Iran's Third Development Plan: A reappraisal

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Jahangir Amuzegar's review[1] of Iran's Third Development Plan is very timely as international attention has focused on Iran and the effect of possible sanctions on its economy is discussed. The performance of the economy and how ordinary Iranians are faring under the Islamic regime also bear directly on the current debate regarding United States policy toward Iran. Many in the Bush Adminstration have long convinced themselves that the Iranian regime is "ripe for overthrow by a restless populace" (*Financial Times*, October 30, 2005), and some may attribute the restlessness to a failed economic state. Inaccurate descriptions of economic circumstance in Iran–falling incomes and rising poverty–which appear regularly in the press may soon give rise (if they have not already) to the type of "group think" on this subject for which Washington is famous. A 2003 article in the *The Washington Post* attributed youth discontent to economic decline noting that, "in real terms, Iranians *earn one-fourth* of what they did earn [before the 1979 Revolution]" (emphasis added),[2] whereas in fact a dozen years of uninterrupted economic growth have raised incomes to about where they were before the Revolution. Other influential writers have warned of rising poverty and the widening gap between the rich and the poor.[3] The perception of a run-down econ-

*Please address correspondence to salehi@vt.edu. I wish to thank Glen Marku for research assistance and the Statistical Center of Iran for making the data on which this study is based available.

[1] "The Third Development Plan: An Appraisal, *Middle East Policy*, volume 12, no. 3, pp. 46-63.

[2] Afshin Molavi, "Economic Ills Fuel Iranian Dissent," *The Washington Post,* July 8, 2003, A. 13. For further discussion of this piece see my (unpublished) reply at http://www.filebox.vt.edu/users/salehi/other.htm. Molavi may have meant that incomes are *down* by one-forth, but then in Molavi (2004) he notes that, "Today, real per capita income is a third of what it was before the revolution," and goes back to one-fourth in 2005 on the National Public Radio, *The Connection*, 3/3/2005.

[3] see for examples, Michael Ignatieff, "Iranian lessons", *New York Times*, July 17, 2005, and Abbas Milani, "Regime change", *Wall Street Journal*, October 31, 2005.

omy strengthens the belief that imposing economic sanctions may raise the level of popular discontent to precipitate regime change. A critical examination of the assumptions about Iran's economy would therefore serve well the debate about Iran. Finally, any evaluation of Iran's economic performance says more about the impact of economic reforms during the 16 years of Rafsanjani and Khatami administrations than of Islamic rule in general. Critics from the Iranian left portray these reforms as neo-liberal policies dictated by Washington but also responsible for rising poverty and inequality (Ghamari 2005). The assumptions of soaring poverty and widening gaps between the rich and the poor, while they provide many with an easy explanation of the adverse recent shift in Iranian politics, may cut short the search for deeper answers.

Jahangir Amuzegar's article, though narrowly focused on Iran's Third Development Plan, provides a broad review of the economy's performance during the last five years. Unfortunately, Amuzegar uses his considerable authority on the subject not to present solid facts but to restate what he considers is the consensus view of observers of Iran. In the process he mislead the reader about economic policy making in Iran and the outcome of important welfare indicators such as poverty, the distribution of income, and unemployment. Fortunately, unlike pre-invasion Iraq and present day Syria, where US policy makers had little access to good data about these countries, there is plenty of data collected by the staff of the IMF and the World Bank who visit the country regularly, and by the Statistical Center of Iran which produces a wealth of micro data and puts it on its website (http://amar.sci.org.ir). Using these data one can piece together a more accurate picture of how economic well being has changed in recent years in Iran.

In this note I argue that Amuzegar's claim that inequality and unemployment have worsened in recent years is inconsistent with the facts. I bring evidence from micro data to show that relative to other developing countries in its income group, poverty is low in Iran and has improved substantially in recent years. This is not at all surprising since in these years oil revenues, and as a result government expenditures, have been on the increase, raising personal incomes, including those of the poor. The distribution of income has also improved, but less so than poverty, as the rich have gotten richer as well. Economic expansion has increased employment resulting in near full employment for the 30+ age group and lower unemployment for most younger age groups. Despite these improvements, youth unemployment is still too high and rising for young women.

