic framework of the issue of social justice in Iran by raising key questions relating, in the first place, to the distribution of income, the dynamics and policies creating the circumstances that determine social justice, and the possibility of assessing these situations quantitatively and qualitatively, as well as the horizons of its development.

### **First: Growth and distribution: Quality over quantity**

We can address the relationship between growth and the pattern of income distribution through the following **entries**:

#### **1- Arguments of patterns of growth and income distribution.**

The pattern of income distribution cannot be separated from the pattern of economic growth. Economic growth, which represents the cumulative increase in gross production, comes from sources, and is achieved in the form of income, within economic sectors and through human productive activities that ultimately result in income for individuals and their social groups. The distribution pattern is initially based on the pattern of economic growth.

At the beginning of the development studies, the prevalent vision was that development improves the lives of all, and its dividends are distributed among all people equitably according to the individual productivity of production factors, as neoclassic theories indicate. However, the 1960s, which witnessed considerable developmental achievements, saw realities that disputed this vision. People's livelihoods did not improve despite the development that had been achieved. This means that the fruits of development were not necessarily distributed justly. Thus, many people began questioning the positive – or at least neutral – link between growth and distribution.

In this area, theoretical interpretations varied in a way that transcends the scope of the current study. Of these interpretations, what has been proven is the hypothetical relationship between patterns of growth and distribution through the economic

structure which the economic growth represents its size and the distribution of income of its components or its structural transformation.

These results occurring within the scope of the economic structure may lead to the continuation of the previous distribution models, which may itself give rise to stagnation. Conversely, these results may change these models positively or negatively. This is the most common outcome when growth occurs. As development studies advance, many growth patterns have been classified based on real-life development experiences. A plethora of complicated and varied growth experiences exist beyond one's ability to enumerate. However, for the Iranian case, we are dealing with resource-given growth, which depends primarily on the selling of resources to the outside world. Thus, the economy is based mainly on the strategic industry sector. Yet this pattern of growth is not intended for exportation due to Iran's large population and the existence of US sanctions.

According to this pattern, the state's economy tends to be of a rent-seeking nature because the state depends, in its sociopolitical projects, on attracting some factions of the people or granting them social privileges to gain their loyalty.

## **2- Social evolution of distribution: Initial distribution and secondary distribution**

The final distribution of national income consists of two levels. The first level is the principal (the initial) distribution and the second level, which could be modified, is known as the secondary distribution.

**Initial distribution:** The socioeconomic level or long-term structural distribution in stable conditions does not encounter a shaking social structure. This distribution is connected directly to the socioeconomic system's functioning, without any deliberate direct political or institutional intervention to affect income distribution in any way. It is always a product of the ownership distribution pattern and the automatic functioning of market mechanisms.

As to the secondary distribution, it is the socio-political distribution, i.e., the short-term institutional distribution, which is rarely settled for a long time due to the influence of political considerations. It is an intrusive distribution contrary to the philosophy of the initial distribution of the socio-economic system. In most cases, the latter marginally modifies the first – and sometimes substantially through direct political and institutional intervention aimed at enforcing redistribution, whether legally through government policies aimed at justice or stability, or illegally through institutional corruption. Although this secondary distribution has its limits, it cannot reverse or radically change the initial distribution, as the latter prevails in the long run so long as the socio-economic system is in place.

### **3- The normative development of distribution: Economic, functional and personal**

The two levels of distribution are linked to three standard forms, which represent values, layout criteria and pursue objectives – that share the distribution of economic output in society. The shift in their proportions within the distribution structure occurs based on the prevalent economic distribution pattern, which represents an initial distribution by nature. This initial distribution functions mostly with justice and efficiency as a necessary just economic distribution in the first place. The efficiency of the final distribution increases as that of the personal and functional distribution – which is of a secondary nature – decreases because it has low bias and waste. These normative forms **are**:

A. The economic distribution: This is the original and assumed distribution of economic production. Every party's share in this production is equal to its contribution therein. In other words, each party reaps the price of the services it offers, which is equal to the true value gained from these services, with neither of them pursuing manipulation.

The greater the share the economic component has in distribution, the greater the progress is, whether in terms of economic efficiency or political and social justice and equality. This reveals the decline of power and corruption in distribution and the increase in social efficiency in terms of the overall management of the functions of society's survival and the decline of its costs. In turn, this means achieving the topmost levels of efficiency in terms of economic surplus, its management, its distribution, and its preparation for being pumped into customer and investment channels.

B. Functional distribution: This is the distribution of a portion of the economic output channeled to the social system's functional expenses or the administrative functions of a non-economic nature not directly connected to the process of production, such as security, the justice system, defense and ideology. These functions are essential for a state, although they precede its formation. They are necessary for all social systems in which social management functions are separated from functions of economic production. It can be presumed that economic surplus will decline, or at least that a deterioration will occur in terms of the social system's efficiency and legitimacy.

