From Price Subsidies to Basic Income: The Iran Model and its Lessons[1]

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Introduction

In December 2010, Iran launched a five-year program to reform its system of price subsidies. In the first of several stages, subsidies were partially cut by raising prices of fuel products and some other goods and services, in most cases several-fold. The net proceeds are partly earmarked to finance a compensatory cash transfer program that pays every Iranian residing in the country the equivalent of $40-45 a month, unconditionally. The later stages of the reform will see further rises in prices and transfer payments in tandem until subsidies are entirely eliminated. This, in a nutshell, is the "Iran model" of basic income. It differs in some respects from the common conceptions of basic income in the literature and may therefore be more accurately termed a *de facto* basic income. The story of how this *de facto* basic income came into being and some of its early results are recounted elsewhere.[1] This chapter focuses on the model itself, elaborating on its key features, its genesis, the challenges it faces, and some of its lessons.

The key features of the Iran Model

The Alaska model of basic income has been in place for about three decades. It has by now matured to a point that this book and its companion volume are devoted to helping export the model to the rest of the United States and to other countries.

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An alternative model of basic income has recently emerged in Iran that, while sharing some features of the Alaska model, contrasts with it in other respects. Both models rest on oil as the natural resource whose rent is being partially distributed to the entire population in cash, on a regular basis, and free from all conditionalities. In each case, all those eligible – residents in Alaska, citizens in the case of Iran – are entitled to the same transfer amount regardless of individual characteristics (age, income, etc.) and for an indefinite period. But the Iran model possesses some distinctive features that make it particularly noteworthy and instructive. Among these are:

1. *Scope and scale:* Iran's *de facto* basic income is by far the largest and most "generous" program of its kind in the world; indeed it is unique in its national scope. Its initial transfer amount of roughly US$500 a year per capita is, as a proportion of average national income, several times higher than the annual dividend in Alaska, and the population covered is over a hundred times larger. It reaches some 72.5 million people, or 96 percent of Iran's population of 75.3 million (the remaining 4 percent have voluntarily forfeited their entitlement). Furthermore, when the reform process has run its full course, cash transfers to households will be of the order of 15 percent of national income, far above Alaska's average of 3-4 percent.[2]
2. *Emergence by default:* The basic income of Iran emerged largely by default. The universality of cash payments became the operating principle simply because the identification of the initially targeted population – the seven deciles of the population with incomes below the national average – failed for both technical reasons and inadequate public support. The universality of coverage in turn led to the uniformity of transfer amount for all.
3. *Piggybacking on a larger issue:* Iran's basic income was not a policy objective in its own right. Rather, it turned out to be the most convenient way of compensating the population for the withdrawal of inordinately high price subsidies that the reform effort aimed to eliminate. It played an instrumental role by facilitating the implementation of a policy agenda to address a larger issue of national concern.
4. *Payment to household heads:* The entitlements of members of a household are paid out not to them individually but to the head of the household on their behalf. This is because, the transfers being a form of compensation for subsidy cuts, they should go to the person who is responsible for paying the higher bills, which is normally the head of the household.
5. *Novel method of financing:* The transfer program is financed through higher prices for subsidized goods and services, primarily fuel products, whose (mostly implicit) subsidies are being phased out. It puts no burden on existing revenue sources such as the national budget or oil exports. This method of financing a basic income has not often been considered in the basic income literature.
6. *Unlikely venue:* Finally, Iran's basic income emerged in a developing, Middle Eastern, Islamic country, contrary to the widespread expectations that a basic income would only be affordable and likely to arise first in more developed countries, particularly of the European variety.

Such distinctive features have in various ways contributed to making basic income a reality in Iran. That is where their main significance lies. But they are not necessarily as effective in ensuring its continuation. On the contrary, some of these features have the potential to jeopardize the sustainability of the program over the longer term. The "generosity" of the transfer amount, for example, may turn into a threat to the universality of coverage. The instrumental role of basic income may at some point become immaterial undermining its raison d'être, an outcome that would be less likely if basic income were grounded in a more solid foundation as a right of citizenship and an end in itself. The program in Iran is in its infancy and there is a good deal of trial and error and learning by doing, with no guarantee of survival in its current shape or form. It is indeed facing challenges that make its future somewhat uncertain. We shall discuss these challenges below but to appreciate them better we need first to consider the genesis of the program.