My purpose in this note is not to restore credit to the Third Plan for any of these improvements, for I believe that they have more to do with the good fortune of rising oil revenues which surprised the planners as much as anyone else. Nor do I wish to sound optimistic about the future of Iran's economy, which cannot count on rising oil prices for very long and soon will have to contend with nearly stagnant labor productivity. My purpose is rather to suggest that, contrary to popular belief, Iranian discontent is not fueled by rising poverty or stagnation of incomes. To the extent that economic problems matter, they are probably related to high unemployment of the young and the educated (Salehi-Isfahani 2005), and are no more serious than in a typical developing country. For the roots of discontent one should look elsewhere, perhaps to the social sphere, where rapid change in family life (urbanization and smaller families) has clashed with rigid political and social institutions.

Before I discuss the trends in welfare indicators, it is important to explain the policy context in which Iran's economy operates and in which these indicators are realized. In particular, I wish to dissent from the view expressed by Amuzegar (2005) regarding the nature of planning and economic policy-making in Iran.

1 Development planning and market reform in Iran

Amuzegar's article gives the impression that Iran's economy is dominated by its government. His statement that, "Five-year central planning has now become a sacred ritual in the Islamic Republic," evokes in the reader's mind an economic system in which a central authority allocates inputs to enterprises and goods and services to consumers, leaving little for prices and markets. This is far from the truth. There is no history of central planning in Iran, before or after the 1979 Revolution. Since the 1950s Iran's plans have been much more in the spirit of development planning than central planning. Such plans lay out the government's intention for a five year period to pass laws, invest in infrastructure, and manage the macroeconomy, but do not allocate inputs to enterprises. Because the government in Iran is large relative to the private sector, partly by virtue of receiving the oil revenues, private and public enterprises need to know what the government plans to do in the next five years before they decide on their own plans. Thus the Plans' role as coordinator of private and public enterprise actions is far more important than their allocative functions.

Economic policy in the early years of the Revolution was heavily influenced by socialist thinking. Besides the early wave of nationalizations which increased state control over the economy, there was price control and rationing of a long list of essential commodities, which was deemed necessary while the the war with Iraq was raging. But since the end of the war in 1988, successive governments have moved the economy away from the war-imposed restrictions which had severely limited the role of markets in allocation. A decisive change of direction toward markets took place with the Second Plan (1995-1999), which was in part the fallout from the crumbling of central planning everywhere in Eastern Europe and the former Soviet Union a few years before. Dr. Mohammad Tabibian, a prominent Duke University educated Iranian economist, the architect of the Second Plan and the intellectual father of market reform in Iran, has described how a visit to Eastern Europe, arranged by the government to inspire the country's top planners with central planning, convinced him that central planning was not a workable system.[4]

The Third Development Plan (2000-04) pushed for more specific market reforms, notably privatization and anti-trust legislation. Lack of complementary reforms to increase the flexibility of the labor market and judicial reform to improve enforcement of contracts, as well as strong political opposition, have so far prevented these initiative from advancing very far. But the policies themselves have enjoyed the support of successive administrations. President Khatami, who was first elected (in 1997) with strong backing from the left and seemed to place distribution above growth, retained pro-market planners and authors of the Third Plan (Management and Planning Director M. A. Najafi and his chief economist Masoud Nili) at the helm in the Management and Planning Organization for some time

[4]See *Hamshahri Daily*, "Eslah talabi eghtesadi," (Economic reformism), number 2915, 11 Azar 1381 (Dec. 2, 2002).

before he replaced them with economists from the left. The incoming team which oversaw the implementation of the Third and drew up the Fourth Plan, pressed on with market reform.