C. Personal distribution: This is a distribution of 'force'. It stems from non-economic criteria and offers free income for human work produced in the productive process or through functional tasks. It depends on other forms of criteria such as ownership or the criteria of need, such as subsidies for the poor. It is a different type of functional distribution if we assume that ownership in itself, without a certain type

of work, represents a social function. It is a distribution which offers income without the performance of a particular job of a productive nature in the general sense within the system. In other words, it is the fait accompli distribution due to some form of monopoly, capital gains, the monopoly of power (grants, fiefdoms, the legalized theft of dictatorships), ideological justification, the absence of a functional role, etc.

From the above,<sup>(1)</sup> we can conclude that in the context of a qualitative evaluation of the distribution pattern, it is more advanced at its primary and secondary levels. This makes it an efficient form of economic distribution that supports economic growth and progress and, of course, is more logical and socially acceptable. In addition, it provides a socio-economic basis for democracy and active social participation.

### **Second: General trends in income distribution in post-revolution Iran**

When it comes to the distribution of income in Iran after the revolution, the data show contradictory trends. Estimates from the World Bank indicate an improvement in income distribution, when trends towards greater justice.<sup>(2)</sup> The indicator stood at 47.42 percent in 1986, and reached 37.35 percent in 2013. This level tends to be fair, as it surpasses those of countries whose circumstances are similar to Iran's in the same period, such as Russia (42 percent), Turkey (40 percent) and Mexico (49 percent).<sup>(3)</sup>

As to the twenty ranks with respect to the highest and lowest incomes, they naturally hover around the same rates. However, the increase in the upper ranks' share from the beginning through the end of this period ranges from 11 percent to 21 percent. For the lower ten ranks, the increase in the share is larger (from 46 percent to 57 percent). This disparity occurred in part because of the different basis of calculation in both cases, and also because of the prevalent trend towards improving the conditions of the poorer brackets, not by the enforcement of radical income redistribution policies demanded by the revolution, such as agrarian reform, which was not implemented on the ground.

This fact indicates a relative improvement in the distribution of income, albeit not a set of stable policies, consistent with the volatility of Iran's economic policies during that period and the predominance of marginal redistribution policies through subsidies and government transfers, as described below.

**Table 1** details the evolution of the relative shares of the highest and lowest 10-percent brackets of the Iranian people, as well as the evolution of the Gini coefficient on income distribution during the period from 1986 to 2013.

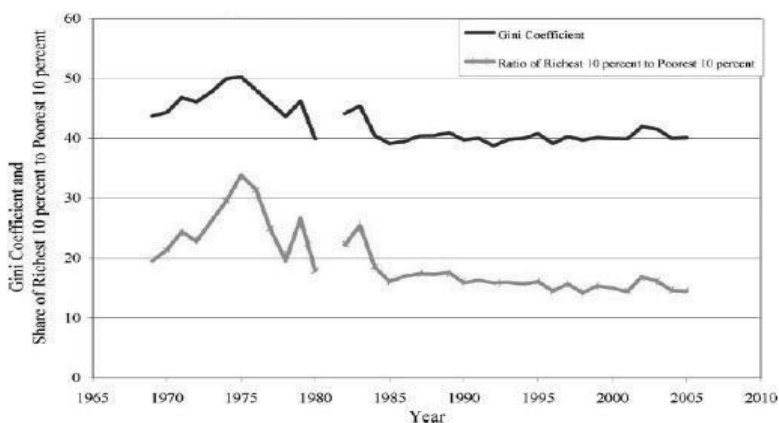
Table 1: The evolution of the relative shares of the highest and lowest 10-percent brackets of the Iranian people, as well as the evolution of the Gini coefficient on income distribution during the period from 1986 to 2013.



Year	Highest 10 percent	Lowest 10 percent	Gini coefficient
1986	36.86	1.81	47.42
1990	33.55	2.06	43.60
1998	33.74	2.07	44.10
2005	29.55	2.54	38.35
2009	31.41	2.1	42.02
2013 29.08 2.85 37.35			

*Source: International Development Indicators - World Bank.*

This limited and unconfirmed improvement is a somewhat positive indication due to its continuous fluctuation compared to pre-revolution figures. In the mid-1990s, the Gini coefficient reached about 50 percent and the share of the higher ten ranks doubled 35 times compared to the share of the lower ranks as opposed to 15 times by shortly after the revolution, as indicated in the following graph:<sup>(4)</sup>



*Source: Central Bank of Iran Website, <http://esd.cbi.ir/IntTSD/EnDisplay/Display.aspx>.*

As to inter-provincial disparity, the overall income disparity between rural and urban areas has declined slightly, although the higher incomes remained in the urban areas. The urban share of income increased from 70.8 percent to 84.6 percent (19.49 percent), compared to its 57 percent to 72.2 percent share of the total population (an increase of 26.66% during the period from 1990 to 2009).<sup>(5)</sup> Its share of income did

not keep pace with population growth. This indicates a weakness in the employment sector. Those moving from rural to urban areas did not find higher-paying, higher-productivity jobs than what were available in the rural areas. These individuals were prompted to migrate from rural to urban areas by push factors including a lack of job opportunities in rural areas due to the agricultural sector's weak growth, as indicated by sectoral data.