The genesis of the Iran Model

Iran is a major producer and exporter of oil. The oil sector is nationalized and the entire proceeds from exports and domestic sales go to the government. For decades Iranians have benefited from this natural wealth in two main ways: (1) public expenditures (current and capital) by the government, and (2) implicit subsidies on fuel products whose domestic prices were kept extremely low. Low fuel prices bred a culture of excessive consumption, inefficient production, waste, pollution, smuggling to neighboring countries, as well as inequality as the bulk of the subsidies went to the better-off sections of the population who consumed more. By official estimates, the subsidy bill in recent years has been of the order of $100-120 billion annually, of which 70 percent went to only 30 percent of the population, mostly in urban areas.[3]

The reform of price subsidies has accordingly been a longstanding policy concern. Successive governments tried to address the problem but failed to make much progress in the face of political and public resistance. In June 2008 however, the government of President Mahmoud Ahmadinejad took a radically different approach by unveiling a plan to phase out price subsidies over several years, replacing them with "cash subsidies" to households and businesses alike. The reform would also extend to electricity and water services, transport, bread and some other items too, but over 90 percent of the subsidies concerned fuel products. The subsidy reform was designed to improve resource allocation with more rational relative prices and a larger scope for market forces on the one hand, and to promote social justice by redistributing the oil rent in favor of lower income people on the other.[4]

The government's initial intent was to limit the transfers to the less well-off sections of the population, namely, the seven lower deciles with incomes below the national average. To determine eligibility for the transfer, households were required to fill out a Household Economic Information Form providing information on their composition, incomes and assets, participation in state assistance programs, etc. The identification of beneficiaries used a model that estimated household income on the basis of various proxy indicators (habitable area per person, car ownership, level of education, family loans, etc.) on which data had been collected. The estimated income was used for the classification if it was more than the self-reported income; otherwise the reported income was used. The results however led to a great deal of discontent as many households were unhappy about their exclusion and protested. Rather than alienating a part of the population, the government eventually decided to abandon the exercise and declared everyone eligible for transfers, at least initially. The universal basic income was thus born as a means of ensuring wider public support for the price reform.

Universal coverage then heralded the uniformity of 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 was launched but speculation was rife, with most estimates hovering around $10-25 per person per month, depending on the underlying assumptions.

After over 18 months of discussion and debate, a modified version of the government plan was approved by the parliament and the Subsidy Reform Law was enacted in January 2010.[5] The Law sets aside up to 50 percent of net proceeds from higher prices for direct payment to households in cash. That could eventually reach some $50-60 billion a year or about 15 percent of national income. The other half, another $50-60 billion a year, would be used to assist industry and agriculture in their adjustment to the loss of subsidies, to improve infrastructure, and to strengthen the country's social security system. These are massive sums with potentially profound implications for the economy at macro and micro levels. But they place no new burden on the national budget or revenues from oil exports. The transfers are financed by households, businesses and the government through the higher prices they pay for the goods and services that would no longer be subsidized. The reform implied a massive redistribution of household incomes, one that could be designed to favor the lower income strata at the expense of those who had hitherto benefited the most from the outgoing price subsidies.