The subtitle of the Fourth Plan, "Knowledge-based Growth of the National Economy in Interaction with the Global Economy," is an indication of its focus on reforming the labor market to prepare Iran for integration into the global economy (Management and Planning Organization 2005). The approved version of the Fourth Plan, even after the changes put in by the conservative-dominated Parliament in 2005, is still pro-market because it takes aim at one of the most difficult aspects of market reform: reducing employer provided job security with publicly provided income security. Significantly, even the Ahmadinejad administration, which is from the political right but has gone much further than Khatami in making redistribution its number one goal, has so far been careful to note that it will pursue redistribution goals with market tools, which is probably not how the people who voted for him interpreted his campaign slogan to "take the oil money to people's dinner table".[5]

The main opposition to market reform in Iran has come not from the political elite that has dominated the country's politics until recently but rather from the populist movement that rose in response to market reform. Former President Rafsanjani who initiated market reforms and to a lesser extent President Khatami who continued them were severely criticized by various groups for their close relations with Washington institutions–the IMF and the World Bank–and for having followed their advice to implement structural adjustment policies that increased poverty and inequality. The fundamentalist opposition to both presidents was later able to deftly exploit this charge and the popular distrust of markets to win the support of the lower income groups in their successful bid to win the presidency in June 2005.

As Amuzegar shows, the Third Plan failed to reach many of its goals, most importantly with respect to privatization and increased competition. Lack of complementary reform

[5]See the speech by Iran's new Economy Minister, Davood Danseh-Jafari, in the Annual Meetings of the IMF and the World Bank, Washington, D.C., reported in *Shargh*, 5 Mehr 1383 (September 27, 2005), and remarks by the chief economist of the MPO "Without steady economic growth, it is not possible to combat poverty and unemployment, provide productive jobs and reach an equitable distribution of income." *Shargh*, 26 Aban 1383 (November 17, 2005).

of the judiciary and the labor market continues to make public enterprise less profitable than rent seeking in Iran. However, it is still meaningful to evaluate the Plan as a policy document and on the basis of what it set out to do rather than the outcomes over which it has little control. Unlike centrally planned economies, in Iran these outcomes are the product of the decisions taken millions of households and firms (the private sector) that account for more than 80% of employment and produce the bulk of the nation's output.

Where the Plan has done relatively well, such as in meeting its growth targets, there is serious doubt if the Plan itself was the key factor. During 2000-04, the economy grew by over 5% per year, or more than 3% growth in per capita terms, which can double the standard of living in 25 years. This is quite respectable by developing country standards, but does not impress the middle class of Iran which still remembers the golden years of the early 1970s when incomes doubled in just five years! We do not know how much of the recent growth is due to the influence of the policies promoted in the Plan and how much to the (unplanned) increase in the price of oil. Some credit is due to macroeconomic stability which has been achieved by policies pursued for about a decade now to control inflation and unify and stabilize the exchange rate. Inflation was brought down from about 50% in the mid 1990s to around 15% per year, where it has stayed for the last five years, which is a substantial achievement, and the exchange rate has been unified between 8000-9000 rials per dollar. Although this picture of stability may not last long in part because the government has not been able to balance its budget, it has played an important role in enabling the economy to grow.

Amuzegar offers a more bleak assessment of macroeconomic management, which is hard to argue against, except in two specific instances when he casts doubt on the inflation data and when he criticizes the management of the exchange rate. His reason for doubting the official inflation rate (of about 12-16%) during the Plan period is that it is far below the rate of growth of money supply of about 29% per year (p. 51). But these numbers are not irreconcilable unless we assume, as he does, that velocity has remained constant, which is not warranted. If consider economic growth of about 5% per year, the remaining gap between between the growth rates of demand for and supply of money of about 11% per year, which is not implausible considering the stability of the rial, rising real interest rates, and the booming stock and housing markets during the last three years of the Plan. Amuzegar also faults the Plan for not being "successful in protecting the value of the national currency." But, given the high rate of inflation, the government's fault is exactly the opposite: it should have allowed the rial to depreciate further because Iran's inflation exceeded that of its trading partners by some 10 percentage points. The relative stability of the rial in nominal terms led to real appreciation which increased imports and hurt non-oil exports.[6]