These findings have been confirmed by the high rate of unemployment, which averaged 11 percent from 2011 to 2015,<sup>(6)</sup> and the informal sector, which represents at least 20 percent to 25 percent of urban employment in Iran.<sup>(7)</sup>

Poverty rates are consistent with the Gini coefficient. The lower bracket's income improved through subsidy policies and financial transfers. As indicated in Table 2,<sup>(8)</sup> the scope of poverty declined from 17.6 percent to 0.66 percent between 1986 and 2013. Also, during the same period the rate of abject poverty declined, from 5.84 percent to 0.08 percent. The poverty gap saw the same decline with respect to the two aforesaid poverty indications, from 5.31 percent to 0.12 percent and from 1.33 percent to 0.03 percent, respectively.

Table 2: The scope and gap of poverty in Iran during the period from 1986 to 2013 – various years.

Year	1986	1990	1994	1998	2005	2009	2013
	17.6	17.03	11.61	11.52	11.17	3.05	0.66
	5.84	5.32	2.28	2.21	2.61	0.26	0.08
	5.31	5.05	2.80	2.76	2.78	0.54	0.12
	1.33	1.34	0.44	0.35	0.54	0.05	0.03

**Source:** International Development Indicators – World Bank: Cited from Reza Farzanegan et al., *Economic welfare and inequality in Iran, developments since the revolution*

Between 1998 and 2013 these developments boosted the middle class from 20 percent to 50 percent, as shown in Figure 2,<sup>(9)</sup> which compares the development of the middle class against that of the total population. The weakness of the productive apparatus, especially agriculture and industry, and the resulting significant share of the public sector mean, in this context, that this class is fragile, as it depends on state support and oil revenues, both of which are expected to decline if the economy's extractive structure continues as it is, given the state's declining role in the process of production and the current trends of liberalization.



Figure 2: The evolution of the middle class's portion compared to that of the total population of Iran during the period from 1965 to 2013.

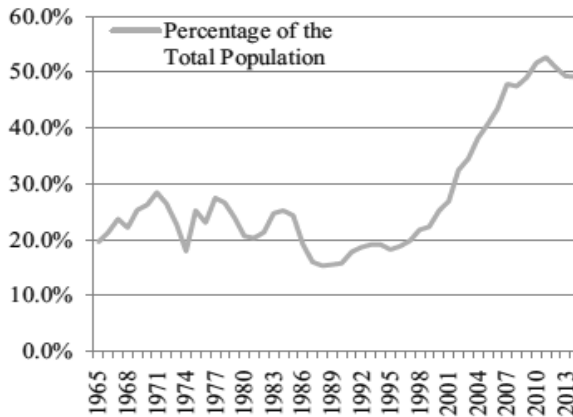


Fig. 2.4 Iran's income middle class as percentage of the total population. *Source:* Data from Brookings Institution (2015), Development, aid and governance indicators

### Third: The architecture of initial distribution: The structure of the Iranian economy and the pattern of its growth

Based on its definition, initial distribution depends on the economic structure and the pattern of growth as the bases upon which it is formed. Thus, one must briefly study it from the perspective of distribution to explore the objective possibility of an equitable distribution at the level of initial distribution.

Considering the Iranian economy's sectoral composition,<sup>(10)</sup> we find that services composed about 52.4 percent of the GDP in 2014. That same year, the extractive industry accounted for 26.4 percent, compared to 11.8 percent for manufacturing and 9.3 percent for agriculture. This means the economy has a sectoral composition dominated by primary production and services without a solid industrial base. This, in turn, leads to a decline in the productive employment of capital and the slowdown of productivity and wage growth. It disrupts the relationship between labor and capital at the sociopolitical level in favor of the latter and, thereby, due to the weakness of the bargaining position of labor, strengthens the imbalanced distribution at the political and economic levels. Hence, we have a backyard through which ownership-based

income prevails over labor-based income – in other words, the unearned income of the minority at the expense of the earned income of the majority (in part, personal distribution).

After reviewing trends in the growth of the Iranian economy (in total and sectoral) since the beginning of the millennium, we first find a severe fluctuation in growth rates, which reflects the aforesaid data on the domination of the extractive industry and services known for volatility, either respectively or combined. This fluctuation is sharper in the Iranian case because of oil's dominance as a primary commodity with a severe rate fluctuation when traded internationally, and because of the siege and economic sanctions the US imposed on Iran.

Second, as shown in Table 3, in terms of all aspects of growth in Iran, we find that these fluctuations also present themselves in sectoral growth. The volatility of financial flows from the extractive sector is reflected in the two real government expenditure channels (in its large public sector, still dominated by the economy's main sectors and the bulk of investment) and remittances (in-kind and monetary subsidies that fall within the private consumption demand), in the form of volatility with respect to the growth of the economy's other sectors.

