Iran to eliminate price subsidies, threatening mass impoverishment

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The Guardian Council of Iran's Islamic Republic has given constitutional sanction to legislation—passed by the country's parliament earlier this month and supported by the government of President Mahmoud Ahmadinejad—mandating the elimination of $100 billion in annual subsidies on energy products, staple foods, and other products and services.

The twelve senior clerics and Islamic jurists who comprise the Guardian Council determined that the subsidy elimination bill or "Economic Reform Plan," contradicts neither *sharia* law nor Iran's constitution, Council spokesman Abbas-Ali Kadkhodai announced Wednesday. The Council's decision renders the legislation, which sanctions the phasing out of virtually all price subsidies over a five year-period, law.

The Iranian bourgeoisie and much of the clerical-political establishment have long been pressing for the institution of "market prices," claiming that the price subsidies promote "overconsumption" and constitute an unacceptable drain on the state budget. This is particularly true of those aligned with the Green Revolution bourgeois opposition, including former presidents Hashemi Rafsanjani, reputedly Iran's richest capitalist, and Mohammad Khatami.0

For tens of millions of Iranians, the subsidies have provided a modicum of protection in a harsh capitalist environment characterized by increasing social inequality, rising unemployment, and deepening poverty.

The subsidies—which, depending on the good or service, were either greatly expanded or introduced in the aftermath of the 1979 Iranian revolution—constitute one of the few remaining social conquests of the anti-imperialist upsurge that toppled the brutal dictatorship of the US-backed Shah.

The subsidies currently consume about a third of the state budget. They reduce the price of numerous goods and services including bread, milk, sugar, rice and wheat, electricity, water, fertilizer, telephone services, public transport, and education.

Gasoline and other energy products are amongst the most heavily subsidized. Currently, Iranians are entitled to buy gasoline at 10 cents per liter, whereas the world price is around 40 cents per liter. The Economic Reform law stipulates that by March 2015, the domestic price of gasoline, heating oil, and other oil products shall be at least 90 percent of the price prevailing in Saudi Arabia and the other Gulf states.

The current legislation has been well over a year in the making. Even before the crash in world oil prices produced by the world financial crisis, Iran's government was preparing to phase out the subsidies.

The government, parliament, and opposition politicians have hotly disputed the terms of the subsidy elimination plan, including: what compensation, if any, should be provided to ordinary Iranians; what support should be given business, whose production plans have been predicated on cheap energy; and who should control the budgetary savings.

The overriding reason, however, for the law's long gestation has been fears that a sharp increase in prices will provoke popular unrest, especially within the working class. The elite's fears of a popular backlash have only been heightened because it has been visibly weakened, having divided into hostile camps over the outcome of last June's presidential election.

Ahmadinejad has publicly conceded that the scrapping of the subsidies "may lead to a fall in the popularity of the government."

In 2007, the government was forced to withdraw a 25 percent increase in gasoline prices after widespread protests.

The current, much more fundamental "reform" is being attempted under conditions where Iran's economy has been rocked by the world economic crisis. According to the *Economist*, Iran's economy grew by just 0.5 percent last year. Moreover, the sanctions the US has imposed and incited others to impose as part of its longstanding campaign to destabilize and overturn the Islamic Republic have had a significant impact, particularly in blocking much needed foreign investment, and the accompanying transfers of foreign technology, in the oil and natural gas sectors.

Ahmadinejad, who won the presidency in 2005 by casting himself as an opponent of the neo-liberal policies pursued by Rafsanjani and Khamati, pressed for a rapid phase out of the subsidies. In a not-so-veiled reference to the shock therapies advocated by the IMF in Eastern Europe and the former Soviet Union, he argued that a quick transition to market prices would lead to less inflation and economic dislocation: "All over the

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world, expectational inflation has been eliminated and the targeting of the subsidies has been carried out in one phase or at most two phases."