Contrary to government wishes, the Law imposed a period of five years, instead of three, for the implementation process. Additionally, it limited the net proceeds from higher prices in the first year to $10-20 billion. These provisions were aimed at ensuring a more gradual pace of reform and moderating inflationary pressures from subsidy cuts. The latter provision in particular had been vehemently opposed by the government as it implied a maximum monthly transfer of about $17 per person, or 5 percent of the minimum wage, which would have little incentive effect and jeopardized public support. Having failed to get its way, the government seized upon loopholes in the Law and delayed launching the reform for nine months beyond the start date of March 2011 envisaged in the Law. This delay made it possible both to accelerate the pace of reform and to set the transfer amount at a much higher level since the government then went on to generate a good part of the authorized revenues for the first year in only its final quarter. This implied enormous increases in prices of subsidized goods, which varied from 75 percent to 2000 percent depending on the item and in some cases on the quantity purchased, region of the country, and season. The price shock was regarded by the government as desirable, since more drastic changes in relative prices would have more of an impact on the behavior of consumers and producers and more rapidly. But the main reason 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 three months. The transfer amount was thus set at 455,000 *rials* or $40-45[6] per person per month, nearly three times the maximum amount consistent with strict adherence to the provisions of the Law, which is about $17. In effect, the government was obeying the letter of the Law that imposed a $10–20 billion range for revenues in the first year while running roughshod over its gradualist spirit by the massive price rises it decreed to generate the authorized amount in only three months. In fact, over the period of an entire year, the price adjustments would yield closer to $40-60 billion, depending on how consumption is affected. Just about half of the subsidies were thus cut in one fell swoop, instead of gradually over two to three years.

Cash transfers to households started at the same time that price increases went into effect on 19 December 2010. At this time, only about 80 percent of the households had completed the formalities required to qualify for the transfer, which involved filling out the registration form and supplying a bank account into which the payment would be deposited. Of the 20 percent of households that did not participate, about half had not applied at all, most likely because they did not wish to report their incomes and assets, were not impressed with the transfer amount likely to be involved – which was not known at registration time before the launch of the reform – or were simply unaware of the program. The other half had filled out the registration form but chose to suspend their participation by withholding bank account details. This gesture followed government appeals to those who were better off to forego their entitlement voluntarily so as to leave more funds for those who needed the transfer. These appeals followed the decision to make payments universal, which put pressure on available resources.

But the situation evolved once the cash started to flow. In the first few months of the program the number of participants rose from 60 million to 72.5 million, or from 80 percent of the population to 96 percent.[7] The most significant factor accounting for the precipitous rise in participation was likely the amount of the transfer that, as discussed before, turned out to be much higher than anticipated, just as price rises were. The government, furthermore, promised that the amount would remain unchanged until at least March 2012, after which it would be adjusted upwards in line with further price increases in later stages of the reform process. Staying out of the program voluntarily had thus become financially more costly. There were other contributing factors as well. First, with targeting abandoned, the information on incomes and assets was no longer relevant to eligibility and the concern about its scrutiny by the government may well have eased or disappeared altogether.[8] Second, the bureaucratic registration process was simplified, giving way to registration through the Internet. Third, with the transfer program already operational, the more skeptical people who were biding their time during the long uncertain period before the program was launched may have been encouraged to put in their claims once the situation cleared up. And fourth, the sense of solidarity that motivated some people to stay away may have evolved with the realization that charitable purposes could be served just as well or better privately by the beneficiaries themselves rather than through the government.

But while payments to households have been regular over the course of the first year of the program, those destined for businesses and the public sector have been anything but, and for good reason. Once household payments are made, there is rather little left for businesses and the government.[9] The universality of payments, their relatively high level, and, to make matters worse, the apparent overestimation of expected revenues seem to have thrown the finances of the program into disarray, with far-reaching consequences as we shall see below. To some extent the program appears to have become a victim of its own success or that of the reform more generally. On the one hand, given the extremely large increases in prices, the shortfall in revenues might be due in part to the unexpectedly large decline in the consumption of goods and services concerned, which was of the order 20-30 percent in many cases.[10] On the other hand, the sharp rise in participation in the early months of the program was no doubt a reflection of its growing popularity given the attractiveness of the transfer amount.

Potential lessons from the Iran Model

The basic income experience in Iran is in its infancy and it is too early to draw definitive conclusions and lessons from it. Nonetheless, its very birth and novelty raise issues that bear on the approach to the promotion of basic income and its prospects under different circumstances. This section discusses some of these issues with a view to drawing tentative lessons that might contribute to making basic income more of a realistic proposition in different contexts.

