



## Spotlight on Iran



January 8, 2012—Dey 19, 1391

Editor: Dr. Raz Zimmt

### Majles and government increasingly at odds over implementation of subsidy reform's second phase

The differences of opinion between the government and the Majles over the implementation of the second phase of the subsidy reform have reached new heights in recent days in the wake of statements made by top government officials according to which the government is soon going to launch the next phase of the reform despite the decision made by the Majles to put its implementation on hold. The president has hinted recently that he intends to continue the implementation of the subsidy reform and even raise the cash benefits paid under the reform plan by five times.

Majles member Ali Motahari warned this week that if the president implements the second phase of the reform without the approval of the Majles, he will be impeached.

Meanwhile, the government is coming under increasing criticism from its critics for its intention to move forward with the reform plan despite the severe problems that emerged during the implementation of its first phase. The plan's critics warned that, if its implementation continues, it will further exacerbate the inflation crisis and cause more damage to the industry and agriculture sectors. A number of Majles members warned that the Iranian people cannot shoulder any additional economic burden caused by the reform plan if its implementation continues. Economic experts, too, had reservations about the way that the first phase of the reform was implemented, saying that, given the current economic conditions, implementing the second phase will have severe consequences for the state of Iran's economy.

As the differences of opinion between the Majles and the government over the reform's implementation are increasing, this week a website affiliated with government supporters posted the results of a public opinion poll allegedly showing that most Iranians expressed support for the plan to go forward.

The differences of opinion between the government and the Majles over the implementation of the second phase of the subsidy reform have reached new heights in recent days in the wake of statements made by top government officials according to which the government is soon going to launch the next phase of the reform despite the opposition of the Majles. In November 2012 the Majles passed a law suspending the implementation of the reform's second phase. Majles speaker Ali Larijani told President Ahmadinejad last week that, according to the law approved by the Guardian Council, he is not entitled to implement the second phase of the reform or raise the cash benefits paid under the reform plan before the end of the current Iranian year (March 2013).

Despite the opposition of the Majles, two top economic ministers announced this week that in recent days the government discussed ways to proceed with the reform, whose implementation began in late 2009. Shamseddin Hosseini, the minister of economy, said that the government discussed the various scenarios for the implementation of the second phase of the reform plan but has not made any decision on the issue so far. Mehdi Ghazanfari, the minister of industry and commerce, also said that the reform headquarters launched discussions overseen by the president, and asked all economic bodies and government ministries to submit their assessments on the implementation of the reform's next phase. Last week the Iranian media reported that the president instructed his government ministers and other top economic officials to prepare for the implementation of the second phase of the plan (Mehr, January 6).

In a recent TV interview, the president hinted that his government is soon going to implement the second phase of the reform and even raise the cash benefits paid to Iranians under the reform plan by five times. In an interview given to the Iranian TV on December 22, the second anniversary of the reform's launch, Ahmadinejad strongly criticized the Majles and accused its members of delaying the implementation of the plan. The president noted that only 30 percent of the subsidy policy reforms have been implemented so far. Speaking about the price increases caused by the implementation of the first phase of the plan, the president said that it's not the reform that has brought up the prices but other factors, including the rising prices in the world, the foreign currency crisis, and faults in Iran's banking system. Ahmadinejad noted that most people in Iran support the reform plan, and that the changes introduced in the original plan by Majles members delayed its implementation.

Majles member Ali Motahari, one of the president's strongest critics in the conservative camp, warned this week that if Ahmadinejad issues an instruction to implement the second phase of the reform without the approval of the Majles, he will be impeached by the Majles members. In an interview to ILNA News Agency, Motahari said that the government is not entitled to implement the next phase of the plan before the end of the current year. He said that the government has the right to submit to the Majles a proposal to implement the reform plan, which would include details on the budget sources required for that purpose. If the proposal is approved by the Majles, the government will then be able to implement it (ILNA, January 7).