He was opposed by a majority of parliament led by Ali Larijani**,** the speaker and leader of a rival conservative faction of the clerical-political establishment. Speaking last week, Larijani said, "It is not proper that the implementation of the bill lead to a shock in the society."

Under the legislation that has now become law, the government has been authorized to eliminate between $10 and $20 billion worth of subsidies per year.

It is uniformly conceded that the scrapping of the subsidies will lead to sharp price increases, driving inflation—which the government concedes is currently above 13 percent and the opposition contends is considerably higher—far into the double digits.

Khabar online, a website supportive of Iran's rightwing Green opposition, claims to have been leaked a report prepared for the government by economic experts that forecast an inflation rate of between 31 and 46 percent depending on different price scenarios. A report prepared for the Majlis, Iran's parliament, found that a quick quadrupling of the price of gasoline could lead to an inflation rate of 60 percent.

Ahmadinejad is claiming that he will protect the living standards of Iran's toilers by replacing the current subsidies with a "targeted subsidy"scheme, that is by providing income support in the form of cash payments to the poorer half of Iranian households— those with incomes of around $350 or less per year.

Indeed, he has tried to give a populist cover to the elimination of the subsidies, with the claim that it is the better off sections who consumer more and thus have benefited disproportionately from the subsidies.

Speaking on the day the Guardian Council's sanctioning of the subsidy bill was announced, Ahmadinejad declared its adoption a "big step toward the implementation of justice," adding that if the law is properly implemented there "will not be a single unemployed and poor person within three years."

In much the same way, Ahmadinejad has tried to give a populist cover to the wholesale privatization of Iran's economy. Workers and other low-income groups have been provided "justice shares" in newly privatized companies.

But no manner of populist rhetoric can cover up the reactionary import of the subsidy elimination scheme—it is aimed at slashing state expenditure, reducing energy consumption so more oil can be exported, and reducing the share of the national income flowing to Iran's toilers and poor. In a revealing comment, Ahmadinejad recently declared the free market "the best distribution system to guarantee social justice."

The government claims that 50 percent of the money saved by eliminating the subsidies will to be funneled into "targeted" income support, with the remainder split between compensation to business for increased energy costs and reductions in government expenditure. But specifics about the income compensation scheme are conspicuously absent from the legislation.

Even if the government were to devote the promised resources to targeted income support, the Iranian bourgeoisie by virtue of its control of production and distribution has the means through price increases to ensure that it reaps the benefits from the elimination of the price subsidies.

Moreover, many of those to be denied income support themselves have meager incomes.

Significantly, while some opposition politicians are now criticizing the government's targeted income support scheme for not covering enough of the population, many of these are the same people who have spent the past years denouncing Ahmadinejad for "wasting" money on the poor and who criticized him for initially proposing the subsidies be replaced by an income support program covering 70 percent of the population.

Iranian big business is strongly supportive of the elimination of the subsidies. A recent poll by the Iranian Chamber of Commerce found 72 percent of employers consider the price subsidies "a major obstacle in Iran's economy." But the poll also found considerable apprehension about the consequences of the major economic shift now being undertaken. 82 percent said they anticipate their elimination will lead to "explosive inflation." 80 percent complained of insufficient support for business, and 82 percent expect non-oil exports to decline as companies lose the advantage of low energy costs.

To date, the challenge to the regime headed by Ahmadinejad and Iran's Supreme leader (or Islamic Guardian) Ayatollah Khamanei has been led by a rightwing section of the Iranian bourgeoisie and clerical establishment that favors a rapprochement with US imperialism and an even quicker reorganization of Iran's economy on neo-liberal lines.

The deepening economic crisis in Iran and the efforts of the all sections of the Iranian elite to place the burden of the crisis on Iran's toilers is creating conditions in which the working class will be driven to mount it own challenge to the Islamic Republic. For such a challenge to be successful, it must articulate a socialist internationalist program that can rally Iran's toilers against all sections of the bourgeoisie and clerical political establishment and against US and world imperialism.

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