In this extractive industry, fuel exports accounted for about 70 percent of commodity exports for 2010 and 2011,<sup>(11)</sup> and made up about 82 percent of total export revenues in 2013,<sup>(12)</sup> while oil revenues contributed to general budget revenues by more than 50 percent until 2010, and, under many pressures, dropped in 2016 to approximately 35 percent by target.<sup>(13)</sup>

This fluctuation will undermine the government's ability to create sustainable policies to redistribute income since resources are under constant threat. The government will either trim its spending due to a lack of resources, or bear the brunt of the accumulated debt if, in the short term, it sticks to its spending plans at a considerable cost with respect to the future via the monetary channel (inflation) and financial channel (public debt), eventually facing a policy of austerity, devaluation and the slashing of public expenditures. This will impact standards of living as well as the distribution of income in favor of the rich at the expense of the poor through the devaluation of currency and installments of public debt, as well as government incentives that come at the expense of consumers and workers, under pressure due to the economic crisis, to stimulate private investments that push the economy through its own resources.

Trends in the growth of the Iranian economy totally  
and sectorally during the period 2001 to 2014.

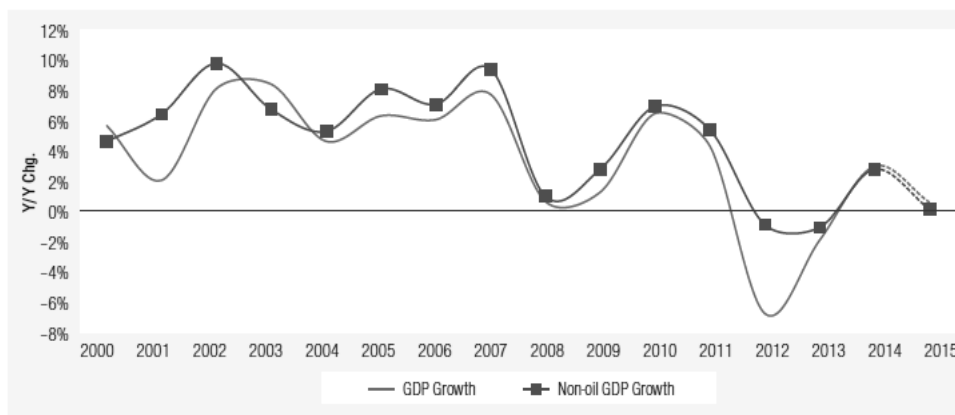
Year	Overall growth rate	Growth rates of sectors' value added			
		Industry in general	Manufacturing	Agriculture	Services
2001	2.39	(0.6)	13.67	(2.27)	4.90
2002	8.08	8.35	12.54	13.56	7.06
2003	8.64	1.34	10.50	4.95	7.12
2004	4.34	2.80	4.10	0.32	7.17
2005	4.21	3.96	10.51	11.28	7.82
2006	5.70	3.78	7.93	5.64	8.25
2007	9.12	4.82	10.94	2.89	11.08
2008	0.92	3.35	3.11	(23.02)	1.73
2009	2.31	0.07	8.10	9.60	1.39
2010	6.58	6.41	10.49	4.93	6.72
2011	3.75	2.62	5.63	(0.09)	6.21
2012	(6.61)	(18.26)	(8.46)	3.70	1.35
2013	(1.91)	(4.70)	(3.93)	4.66	(0.84)
2014	4.34	4.91	6.73	3.88	1.67

**Source:** International Development Indicators – World Bank.

Note: Brackets represen<sup>(14)</sup>t negative growth.

The growth of the oil and non-oil sectors is correlated with the latter's dependence on the first, which confirms the validity of the previous analysis. Figure 3 shows<sup>(15)</sup> the almost complete parity between the growth paths of the two sectors during the same period.

Figure 3: Growth of oil and non-oil GP in Iran during the period 2000 through 2015.



Source: Iranian authorities, and World Bank staff calculations.

Note: Iranian calendar years, running from March 21st to March 20th of the following year.

In fact, this resource-driven growth usually depends on negative savings, which drain resources and impact the environment if the calculation is based on original savings (which excludes capital depreciation, compensation for the depletion of natural resources and the environment, and adds investment in education), not just traditional savings. This type of savings lays the groundwork for injustice from two angles. The first is unjustness with respect to current and future generations. The second is the asymmetry of the distribution of gains and costs in the unbalanced socio-economic context, where gains are distributed unevenly according to the social classes' comparative strengths. However, the costs of the accelerated and irrational depletion of resources and the environment are then distributed evenly, if not at higher costs for the lower classes!

#### **Fourth: The drivers behind secondary distribution: The role of economic policies in distribution**

We move on to discuss secondary distribution, i.e., economic and institutional policies with a direct and indirect impact on income distribution and social justice. The post-revolution government has adopted a number of sustainable policies which combine the goals of distribution and growth, such as rural electrification, rural health care, fertility reduction and education support. It has also ushered in unsustainable distribution policies that have little or no impact on growth, such as direct transfers to the poor, social protection systems, food support and labor market regulation.

