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Inequality in contemporary Iran

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The themes of inequality and economic justice have been an integral part of the rhetoric of the Islamic Republic of Iran (IRI). The 1979 revolution and the eight-year war with Iraq mobilised millions of the rural and urban poor and heightened their expectations for economic improvement. Thirty-five years later, demands for economic justice persist and claims that poverty is still widespread are commonly heard.

Iran’s society is highly polarised, and not just along economic lines. Iranians are deeply divided on social issues, mainly on the extent of enforcement of Islamic laws and codes of behaviour. Grievances that originate in the social sphere naturally spill over into the economic sphere so it is difficult to get an accurate idea of the extent of inequality in contemporary Iran from the discussion of these issues in the media. In addition, rising expectations for a more just society may have moved the goalposts for what is attainable given Iran’s economic resources. A rigorous analysis of inequality based on survey data is the only way to get a grasp on this important issue.

Fortunately, Iran publishes a vast amount of survey data with which one can gain a good understanding of the trends and the extent of inequality in the last three decades. My analysis is based on 29 rounds of the Household Expenditures and Incomes Surveys during 1984-2012. My emphasis will be on the more recent years.

The discussion of inequality is usually conducted at two related levels. The easy part is to calculate the usual indices of inequality such as the Gini or Theil indices. Since Iran’s surveys are consistent over time and are comparable to similar surveys in other countries, these calculations offer a reliable way of judging the trend in inequality over time and how it compares to other countries. These are more complicated when we focus on inequality at the lower end of the income distribution, and try to understand how the welfare of the poor in Iran has changed over time or compares with other countries with similar levels of development. In doing so, I will stick to the most widely used standards adopted by international institutions such as the World Bank.

This review shows that while the Islamic Republic of Iran has a good record by international standards in reducing poverty, it has not been able to reduce inequality significantly. Furthermore, inequality of opportunity in education, which to a large extent determines the extent of economic mobility, is high and shows no tendency to improve. Some of the policies adopted by the IRI, such as family planning and the extension of infrastructure (electricity, clean water and schools) to rural areas and poor urban neighbourhoods have helped with economic mobility. But the government’s overall emphasis on redistribution through foundations, cash transfers and the like has left the more fundamental determinants of inequality untouched.

Measuring poverty and inequality

Figure 1 below plots poverty rates (percentage of the population below the poverty line) for 1984-2012 using an urban poverty line equal to $5 per person per day converted to Rials in Purchasing Power Parity conversion rates. The poverty lines for rural areas are set at two-thirds of the urban rate and for Tehran at one-third higher again to reflect the variation in the cost of living. Poverty remained high during the war years, in excess of 30%, but started to decline in the early 1990s with economic reconstruction, reaching about 5% in 2010. For comparison, consider the poverty rates for Tunisia and Turkey in 2010, two countries with comparable GDP per capita, measured at a much lower poverty line of $2 (Purchasing Power Parity-PPP) per person per day: 4.3% and 4.7%, respectively.

The chart also shows that inequality, as measured by the Gini Index, was much more persistent, only showing signs of decline around 2009. But, as Figure 2 shows, this movement toward greater equality was in part the consequence of declining incomes at the top. The income at the 90th percentile fell by 13.5% during 2007–2012, while that of the person at the 10th percentile rose by 24%. The person with the median income experienced a 5% increase during the same period.

Figure 1. Poverty and inequality as measured by per capita household expenditures

2 Full definitions of these indices are available from the World Bank at Measuring Poverty, http://go.worldbank.org/3SLYUTVVY00
4 Survey data is notorious for undercounting top incomes, so these inequality rates should be treated as the lower bounds. For this reason, the estimates in this chart are better for showing the trend than the level of inequality.
Figure 2. Changes in real expenditures per person per day for the 90th, 50th, and 10th percentile

For comparison purposes, consider again estimates of the Gini Index reported in the World Bank database. In 2010, this index in Turkey was 40.0 and in Tunisia 36.1, both in the ball park with Iran’s inequality index.

The rise in per capita expenditures for the 10th percentile in Figure 2 since 2010 is most likely due to the extensive cash transfer programme that the Ahmadinejad government started as part of the subsidy reforms of December 2010. The improvement in expenditures noted or the bottom decile was not the result of economic growth because the economy has been in a very poor shape since 2010 due to international sanctions and domestic economic mismanagement. The tendency for inequality to rise, even with rising oil revenues, is evident in the rise of the per capita expenditures at the 90th percentile during 2000–2007. Oil revenues accrue to the government, which it tends to distribute unequally to the powerful and the well-connected through credit and lucrative supply contracts. Because it does not trickle down to the bottom deciles well, oil-led economic booms tend to bring with them a certain degree of corruption at the top along with resentment at the bottom.5

An important failure of the Islamic Republic in delivering equity has been in education. For much of Iran’s modern history, education has been the main path to social mobility. But evidence on schooling and learning show that, at least in recent years, the poor have not benefited as much from the public education system as the rich. Inequality of opportunity in learning of maths and science by 8th grade students (13-14yrs old), estimated from test scores from the 2007 round of Trends in Mathematics and Science Study (TIMSS), places

Iran as one of the least opportunity equal countries in the Middle East.⁶ These estimates indicate that the probability of a child from a disadvantaged family (illiterate parents, etc.) to place in the top 10% of her class in maths is 25% compared with 95% for an advantaged child (both parents with college education, etc.). Equity in access to schooling (attainment) is not much better. The likelihood of a child from a disadvantaged family never attending school is 11% for boys and 8% for a girl. The probability of dropping out before reaching upper secondary school for the same child is 37% for a boy and 34% for a girl. In both cases the child from the advantaged family enjoys a probability of one of reaching high school.

In delivering other basic services, such as health, electricity, clean water and the like, Islamic Iran has done better than most developing countries. Iran has won major international acclaim for its rapid expansion of health clinics to rural areas, which played a key role in lowering fertility and enabling parents from poorer backgrounds to invest more in the education of their (fewer) children.⁷ Expansion of electricity and clean water to rural areas has been equally impressive.⁸ While they are not adequately reflected in household expenditures because they are highly subsidised, they matter for the quality of life of the poor.

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