

Subsidies are traditionally defined as government-paid goods or services, which would otherwise have been paid for by the producer or the consumer. Some expand this definition to include government activities, insurance, or guarantees that reduce the risk of doing business.

Subsidy is, in fact, a general term for a variety of hidden costs, which we pay to the government, who then gives it to producers; this cost is hidden in the price that we pay for goods or services.

Subsidies artificially lower the cost consumers think they are paying, because a portion of the actual cost is hidden in taxes.

Some combination of the following objectives seems to underlie most subsidy policies: stimulate (rural) economic development or growth; protect (sector-wise) employment and investments; safeguard domestic supply and reduce external dependency; reduce poverty or to support the poor; and provide access to basic living conditions.

Subsidies are often blamed for promoting poor energy and economic policies because social costs are paid through taxes instead of energy prices, distorting the true cost of energy.

Pressing Issue

Iran is behind many countries in energy efficiency. As a result, energy subsidy has been one of the pressing issues highlighted at various official meetings, according to a report by Moj (wave) New Agency.

Most say many types of subsidies, especially those that encourage the production and use of fossil fuel, and other non-renewable forms of energy, are harmful to the environment. They can also have high financial and economic costs, and often only bring few benefits to the people for whom they are intended.

Removing, reducing or restructuring such energy subsidies is helpful for the environment and the economy at the same time. Potential social costs in terms of employment in the conventional energy industry or reduced access to energy could be addressed by redirecting the money formerly spent on subsidies to income support, health, environment, education or regional development programs.

Of course, subsidies can have certain positive consequences, particularly where they are aimed at encouraging more sustainable energy production and use. Temporary support for renewable energy and energy-efficient technologies to overcome market barriers, and measures to improve poor or rural households' access to modern, commercial forms of energy, for instance, could be positive measures in support of sustainable development.

Unfair Rates

The price paid for energy in the Iranian markets is one-tenth of the price paid in the Persian Gulf

region. Contrary to many other countries, Iranians not only do not pay taxes on energy, but also are given some portion in energy subsidies. A comprehensive review and modification of the present policy of energy subsidies in the sum of billions of dollars per annum is an absolute necessity. Such subsidies mainly benefit the higher income tiers of the society.

The government offers energy by-products at prices far below international standard rates in order to reign in inflation. There are various arguments in favor and against this issue. However, one thing that is certain is that such energy subsidies are harmful for the national economy.

Cheap fuel and energy prices prevent efficient energy consumption methods to be adopted. Moreover, the drive to standardize energy and fuel using vehicles and reforming the consumption culture will never really be implemented. Also, it will lead to other problems such as air pollution, traffic, excessive and unregulated use of personal vehicles, waste and squandering of ener-

Energy subsidies do not benefit lower income families and will ultimately hurt the common people

in industry and production, residences and households as well as in business and commercial activities. All of the above and the lack of motivation to cut down on fuel consumption because of cheap energy prices are all damaging the Iranian economy.

Furthermore, the rate of growth and increase of energy consumption (national and per capita) is quite high in comparison with other countries.

A genuine concern is that in the ensuing years, Iran will be compelled to use all of its oil production for domestic use. In such an event, the state's hard currency revenues will be substantially reduced.

Many analysts argue that as the fuel consump-

Energy prices in the Iranian market are one-tenth of that in the Persian Gulf region

tion is growing and Iran is also an importer of some energy products such as gasoline, energy subsidies just don't make sense. They say Iran's hard currency expenditure is rising every year as the fuel consumption grows.

Detrimental

Analysts say that efficient consumption of energy is of utmost importance. Cheap and

Subsidies Create Poor Economic Policies



Support for renewable energy and energy-efficient technologies can be positive measures in support of sustainable development.

inexpensive fuel prices, resulting from inappropriate policies and decisions during the past decades, have made the officials and the people inattentive and apathetic about the consequence of inefficient energy consumption.

Some people are of the view that if cheap fuel and energy is put at the disposal of the public, it will lead to more economic growth and development. But the truth is entirely something else; with inexpensive fuel nobody will pay sufficient care and attention to saving, conserving and using energy effi-

ciently, which in turn is highly destructive and detrimental for the national economy.

The prevalent energy subsidies do not benefit lower income families and will ultimately hurt

Analysts argue that as fuel consumption is growing in a country which imports gasoline, energy subsidies simply don't make sense

the people. There should be distinct pricing methods for different energy byproducts such as gaso-

line fuel, kerosene, diesel fuel, heating oil, etc.