This coming Wednesday, January 9, the president is expected to make an appearance before the Majles on his own initiative to discuss various economic issues, including the further implementation of the reform. Lottollah Forouzandeh, deputy president for parliament affairs, said in an interview given to IRNA News Agency that the president will appear before the Majles and hold a discussion on issues having to do with the economic situation and management of the sanctions (IRNA, January 7).



**Moving from phase 1 to phase 2 of the reform**

Meanwhile, the government is coming under increasing criticism from its critics for its intention to continue the implementation of the reform plan despite the severe problems that emerged during the implementation of its first phase. The plan's critics warned that, if the government does continue with the plan, it will push up the cost of living even more and cause additional damage to the industry and agriculture sectors. In recent months the government's critics have argued on several occasions that the

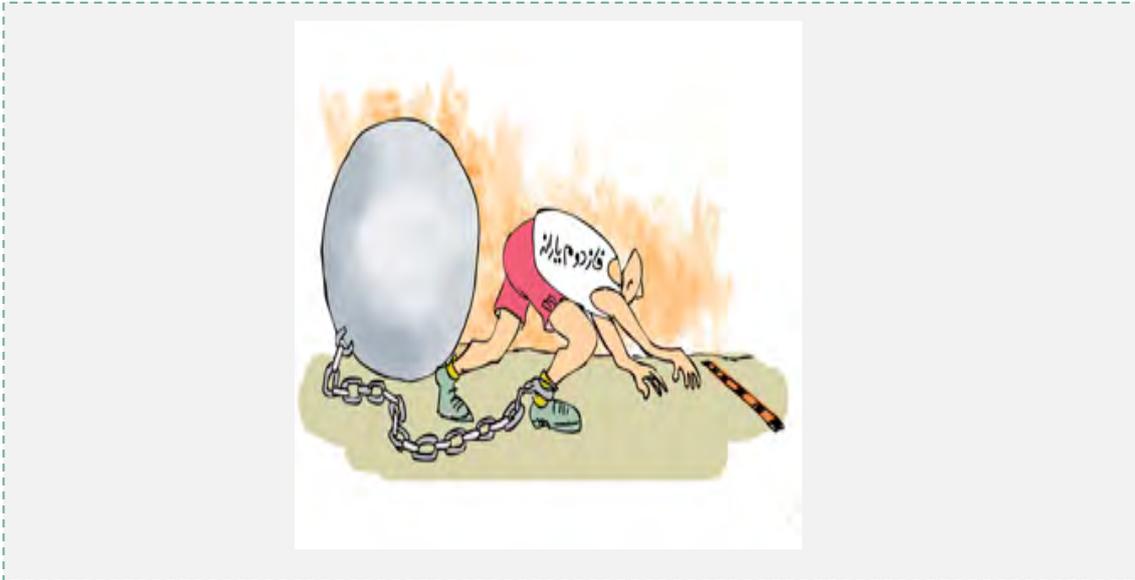
way the first phase of the plan was implemented was wrong. According to the critics, the government rushed to implement the reform within two years instead of five years, created a severe budget deficit due to a miscalculation of the expenses required to pay the cash benefits under the reform plan, paid equal benefits to all Iranians regardless of their income, did not meet its obligations to allocate 20 percent of the reform revenues towards strengthening the industrial sector, which exacerbated the unemployment crisis and pushed many factories to bankruptcy, and exceeded the budget approved for the reform to keep up with the cash benefit payments.

In the wake of the remarks made by government officials on the government's intention to continue with the implementation of the reform's second phase, Nasser Mousavi Largani, member of the Majles Economic Committee, warned that the people of Iran won't be able to shoulder an additional economic burden and will rise up if their distress grows. In an interview given to the Majles news agency, Largani noted that the economic situation of the citizens is highly difficult and that the government must not exacerbate it any more by implementing the second phase of the reform ([www.icana.ir](http://www.icana.ir), January 6).

