

The effect of cash subsidies removal of three household deciles on income distribution and production in Iran

Topic: Input-Output Analysis for Policy Making

Author: Hadi Mousavi-Nik

Co-Authors: Fatemeh Azizkhani, Mohamadreza Abdolahi, Sholeh Bagheri Pormehr

In December 2010, Iran launched a five-year program to reform its price subsidies system. In the first step, energy 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. But now, Iran's government has lots of problems in financing the cash subsidies.

In this paper using social accounting matrix approach we have investigated Effects of Implementing the first phase of "Targeted Subsidies" Act on income distribution in Iran. We also examined production effect of removing cash subsidies of three income deciles and expend it in selected economic sectors. Results showed that current form of subsidy will not help to improve income distribution and it can make it even worse. Also comparing other scenarios, results showed that removing cash subsidies of three income deciles and expending it in agriculture sector can lead to better income distribution and higher production level.