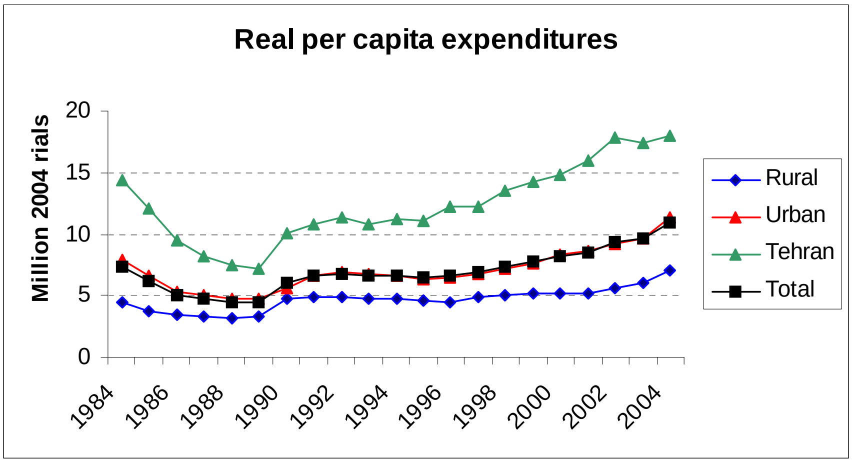
2 Have indicators of personal welfare really deteriorated?

Skepticism about government claims of improvement in individual welfare such as personal consumption, poverty rate, the distribution of income, and unemployment run deep inside and outside Iran. Fortunately, and contrary to Amuzegar's characterization of Iran as a country "where even the most primary data are lacking" (p. 49), there is plenty of micro data from Iran with which these claims can be verified. The Statistical Center of Iran (SCI), in addition to the wealth of data on its website, makes raw survey data available to researchers. Iran is one of very few countries in the Middle East that does this (in addition to Turkey and Morocco). Even Egypt, perhaps the most extensively studied country by western researchers, is notorious for keeping its micro data under lock and key. The very fact that a country makes the raw data available to researchers inspires confidence in what it publishes.

To establish how economic growth has benefitted the average person, let us first see how survey data shows changes over time of the average real per capita expenditures. In Figure 1 I use 21 waves of the Household Expenditure and Income Surveys (HEIS) to calculate average per capita expenditures in constant 2004 rials.[7]

[6] Amuzegar's assessment of the exchange rate system is at times confusing; for example in, "Responsible for this extraordinary increase in imports ... were lower tariffs and facilitated regulatory reforms as well as a *depreciation* of the rial." Emphasis added. Depreciation on its own reduces, not increase, demand for imports. What Amuzegar probably means is real appreciation of the rial which did increase demand for

Figure 1: Average real per capita expenditures, 1984-2004



Notes: Expenditure per person is in 2004 rials per day. Source: Author's calculations using Household Expenditure and Income Surveys for 1984-2004.

Two important observations can be made from this graph. Average personal expenditures for the country as a whole offer the same picture of economic change in Iran in the last two decades as we see in macroeconomic data: a collapse in living standards during the war with Iraq which reversed itself sharply after the war and, after a flat period in the mid 1990s, was followed by a steady rise. The gap in spending between Tehran, other urban and rural areas is wider than it is because of difference in cost of living between these areas. The gap in consumption between rural and urban households, which narrowed somewhat in the late 1980s started to widen after 1990. Except for the last three years of the Third Plan, economic growth has been much better for urban than rural households.

2.1 Poverty and the distribution of income

Have economic growth and the oil boom left the poor behind? The evidence suggests not. Amuzegar's assertion that poverty has increased appears to add substance to a chorus of unsubstantiated references to rising poverty and the widening gap between the rich and

imports.

[7] I use separate deflators for rural, urban areas minus Tehran, and urban areas of the Tehran province (which is mainly Tehran and Karaj). The index for rural areas is the revised index of the Statistical Center of Iran and for urban areas from Bank Markazi Iran. All averages use appropriate sampling weights. The pooled data set includes a total of 433,410 households and about 2.2 million individuals.

the poor, which have recently come in handy as explanations for the surprise election of President Ahmadinejad in June 2005.[8] But his evidence simply recounts various claims about the level of poverty reported in the Iranian press.