Advocacy for basic income

Guy Standing has identified three main lines of thinking that have dominated the basic income conversation over the past quarter century: (1) one that is broadly philosophical and libertarian, stressing the appeal of a basic income as a right and as a stand-alone matter; (2) another that sees basic income as one component of a redistributive political and economic strategy; and (3) a third line that is becoming increasingly important, namely the potential of a basic income as a means of enhancing a more gendered and ecologically viable future.[11] In the case of Iran, it is the second that has been the dominant influence. The first and third lines of thinking played little or no part, although the ecological factor did figure in since the main subsidized commodities are fuel products. The rights-based arguments would have been a non-starter. The adoption of the subsidy reform and the birth of a *de facto* basic income owe much to the fact that cash transfers are universally seen as compensation for the loss of subsidies, not as a right or entitlement without a quid pro quo. That is how the hurdle of reciprocity was overcome.[12]

But even the significance of basic income as a component of a redistributive strategy should be seen in context. Iran's version of basic income evolved not by design but by default. It was not a policy objective in itself but the fortuitous outcome of a broader process aimed at correcting an inefficient and inequitable system of subsidies. It served to facilitate the reform by making it more acceptable to politicians and the public at large. In a sense, the country stumbled upon basic income while pursuing a different objective, an objective that was indeed partly motivated by distributional considerations. This unique experience highlights the instrumental potential of basic income in smoothing the way towards better resource allocation and greater equality, the two objectives of Iran's reform. The experience is all the more significant as it takes place in a country largely unaware of the wider discourse on basic income. The concept's very simplicity appears to account for its emergence in the national search for an appealing alternative to an irrational system of subsidies. It just seemed to make sense.

Potential lessons: (i) overemphasis on rights may not always be the best political strategy for promoting basic income; (ii) the compensatory nature of the transfers can help overcome objections rooted in the principle of reciprocity; (iii) piggybacking on a larger issue may open up fruitful opportunities for the promotion of basic income; and (iv) one can conceivably stumble on a basic income under certain circumstances.

Financing a basic income

A major hurdle facing a basic income program is often finding resources to fund it. In Iran, the problem was turned on its head: the funds were going to be available but a use for them had to be found. The *de facto* basic income emerged as a way of using up a large portion of those funds. In this regard the situation is analogous to Alaska's but the funding source is different. Alaska's model relies on dividends from a fund established from taxes levied on oil producers. Iran's model is financed through higher prices for subsidized goods and services whose (mostly implicit) subsidies are being phased out. This method of financing a basic income is not discussed much in the literature but it has its merits. One was mentioned before; it puts no new claim on existing sources, for example the national budget or oil export revenues. Another is pointed out by Philippe Van Parijs who contrasts Iran's approach with that of Alaska, noting:

> In many places, this is a far more realistic option than an Alaska-type permanent fund program…the Alaska scheme is funded out of the interest collected from investments made worldwide with revenues generated by the production of oil at some point in the past, whereas the Iranian scheme should be understood to be funded out of a tax on the current consumption of oil. The Alaska-type scheme is therefore restricted to resource-rich (sub-) countries that manage at some point to exercise sufficient political self-restraint to create and develop a substantial fund. The Iranian-type scheme, by contrast, is available to any country that wants to price the consumption of oil in an ecologically responsible way and to buffer the effect on people's standard of living in a socially responsible way. For this road to basic income to be a real option there is no need to first accumulate a large fund, nor indeed to be an oil-producing or resource-rich country.[13]

Over the longer term however, the Alaska model has the advantage of a permanent flow whereas the Iran model does not. There have been contradictory reports as to where policy makers stand on the issue of the duration of the program.[14] Since the subsidies are being cut permanently, one might presume that the compensatory transfers too would continue indefinitely. That is because the resources from higher prices would keep coming in so long as Iran is able to produce enough fuel for its domestic market, fuel that could be sold at subsidized prices as before but would not be. Beyond that point, when Iran will have to import its fuel, there would be no revenues any more unless fuel is taxed. That prospect lies in the distant future however since Iran's oil and gas reserves will last for many years still.

Over the shorter term, the main risk to the transfers arises from drastic declines in international oil prices. This would narrow the gap with potentially subsidized domestic prices and reduce revenues from subsidy cuts. In such a case, the government could either bring down domestic fuel prices in line with international prices and lower the transfer amount in tandem, or it could leave domestic prices above international prices and continue with the transfers at the same level as before. The former option would be more in line with the current Law but the latter is more likely in practice, both politically and socially, as it would be less disruptive of the economy.

