

In the name of God

Government Size in the Iranian Economy

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Abstract

The present study reviews the size and role of the government in Iranian economy from various aspects, by separating the government activities into three levels such as central government, general government and public sector. The main focus is on the government expenditures and consumptions in these three levels. Moreover, with dividing the government activities into three areas of budgetary, non-budgetary (policies and regulations) and monopolies, the government role in the Iranian economy is being evaluated.

The ratio of the total government expenditures (at each level of activity) to GDP was considered as the government size in this report. The review period was 1973/74-2005/06.

The studies reveal that the government enjoyed the greatest size at all mentioned levels during the booming period of oil revenue (1973/74-1978/79) compared with other review periods. During the imposed war with Iraq (1979/80-1988/89) and in an environment of economic recession, with massive cuts in government spending, Iranian economy witnessed downsizing of the government. During the 1st Five-Year Development Plan (FYDP) (1989/90-1993/94), the size of central and general government shrank, while the size of public sector despite remarkable growth of GDP remained relatively unchanged. This was mostly due to

the establishment and expansion of State-Owned Enterprises (SOEs) during the course of the 1st FYDP.

Stagnation during the 2nd FYDP (1995/96-1999/2000), despite noticeable reduction in government spending, raised the ratio of the government expenditures to GDP, resulting in increase in government size at all levels. The booming period of economic activities during the 3rd FYDP (2000/01-2004/05), despite huge increase in government spending, led to downsizing the government at central and general government levels. However, the size of public sector increased. This was owing to noticeable increase in current expenditures of SOEs, banks and institutions affiliated to government. In 2005/06, the government current and development expenditures grew noticeably compared with the previous year, resulting in increasing the size of government at all levels.

Increase in the ratio of SOEs resources to GDP and also the ratio of SOEs budget to total budget during the review periods is indicative of the expansion of the government dominance during the post-revolutionary era. The ratio of the SOEs budget to total budget declined slightly during the 3rd FYDP period, showing reduction of government dominance in the economy. However, the mentioned ratios grew exponentially in 2005/06. This hinders achieving the targets set in the 4th FYDP (2005/06-2009/10).

Index of economic freedom (according to two international indices) was used in this report to study non-budgetary role of the government in the Iranian economy. The findings confirm that distortions resulting from adoption of the policies and regulations undertaken by the government were noticeable in the review period. These indices indicate reduction in the government non-budgetary distortions in economy during the course of the 3rd FYDP (2000/01-2004/05) and increase in the government non-budgetary distortions in 2005/06. Moreover, this report gives a picture of the government size in the Iranian economy through considering estimates of off-budgetary expenditures of the central government. The results indicate that the government size adjusted according to foreign exchange and energy subsidies is larger than the unadjusted figures for the government size in the Iranian economy.

On the whole, the findings give an unfavorable picture of the budgetary and non-budgetary (policies and regulations) dominance of the government as well as monopolies in the Iranian economy during the past years. Furthermore, the results indicate lack of effective supervision on implementation of FYDP laws and the 20-Year Vision Plan, efficient management and transparency required in budgetary system of the country.