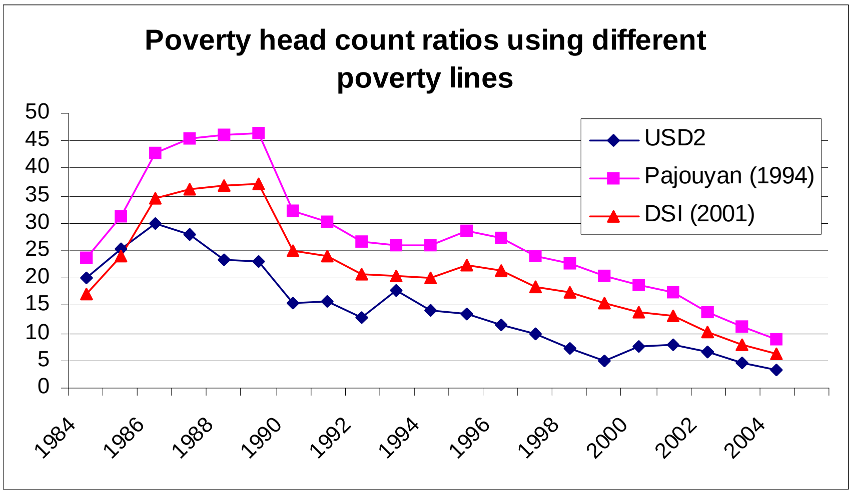
Poverty rates measured by different sources can diverge widely if they define the poverty line differently. One is free to choose what one considers the level of expenditures below which a person is considered poor (the poverty line) and thereby determine that 10, 20, or even 50 percent of the population is poor. What one cannot do is to move the poverty line back and forth from one year to the next, which is what Amuzegar does when he quotes from a variety of (newspaper) sources to argue that poverty has increased without making sure they use a consistent set of poverty lines (p. 57).

First, let us see if Iran's poverty problem is particularly severe. While there is no systematic way to resolve disputes about whether \$1 or \$2 per day should be the basis for considering a person to be poor, comparisons between countries and over time for the same country are to some possible. To compare poverty rates across countries, we convert poverty lines measured in units of local currency by Purchasing Power Parity (PPP) rates, the so-called international dollars, which compare purchasing power of different currencies. They measure the amount of, say, rials that is needed to buy in Iran a basket of goods that costs one dollar in the United States. The conversion factors are now available for most countries from the World Bank (2005). However, this comparison is only good to the extent that poverty lines measured in different countries are equally accurate in reflecting expenditures of the poor. In Iran, the survey data used for poverty analysis is not designed for poverty measurement. It records expenditures rather than consumption, which is a problem in the case of rural households who spend on in bulk on grains.[9]

To place the extent of poverty in Iran in a broad international perspective, I use the international standards of one and two dollars per day (converted to rials at the PPP exchange rates) to define who is poor, and compare Iran with countries with similar economic status–Malaysia, Mexico, and Turkey–and with poorer countries of Pakistan and India. The comparison shows that poverty in Iran is the same or lower than in Malaysia and Turkey,

[8] See, for example, Michael Ignatieff, "Iranian lessons", *New York Times*, July 17, 2005.
[9] See Salehi-Isfahani (2003).

Figure 2: Proportion of individuals below poverty, 1984-2004



Notes: Poverty lines are defined based on USD1.00 and USD2.00 per day using purchasing power parity exchange rates from World Bank (2005). Expenditure per person is in rials per day. Source: Author's calculations using Household Expenditure and Income Surveys for 1984-2004.

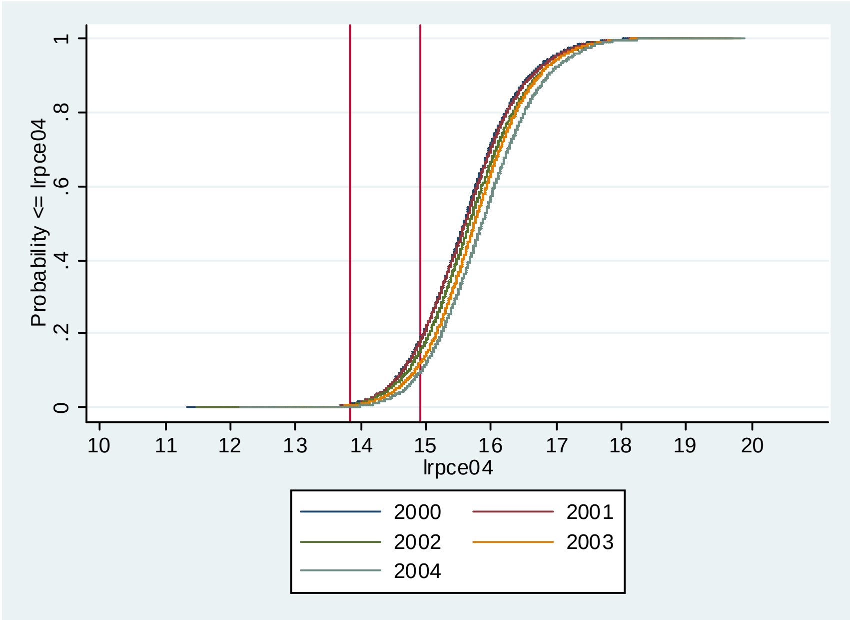
and much lower than Mexico, Pakistan, and India. According to the World Bank, for the late 1990s the poverty rates (the proportion of population under $1 per day) was 2% for Iran, which is about the same as Malaysia and Turkey, but far below poverty rates for Mexico (9.9%), Pakistan (13.4%) and India (35%).[10] For the two dollar per day line, the poverty rate in Iran is reported at 7.2%, which is lower than Malaysia (9.3%) and Turkey (10.3%), and much lower than Mexico (26.3), Pakistan (65.6%) and India (80.6%). In short, poverty rates in Iran compare favorably with international norms.