The more immediate challenge however is financing the transfers at present. As noted before, universal payments at a fairly high level (relative to the volume of resources flowing in) is putting considerable pressure on available funds, so much so that up to 80 percent of the proceeds from higher prices are going to households, a proportion that should be closer to 50 percent according to the Law. This is not a sustainable situation and various options are being explored to remedy it. Short of drawing on other sources for supplementary funds, which would in principle be illegal, the burden of adjustment would have to fall on households. That implies cuts in the number of people participating in the program or in the amount of the transfer, a dilemma to which we now turn.

Potential lessons: (i) Iran's model of generating resources for a basic income is potentially applicable in many other countries as well, even those that may not have fuel resources of their own or subsidized fuel; (ii) the Alaska model of dividend payment may have greater long-term sustainability.

Universal coverage and the transfer amount

One of the main justifications for universality lies in the shortcomings of targeting, in particular type 1 error, i.e., excluding some of the intended beneficiaries.[15] But the universality that gets rid of type 1 error compounds type 2 error by including all those who could do without the benefit. In justifying a universal basic income, one often gets around the latter objection by invoking the "right" of everyone to the transfer as a citizen, regardless of their state of well-being. This line of argument is reinforced by arguing that even if the payments to the rich were to be regarded as in some sense undeserved or unjustified, they could in principle be recovered through other means – taxation of income or of luxuries, for example – so as to maintain the principle of universality. The argument is considerably weakened however if the tax system cannot be relied upon to do so. This is the case in Iran, not so much because the taxation system cannot do so but because resources other than through higher prices for subsidized goods and services cannot legally be used for the purpose of cash transfers, at least under the current Law.

In this context, the resources available for financing cash transfers may be regarded as exogenously given or "fixed" in the sense that they depend on the extent of price hikes and the volume of goods and services purchased but not on the program's coverage or the transfer amount. The distribution of the resources, whatever their volume, is thus subject to a trade-off between the number of beneficiaries and the amount of the transfer to each. The original idea in Iran was to cover 70 percent of the population with incomes below the national average. With the adoption of universality, the transfer amount could only be 70 percent of the amount that would have been possible to pay the originally targeted 70 percent population. The universality thus comes at the expense of the lower income groups who could have received more had those with higher incomes been excluded. To avoid this, the government initially drew on other resources to fill the gap, contrary to the stipulations of the Law. This approach however could not be continued indefinitely, a more durable solution calling for a review of the coverage and/or the transfer amount. At the time of writing (December 2011), there is increasing evidence that the principle of universality may soon be sacrificed with some better-off households being dropped from the program due to resource constraints.[16] It is not clear how these households might be identified or what their numbers might be.

Abandoning universality altogether is one approach to saving resources when they are "fixed". In view of the drawbacks of targeting though, it may not be the best remedy. After all, the universality in Iran came about precisely because of the failure of the attempt at targeting cash subsidies, a lesson that should not be lost sight of too readily. Another approach is the one that was in place before the reform program started, namely, voluntary non-participation. Universal entitlement does not have to mean that everyone should get the benefit since some might prefer to opt out on a *voluntary* basis, for whatever reason as long as those opting out can do just fine without the benefit. Voluntary self-exclusion saves resources and makes universality more acceptable to the general public by quenching the deserving / undeserving tension. It might even be actively encouraged. Indeed, going further, participation may be made "costly" in ways that would not deter the poor but may dissuade the rich, a logic that resembles, for example, the subsidization of low quality foods that are less attractive to those who can afford to do without them. In Iran, reluctance to provide sensitive information on incomes and assets at the time of registration and the appeal to the sense of solidarity of the better off seem to have performed that function well initially, although their impact wore off considerably once the program got underway, with the sharp decline from 20 to only 4 percent in the proportion of households that are staying out of the program voluntarily. We have noted some possible reasons for this development and the specifics of the Iran case are not the main point here. The main point is rather that voluntary self-exclusion might be an appropriate approach to addressing the tension between universality and resource requirements. The way it might work or be encouraged may differ from place to place but it may be an approach worth investigating, particularly in situations where the proportion of the public to be excluded is not large. To come back to the Iran case, it should be noted that by Law, the receipt of cash subsidies is subject to households providing accurate information on their socioeconomic status, including on incomes and assets, at registration. If the information proves to be inaccurate, the Law calls for legal action to be taken by the government to recover the amounts so paid and discontinue future payments. This provision does not appear to be enforced to any significant extent, if at all. If it were, even selectively, it may induce many well off households to withdraw voluntarily, or to continue staying away. This is not meant as a recommendation but as an example of possible measures that might relieve the funding constraint without discarding the principle of universality.