To avoid getting stuck in a debate over the roots of each individual policy, we seek to quickly summarize the effects of secondary distribution drivers in terms of their being an independent level shaping final distribution through the following key qualitative policies:

**1- Investment policies:** These policies directly and indirectly affect equity in employment and specialization through the volume of investment and by channeling the most significant portion thereof to commodity sectors with high employment. They include making an impact through the creation of means to increase manpower and committing to the production of items the public consumes in large numbers. It is an indirect impact because it affects the initial distribution itself through the pay and price channels, though in terms of its intentional nature and qualitative origin it remains within the framework of the secondary distribution level, being restricted and subject to objective considerations that determine the economy's optimal investment trends.

In this regard, the total capital percentage of the GDP was at an average of 37.29 percent during the period from 2001 to 2015.<sup>(16)</sup> This represents a high ratio reflecting the direction of employment and the predominance of the public sector in the economy.

On the other hand, in Iran, employment in the industry in general is at an average level of 33 percent; in agriculture, it was around 18 percent during the period from 2011 to 2015,<sup>(17)</sup> compared to an average of 48 percent in services during the same period.<sup>(18)</sup> This is consistent with the irresponsible investment in the services sector at the expense of the industrial and agricultural sectors, as shown in Figure 4.

Thus, the investment policy reinforces the general trend of the rent-creating economy, directing most investments to the low-operating and productive services sector, thereby providing a negative distribution of income to owners at the expense of workers.

Figure 4: Gross fixed capital formation based on fixed prices of 2004 during the period from 1959 through 2010.<sup>(19)</sup>

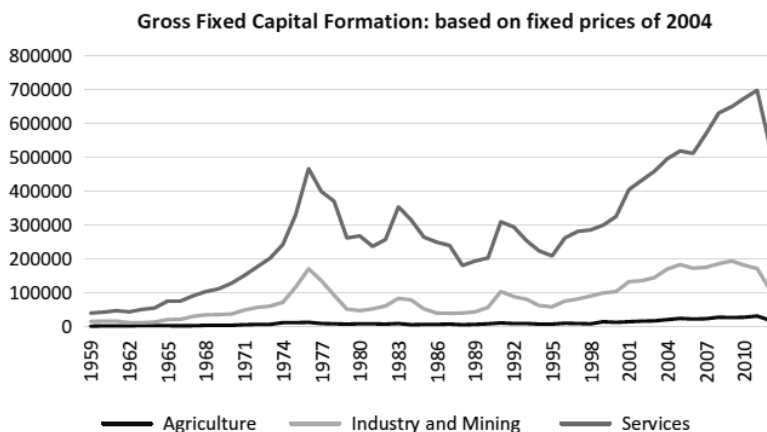


Fig.7 Gross fixed capital formation 1959–2011 (CBI)

**2- Trade policies:** These outline the form of foreign trade through the interaction between international circumstances and the domestic production structure. It is either subject to them and for urgent financial consideration from the narrow interests of the business class without a strategy that takes into account the requirements of the public and the development of the domestic economy and national security, or foreign trade management tries to achieve the greatest possible gains at the national level through stable and fair relations with the outside world.

In this area, what matters to us (in addition to, of course, the effective management of natural resources and the avoidance of accelerated attrition through the rough sale of raw materials, as mentioned above) is the proportion of imports supporting the people's basic needs to their total consumption thereof. Here, again, the distribution of gains and costs is unbalanced. While most people in third-world countries must use their meager domestic wages to pay higher costs (i.e., international prices) to meet their needs, the business class that mediates the process of transferring goods and the bureaucratic class that benefits from the channeling of resources away from basic needs, reap more significant gains. We say that those two classes in particular are making great gains while the people experience significant losses.

In this context, the weakness of the agricultural sector (due to water scarcity and limited arable land), the state of war that exacerbated it, and the adverse effect that increased oil revenues have had on prices and employment, resulted in a medium-sized food gap in Iran.<sup>(20)</sup> This gap made up about 33 percent during the 1980s and early 1990s as it was the case with wheat which is a key food in Iran, causing the country to import a considerable portion of its food needs. This portion later decreased, reaching self-sufficiency in some agricultural and nonagricultural corps,<sup>(21)</sup> mainly— wheat,<sup>(22)</sup> given that achieving self-sufficiency from wheat was one of the aims of the revolution since its outbreak, which means Iran is showing an improvement in this area and reducing the negative distribution of income through the channel of foreign trade.

**3- Monetary policies:** These are reflected in three axes that have direct and indirect effects on income distribution. First, interest rates are preferential or non-preferential when it comes to their relationship with investments in different employment sectors. Second, exchange rates in their multiple forms reduce imported inflation through imports of commodities. Third, inflation in general and its negative distribution affect people on fixed incomes.