Bad energy pricing methods and inappropriate decisions and policies in the last three decades have hampered invest-

Moreover the motivation for improving the technology of the machinery and equipment, standardizing energy consumption tools, substituting of alternative fuel (such as electricity or natural gas), improvement of transportation system, services and infrastructure, production of vehicles with lower consumption of fuel, stringent smog tests on vehicles to prevent air pollution, etc. doesn't exist.

There are several countries throughout the world, which do not have a fraction of Iran's national wealth, but their decision making, man-

agement skills and policies are more rational and logical when it comes to energy conservation and efficient consumption.

Systematic Approach

Subsidies should be set-aside for those who need them most. Energy prices should be increased because it will have a dual positive effect:

- 1) Efficient energy consumption;
- 2) Additional monetary resources for investing and restructuring Iran's energy consumption system.

Some say energy subsidies should be paid directly to every tier in our society. The government can pay this direct subsidy to the people through the banks. Such a program, which has precedence in other countries (with notable success), can be implemented in a methodical, systematic and scientific manner by issuing national subsidy cards for the people.

Direct subsidies prevent the squandering of taxpayers money and the national budget.

Furthermore, the people should be educated to use subsidies in a proper and efficient manner. Currently, some people use subsidies more than others. If there is a rise in energy prices, both the fuel consumption rate

and air pollution as well as the chaotic traffic situation will be eased.

The mechanism of energy subsidies in Iran must be reformed and revised thoroughly, because as it stands now, it is wholly ineffective, unproductive and inefficient. The government should gradually prepare the people to accept hikes in fuel rates and efficient energy consumption.

Long-term Strategy

The country's long-term strategy should be to gradually eliminate subsidies, have efficient energy consumption, standardize energy tools and equipment, reduce the fuel consumption of motor vehicles, develop the public transport system, encourage people to use public transport and urge them to use personal vehicles less frequently, etc.

At this stage, the only viable option is direct subsidies paid to the public.

Parliament and government should seriously consider this option as a possible solution to our energy problems and set a uniform rate for energy and fuel prices. If such a policy is adopted, it will help solve the question of excessive energy consumption as well as other outstanding and long-running problems.

Review Reserve Fund Rivalry

By Samaneh Ekvam

Towards the end of the tenure of the Sixth Majlis, one issue that was a source of concern for many economic experts was the constant request by the government to withdraw from the Foreign Exchange Reserve Fund in order to overcome the deficit in current expenditures. This is while the fund has been established to conserve the excess monies obtained from oil sales.

At any rate, at that time the Guardians Council did not authorize the withdrawals because liquidity volume would have increased and as a result inflation rate would have gone up. However, after the Seventh Majlis convened we have been seeing willingness on its part to ratify withdrawals from this fund under different pretexts. Perhaps withdrawal from the fund at the present juncture could entail good results in the long run and help resolve the problems of the needy, but the inflationary impact of the move cannot and should not be overlooked.

So far the MPs have voted in favor of withdrawal from the fund for compensating the damages incurred from drought and cold weather as well as for the poor and needy. This is while the legislators did not vote for the government plan, which stipulated withdrawing \$300 million from the fund. Furthermore, recently the Majlis refused to vote for withdrawing \$1.3 billion from the fund for importing gasoline. Instead the lawmakers voted in favor of withdrawing \$350 million and \$475 million respectively for improving the conditions of Basij (volunteer forces) and helping the needy as well as purchasing buses.

The point is that the Majlis has opposed government plans to withdraw from the fund and instead supported withdrawal to render financial assistance to Imam Khomeini Relief Committee, which has abundant financial resources. All aspects considered, withdrawal from the fund for fulfillment of current expenditures or other purposes can strike irreparable blows against the national economy in the short and long terms. This move merely results in higher inflation and essentially is a disadvantage to the needy and vulnerable social strata that should actually benefit from the fund.

It is not important how much is drawn from the fund. The more important consideration is the purpose for which the amount is allocated, given that this has a bearing on the inflation rate.

It seems that the Majlis and government are vying with each other to withdraw from the fund or perhaps to prove that one is more powerful than the other. Such an attitude does not benefit the people. Should people's economic interests be sacrificed because of unhealthy rivalry between parliament and government?



Iran's hard currency expenditure is increasing every year as fuel consumption grows.