In this context, three further observations may be made. The first concerns the impact of inflation on the transfers. Given the relatively high and accelerating rate of inflation – currently hovering around 20 percent although some believe it to be higher – the purchasing power of the transfers is diminishing rapidly. Over the longer term, the government's easiest option to reduce the burden of the transfers might be to let inflation erode their real value.

The second observation has to do with the recipients. The cash transfers in Iran go to the head of the household on behalf of all its members. As the payments become more and more well established, the concern about their impact on intra-household welfare becomes increasingly more important, perhaps even more important than their compensatory nature. If it is shown overtime that the welfare of the household could be improved through individual payments to its adult members, the current practice may evolve. In the interest of expanding people's choices, a first step might already be to allow households to express a preference between payment to household head or to adults individually (children's share would of course go to the parents or guardians).

Finally, the compensatory character of the cash transfers in Iran has allowed a major amplification of the impact of relative price changes on resource allocation and the speed of adjustment as it made it possible for the price reform to go deeper and faster. The scale of price hikes in Iran, which were of the order of several hundred percent, are unprecedented not only in the country itself but virtually anywhere else in the world. Yet the reaction of the population was largely tolerant, if wary. This is mainly because of the grant that helped cushion the shock. In efforts at price reform, therefore, the scale of price adjustments may not be as critical as it is often presumed to be, so long as the adverse effects can be moderated or removed entirely through compensation, particularly for poorer people.

Potential lessons: (i) there is normally a trade-off between universality and transfer amount in the context of a developing country; (ii) universal entitlement need not mean universal payment if the better off can be induced to forego their entitlement voluntarily; (iii) whether the payments are made at the individual or household level must be adapted to local circumstances; (iv) the public tolerance of price increases depends on compensatory arrangements.

Constituency building

The subsidy reform in Iran was a government initiative that, far from enjoying public support, aroused deep anxiety throughout the society. It was the most radical economic transformation Iranians were going to experience in living memory. The government called it "economic surgery." The cash transfer component of it was designed in part to alleviate public concern and build support for the reform on the strength of the argument that a large part of the population would in fact receive more in cash subsidy than they would lose from cuts in price subsidies. The sensitivity of the government to public reaction was considerable, as exemplified by the adoption of universal coverage when protests mounted against the exclusion of a third of the population from the transfer program. During implementation too, changes have been made to meet public demands, for example from bimonthly to monthly payments to facilitate management of household budgets.

But the cash transfer program, while popular, does not enjoy universal support. Some experts have called for it to be scrapped with the funds redirected to other priorities, for example job creation or expansion of public services. Others are less categorical and would support a certain portion of the funds being distributed in cash to poorer groups. Universal coverage came about for lack of a practical alternative. It had few advocates per se and may yet prove to be short lived, even if retreating from it may be harder now that it is in place. But even if some of the better-off households are excluded from the program, their number is unlikely to be large. The success of the reform depends on the vast majority of the people feeling that they are not being cheated out of their fair share of the oil wealth.

It may be useful here to consider selected results of an opinion poll on the reform carried out by an unidentified official agency.[17] It covers Tehran, the capital city, and was taken soon after the reform was launched. It showed that the transfers were about as likely to be spent as saved: 41 percent of respondents had spent it all, 37 percent had saved it all, with the remaining 22 percent having divided it up between consumption and saving. Nonetheless, a majority (62 percent) believed that for most people the transfers would not cover the extra expenses due to higher prices, even if they reduced their consumption. Some 33 percent thought that they could do so. A similar majority (65 percent) felt that the reform would help "correct" the consumption pattern, although others (28 percent) had little confidence that it would. Perhaps most importantly, the respondents were split down the middle between those who had much or very much confidence that the reform program would succeed (40 percent), and those who had little or very little confidence that it would (39 percent). And more people rated the chances of the transfers continuing as little or very little (42 percent) than those who rated these chances as high or very high (36 percent). It should be noted that public opinion in rural and other urban areas that are less privileged than Tehran is likely to be more favorable to the reform as price subsidies tend to favor the better off whereas cash subsidies are the same for everyone.