In this area, when the preferential interest rate policy was enforced, the preference criterion was associated with short-, medium- and long-term savings, which is somewhat positive in terms of the promotion of longer-term savings. However, avoiding the adoption of the criterion related to the type of activity does not

guarantee the channeling of long-term loans to the targeted commodity sectors, such as agriculture and manufacturing, of high employment and contribution to the increase of supplies. Given Iran's rent-creating economy, sectors like real estate depend on such loans.

The policy of multiple exchange rates has been abolished since 1979. In 2002, the government adopted a single-price policy (which has not had practical success until now) in compliance with agreements with the International Monetary Fund (IMF) to avoid impacts on currency speculation and the like. If this policy succeeds, it will make imports of basic goods (i.e., for basic consumption and the construction of productive capacity) equal to others. However, the increase in self-sufficiency has watered down this effect. The privatization policy pursued within the framework of the implemented rent-creating economy will make the multiple-price exchange rate policy less fruitful. The private sector will not significantly benefit from the development of commodity sectors, as those who are less enthusiastic about these sectors of the economy are experiencing similar circumstances.

Tallies indicate a constant increase in inflation rates across five five-year plans, with actual inflation exceeding target rates in four of them.

The actual inflation rate in the first plan was 18.9 percent compared to 14.4 percent for the target, 25.6 percent for the second, against 12.4 percent for the target, 14.1 percent for the third as opposed to 15.9 percent for the target, and 15.4 percent for the fourth as opposed to 9.9 percent for the target (5 percent in the first three years of the fifth plan compared to 12.8 percent for the target),<sup>(25)</sup> which is linked to the effects of rent-creating policies and oil surpluses. It is also related to the uncontrolled expansion of money issuance due to the government's borrowing from the central bank (in part because of the weakness of the taxation system). The average annual growth of money in its broad sense was about 29 percent between 2001 and 2015.<sup>(24)</sup>

**4- Public finance policies:** These effects come about through the channels of the distribution of financial revenues' burdens and the allocation of public expenditure.

As for the distribution of public expenditure burdens, the heavy dependence on natural resources rather than direct taxes as sources of funding, aside from other disadvantages, appeared to be a bias in favor of the rich because it reduced their tax burden, making it equal to those of the people through the accelerated depletion of their public resources. The reliance on oil revenues to finance the public budget (although, partly because of the sanctions, attempts have been made to overcome this situation) led to a decline in the share of oil revenues in government revenues from more than 50 percent in 2010 and 2011 to, in reports estimated by Ho, 32 percent by the year 2017.<sup>(25)</sup>

In terms of the allotment of public resources, the Iranian administration's biggest contribution to the area of justice is its real transformative expenditures, namely, in-kind and, later, monetary subsidies. Also, it is embodied in free education, public services, consumer goods and energy. The government, until amending the law of subsidy in 2010, had sold goods below their actual costs, at times dropping to between 20 percent and 25 percent of the international tag price. This cost the state budget about \$25 billion per year, a total which could reach \$90 billion to \$110 billion through the calculation of opportunity costs.<sup>(26)</sup> There is no doubt that this system increased the government's debts and inflation, which impacted social justice, given that the subsidy system covers all brackets and draws no separating lines between those who are underprivileged and those who do not deserve to be bailed out.<sup>(27)</sup> Also, the system is deeply flawed to the extent that the Rouhani government discovered that, even after the implementation of the new monetary system, the beneficiaries outnumber the country's population.<sup>(28)</sup>

Thus, despite subsidies' relatively positive effect, which makes up for the impact of the economic system's structural problems, especially when it comes to providing education services, they remain, because of their inefficiency, unsustainable in terms of increasing the incomes of individuals in the poorer brackets. It remains within the boundaries of redistribution which weakens it in the long run, given the expected slump in oil revenues as a depleted resource as well as the expected impact if the increase in inflation continues.

### **Fifth: The political-economic background of income distribution in Iran.**

Oil is the essential link in the Iranian economy, from which all its strengths and weaknesses, and its policies, are based. Thus, the interpretation of the distribution pattern could help create an understanding of the framework's efficient and inefficient channels in terms of resource-given growth – in other words, understanding the relationship between oil revenues and distribution, through its different channels, and the politico-economic background thereof.

In terms of the relationship between oil revenues or natural resources and income distribution, the studies were divided into two main interpretations that agreed that the relationship was *nonlinear*:<sup>(29)</sup>

1 - This trend always sees the relationship as negative; the more oil revenues increase, the worse the income distribution is. However, interpretations varied and intertwined on many channels, the foremost of which were: the role of Dutch disease<sup>(30)</sup> resulting from the use of these rent-giving resources to destroy the relationship among sectors and activities internally and externally as well as promoting bulk revenues from rent-seeking activities. This, in turn, bolsters corruption in economies



suffering from low qualitiveness. The fluctuated markets of such resource-rich countries lead to overall economic volatility, thereby weakening growth, enhancing disparity and consuming capital in resources-related activities. It will also weaken the activities of high employment, hence weakening the demand to develop manpower and crafted workers.