Mohammad Qasim Osmani, member of the Majles Budget and Planning Committee, also expressed his objections to the implementation of the reform's next phase. In an interview given to the Fararu website, the Majles member said that the implementation of the second phase of the plan is intended for political purposes and is not a wise economic move. He noted that the president's decision to appear before the Majles this coming Wednesday is meant to try and persuade the Majles members to remove their objections to the implementation of the plan. He estimated that the Majles members will not be swayed, since they believe that the current economic situation makes it impossible to move forward with the reform. According to Osmani, the Majles members feel the heavy economic pressure facing the citizens, and there is no doubt that they will oppose the further implementation of the reform. He added that he is opposed to the launch of the reform's second phase before the presidential elections slated for June. He noted that while the reform plan was correct, its implementation by the government was wrong and inconsistent with the reform law (Fararu, January 7).

Reza Rahmani, chairman of the Majles Industry Committee, also criticized the way the reform was implemented by the government. In an interview to the Khabar On-line website, the legislator said that the government should have allocated at least 20 percent of its reform revenues towards strengthening the productive sector; however,

according to the Majles Research Center, the government provided the industry with no funds at all as at June 2012. He noted that there is no use continuing the reform if the government does not meet its obligations to help the productive sector, and that this was one of the considerations underpinning the decision made by the Majles to put the plan's implementation on hold (Khabar On-line, January 3).



**Phase 2 of the reform plan (source: [www.javanonline.ir](http://www.javanonline.ir))**

Economic experts also had reservations about the manner in which the first phase of the reform plan was implemented and the intent announced by top government officials to implement the second phase of the program. In an interview given to the Farda website, economist Dr. Mehdi Taqavi said that the botched implementation of the plan's first phase has led to an increase in prices, a decrease in product quality, and a drop in sales, which have fueled discontent among the Iranian people and endanger national production. He warned that if the second phase of the reform plan is implemented under the current economic conditions and the cash benefits paid to Iranians are significantly raised, there will be severe consequences for the state of the economy (Farda, January 7).



Dr. Hojjat Ghandi, an Iranian-born economist at Washington and Lee University, said in an interview published by Fars News Agency that while the subsidy reform plan was reasonable and correct, its execution was problematic. He noted that the lower sectors of society in Iran have gained more from the reform due to their consumption habits and the cash benefits that they were paid. On the other hand, the income of the higher sectors has been hit.

Speaking about the implementation of the second phase of the reform plan, Ghandi said that the government is faced with two options: to pay higher cash benefits without updating the prices, or to raise the sum of the cash benefits and increase the prices at the same time. He noted that, if the government updates the amount of the cash benefits in accordance with the expected increase in its revenues as a result of the price increases, the long-term result will be positive, even though it is impossible to prevent the inflationary consequences resulting from the further implementation of the reform and the sanctions imposed on Iran. If the government raises the cash benefits without raising the prices, it will be forced to borrow funds from the Central Bank, which will exacerbate the inflation crisis, lead to a departure from the goals of the reform plan, and worsen the economic situation. If the government chooses to pursue this course of action, Ghandi said, it is a pre-election political move rather than one that can be economically justified (Fars, January 7).

As the differences of opinion between the Majles and the government over the reform's implementation are increasing, [www.598.ir](http://www.598.ir), a website affiliated with government supporters, posted this week the results of a public opinion poll allegedly showing that

most Iranians expressed support for the reform plan to go forward. The website reported that, according to the results of the poll, conducted in recent months on behalf of the Students of Social Sciences Association at the University of Tehran, 68 percent of respondents in the cities and 78 percent of respondents in rural areas expressed their support for the implementation of the plan's next phase. Over 70 percent of respondents said that the subsidy reform has contributed to the people of Iran and the country's development, and changed consumption habits for the better. 53 percent of respondents said that the reform has contributed to the reduction of socio-economic differences. 67 percent of respondents said that the reform has had no particular effect on the price increases and blamed the rising cost of living on the effects of the sanctions and the foreign currency crisis. 69 percent of respondents said that the government's performance in controlling prices during the implementation of the reform has been satisfactory. 77 percent expressed support for cancelling the cash benefits for people in the upper income deciles and diverting them to support the weaker sectors of society ([www.598.ir](http://www.598.ir), January 7).