Potential lessons: (i) cash transfers, once in place, can develop a large constituency behind them, for both economic and political reasons; (ii) public support of cash transfers could be strengthened if they also addressed widely acknowledged problems (for example, irrational consumption patterns).

Concluding observations

The replacement of price subsidies by a cash subsidy program of unprecedented scope and scale has placed Iran in the forefront of all countries in advancing towards a nationwide basic income. The fact that this development has taken place first in a developing, Middle Eastern, Islamic state, rather than in a developed European country, as widely presumed, underlines the relevance of the basic income concept for a broad range of countries. In view of the great diversity across countries, issues concerning the relationship of basic income with the stage of development and cultural differences deserve detailed study, in particular the extent to which arguing for basic income may have to contend with the variety of prevailing conditions and circumstances.

That said, is there anything that is unique about Iran? The specificities of the Iranian experience should not be ignored. It is in large part the combined availability of domestic fuel resources and an exceptionally distorted pricing policy that made it possible, indeed almost inevitable, for a de facto basic income to emerge as part of the solution. But those specificities should not be exaggerated either. There may also be scope in some other countries with large subsidy bills or potential for indirect taxation to explore the feasibility and wisdom of rerouting their resources to fund a basic income. Iran's experience may hold some lessons of wider applicability, if they are properly drawn and found to be convincing.

There have been many challenges along the road to a basic income in Iran and more lie ahead. Its future is by no means guaranteed. While its actual existence may have created conditions for the development of a strong constituency to maintain it, the best guarantee for its continuation would be to show convincingly that the larger price subsidy reform of which it is an integral part is indeed working reasonably well and could work better still. That calls for systematic and continuing evaluation of the impact of the reform in terms of its own explicitly stated objectives as also in related areas that may be affected. The lessons, positive or negative, will help resolve the outstanding policy issues, improve the functioning of the program, and help make it less vulnerable to shifting political currents.

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[1] Tabatabai 2011 and forthcoming.

[2] Calculated based on data in Widerquist and Howard 2012, ch. 1, **.

[3] It should be noted that subsidies are mostly implicit, not financed by oil exports or the budget. They arise because domestically produced oil and gas are sold cheaply on the local market.

[4] For an account in English of his TV address, see Ahmadinejad 2008.

[5] For the full text of the Law in English, see Guillaume et al. 2011, Appendix I.

[6] The Iranian currency, *rial*, is subject to a managed floating exchange rate regime that has effectively kept it pegged to the US dollar for years at rates hovering around US$1 = Rls10,000, or more recently Rls11,000. All references to dollar are to the US dollar.

[7] Farzin 2011.

[8] Such information however continues to be required of new applicants as part of an effort to build up a socioeconomic profile of the nation.

[9] In the first three months of the program, for example, revenues amounted to $8.6 billion (Iran Economist 2011), while $8.1 billion was paid out to households ($45 per person per month X 3 months X 60 million participants in early months), far above the household share of 50 percent (maximum 60 percent for the year) authorized under the Law.

[10] Tabatabai, forthcoming.

[11] Standing 2011.

[12] See Tabatabai 2011.

[13] Van Parijs 2010, 3–4.

[14] Kaviani 2011.

[15] See, for example, Jhabvala and Standing 2010.

[16] See, Donya-e Eqtesad 2011.

[17] Ayandeh News 2011. It should be noted that opinion polls in Iran are rare, and the publication of their results rarer still, particularly on sensitive issues. If they are conducted, it is usually to allow the sponsoring institution, often an official body, to gauge the mood of the public on some issue, keeping the results confidential. The results of this poll were leaked to the press, perhaps only partially.