**2-** Another interpretation sees the relationship as volatile, taking both directions. It considers all the aforesaid factors but states that their impact differs based on the short term, the long term, the types of institutions, the level of corruption, the type of workforce, etc.

Upon reviewing the traits mentioned in the research, whether in-depth or only briefly, it can be seen that the agreed-upon common traits between the two directions can be applied to the Iranian case despite the relative decline in disparity, the slump in oil sector revenues due to volatile international circumstances, US sanctions, and the desire to usher in privatization plans, which tip the scale in favor of the second trend, which is relatively better. (Thus, the US sanctions appear to have had some benefits.) However, we could not determine which of the two trends applies more to the Iranian case, as it requires precise measurements which may take a longer time to conduct.

The second trend in the case of Iran – which, due to its relatively large population, does not have a large oil income when that number is considered in terms of the average oil income per citizen – will likely prevail. This means that it is important to seek other sources of income and a more efficient pattern of resource-based development. In comparison, Iran's oil and gas per-capita income in 2009 was \$1,600, which is not a significant amount. That same measurement was \$6,420 in Libya, \$2,130 in Venezuela, \$2,080 in Russia, and \$1,930 in Algeria.<sup>(31)</sup> We did not mention the few countries whose circumstances are different, but they achieve a high level on this index, so they are not comparable.

While we are discussing the political economy, issues such as government size, tax revenue, government corruption and political democracy are of particular importance. The typical characteristics of the rent-dependent state, which relies on oil revenues, apply to Iran.<sup>(32)</sup> All these characteristics have a direct and indirect impact on social justice. Revenues received from taxes are low. Until 2015,<sup>(33)</sup> such revenues had not exceeded the government's oil revenues for 50 years. This indicates that they have had a negative impact on distribution – from the point of view of the equitable distribution of public burdens – throughout the past few decades in Iran. The total tax burden was 6.4 percent of the GDP, with the highest personal income tax (35 percent) and the highest corporate tax (25 percent)<sup>(34)</sup> – which is low compared to the size of government – assisted by substantial oil revenues, which the current general budget is expected to slash.

As to government corruption, the judicial system is not independent (ranked 111th globally) and the government suffers from a lack of impartiality (145th), which weakens the rule of law in general.<sup>(35)</sup> According to the Corruption Perceptions Index, Iran ranked 131th out of 176 countries included in the report issued in 2016.<sup>(36)</sup> This represents a cost with respect to its economic efficiency – quantitatively in terms of drained resources and qualitatively through the opportunity cost resulting from misappropriation and weak public administration.

In terms of political democracy, studies indicate that “citizens tend to support governments with larger budgets and lower taxes”.<sup>(37)</sup> This may explain some aspects of the Iranian governance pattern and its tendency towards redistribution through public finance as a stabilizing policy, which reduces the long-term distribution justice through economic policy channels and government corruption in particular. This trend increases as liberalization takes a foothold within the third world. According to the Democracy Index for 2015, Iran ranked 154 out of 165 countries covered by the index.<sup>(38)</sup>

## **Conclusion**

Quantitative and qualitative assessment of the social justice system in Iran. By bringing together parts of the discussion, a final assessment of Iran’s social justice system concludes that the system has achieved considerable progress when compared to the system that existed during the Shah’s era, although it did not live up to the expectations and hopes of the revolution. This is the result of several factors, such as sanctions. However, the main factor is the pattern of resource-given growth and its political framework. The system is outdated socially and normatively; it is inefficient and unsustainable for the following **reasons**:

**1-** The system is socially inefficient as it depends on achieving justice through secondary distribution, not the initial one. It pursues an undemocratic pattern of income distribution, placing it under the full control of the regime, which can easily strip the people of its benefits in the event of pressure or crisis, or even within the framework of liberalization policies, which started to take shape.

**2-** It is somewhat hindered by the prevalence of personal – not economic – distribution. It is achieved through government distribution in the form of transferred expenditures instead of the reforming of labor markets through high wages and changing the pattern of wealth distribution, which, as mentioned above, is related to the pattern of growth.

**3-** The system’s dependence on surpluses of oil revenues threatens its continuation and reduces its benefits in the long term, making it subject to the many fluctuations and problems mentioned in the research.

**4-** It undermines its justice. The tax component must increase to achieve greater justice in the distribution of burdens through the progressive taxation system.

**5-** The system does not separate the levels of income in terms of advantages and burdens. It is biased in favor of the lower brackets at the two levels, increasing its privileges and slashing its burdens.

## Endnotes

- (1) For more details, see: Majdi Abdulhadi, *The capitalist impoverishment system*, Dar Rawafed Publishing and Distribution, Cairo, 2014.
- (2) The Gini coefficient measures the inequality among values of a frequency distribution (for example, levels of income). A Gini coefficient of zero expresses perfect equality, where all values are the same (for example, where everyone has the same income).
- (3) World Bank Group: 2016, *Iran Economic Monitor*, fall 2016: *Towards Reintegration*. World Bank, Washington, DC. © World Bank, p 21. <http://cutt.us/xH9Mj>
- (4) Hadi Salehi Esfahani & M. Hashem Pesaran: *The Iranian Economy in the Twentieth Century: A Global Perspective*, *Iranian Studies* (2009), p 190.
- (5) Pourghadiri, Bahram Esfahani: *Inequality and the rentier state: vertical and horizontal inequality patterns in Iran*, PhD Thesis, SOAS, University of London, (2012), P 134.
- (6) The World Bank: Data. <http://cutt.us/EsZlx>
- (7) Kayoumars Irandoost: *Informal Sector in Iranian cities, case study of Kermanshah*, Presentation, *Global Visions: Risks and Opportunities for the Urban Planet*, the 5th Conference of the International Forum on Urbanism, February 24th to 26th, 2011 at the National University of Singapore (NUS) in Singapore, p4. <http://cutt.us/erEDR>
- (8) Mohammad Reza Farzanegan and Pooya Alaedini: *Economic welfare and inequality in Iran.. Developments since the revolution*, New York, NY: Palgrave Macmillan, (2016), p 20.
- (9) Mohammad Reza Farzanegan; Pooya Alaedini: *Economic welfare and inequality in Iran*, Op.cit, p 26.
- (10) The World Bank: Data: <https://data.albankaldawli.org/country/iran-islamic-rep>.
- (11) The World Bank: Data: <https://data.albankaldawli.org/country/iran-islamic-rep>.
- (12) Institute for Trade Studies and Research (ITSR): «A summary of Recent Changes in Economic, Industrial and Trade Performance in Iran”...A report to the presenters and contributors at the Symposium on October 2015, p 10. <http://cutt.us/jCrj>
- (13) World Bank Group: 2017, *Iran economic monitor: oil - driven recovery*, Washington, p 7. <http://cutt.us/hXBr6>
- (14) The World Bank: Data. <http://cutt.us/NLKQ>
- (15) World Bank Group, 2016, *Iran Economic Monitor*, Fall 2016: *Towards Reintegration*, p 2
- (16) The World Bank: Data. <https://data.albankaldawli.org/country/iran-islamic-rep>.
- (17) The World Bank: Data. <https://data.albankaldawli.org/country/iran-islamic-rep>.
- (18) The World Bank: Data. <https://data.albankaldawli.org/country/iran-islamic-rep>.
- (19) H. Tiliouine, R.J. Estes (eds.): *The State of Social Progress of Islamic Societies*, *International Handbooks of Quality - of - Life*, Springer International Publishing Switzerland 2016, p 219
- (20) Ahmad Yazdanpanah: «The impact of oil price on food security in the Algeria, Iran, and Saudi Arabia: cointegration, vector - error correction model, dynamics, and causality analysis» (1994), *Retrospective Theses and Dissertations*. Paper 10662, p 169
- (21) “Iran, republic of self-sufficiency, is ranked 12th globally in terms of car production.” *Veto Gate*. <http://www.vetogate.com/2283336>.
- (22) al-Wefaq: “Iran achieves self-sufficiency in wheat production.” <http://cutt.us/7z0Jp>.
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- (24) The World Bank: Data: <https://data.albankaldawli.org/country/iran-islamic-rep>.
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- (28) Jahangir Amuzegar. *The Islamic Republic of Iran*, Op.cit., p 151.
- (29) Younes Nademi, *The resource curse and income inequality in Iran*, *Qual Quant* (2017): <https://doi.org/10.1007/s11135-017-0510-y>
- (30) Dutch disease is a situation resulting from a large inflow of foreign currency into the country, due to a surge in natural resource exports (or transfers, aid, etc.), often leading to a higher exchange rate against other currencies and thus reducing the competitiveness of industrial and commodity exports. This weakens the industrial sector in particular and the commodity sectors in general for the sectors of extractive production and services, which weakens the country's economic development. The phenomenon was given that name because the case was observed in Netherlands after the slowdown of the industrialization sector on the heels of the discovery of a gas field in the 1950s.
- (31) Ross, Michael. *Curse of Oil*. Translated by Mohamed Hashim Nashouti. Doha: Arab and International Relations Forum, 2014, 56, 58.
- (32) World Bank 2005: *The Islamic Republic of Iran: Report on Public Financial Management, Procurement, and Expenditure Systems in Iran*. Washington, DC. © World Bank, p 15.
- (33) "For the first time in 50 years ... Iran achieves more tax revenues than oil." *DotMasr*. September 27, 2015. <http://www.dotmsr.com/details>.
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- (35) 2017 Index of Economic Freedom, p 311: <http://www.heritage.org/index/>.
- (36) Corruption Perceptions Index 2016: <https://goo.gl/366qzX>
- (37) Ross, Michael. op. cit., p.118.
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