Second, consider the recent trend in poverty. Any consistent set of poverty lines would show that poverty has been on general decline since the end of the war with Iraq. Figure 2, shows the percentage of individuals under two dollars per day (converted at PPP exchange rates) and a calorie based rates computed by Pajouyan (2000) and Salehi-Isfahani (2003). The two dollar poverty line shows that poverty has fallen from a peak of about 30 percent in 1986 (the year of the oil price collapse) to less than 5 percent in 2004.

To see more clearly that the declining trend in poverty during the plan period (2000-04)

[10]Because poverty rates are not reported for all these countries for the same year, I use neighboring year data instead.

Figure 3: Cumulative distribution of real per capita expenditures, 2000-04



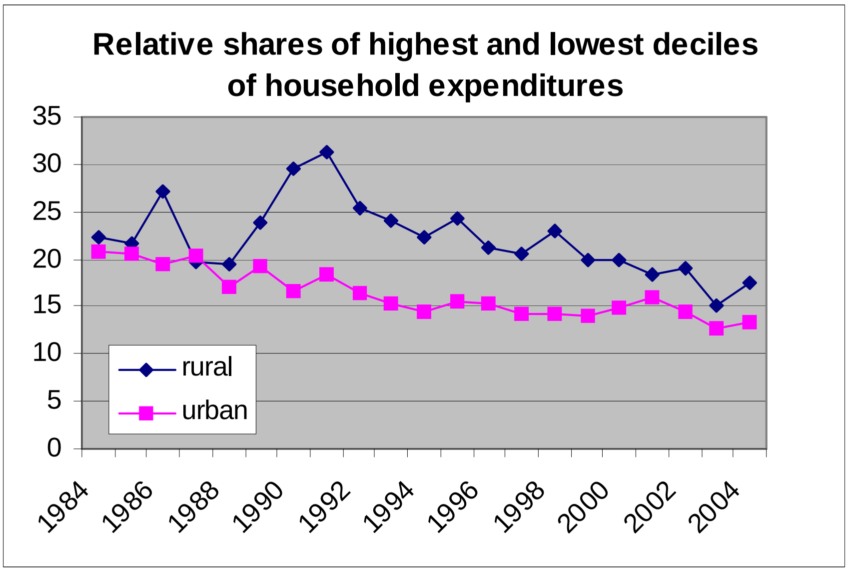
Notes: Per capita expenditures are in logs of 2004 rials. Source: Author's calculations using Household Expenditure and Income Surveys for 2000-04.

is independent of the specific poverty lines we choose, I have produced the entire cumulative distribution of log per capita expenditures for these years in Figures 3. Each distribution function depicts the proportion of individuals below a certain level of annual per capita expenditure. The two vertical lines represent poverty lines (in logarithms) of $2 and $3 per day (the cutoff points are hard to see for the $1 per day line). The proportion of individuals below these levels of expenditure declines each year from 2000 to 2004. Indeed, because the distribution for each year stochastically dominates the distribution from all previous years, no matter where we place the poverty line it will show declining poverty.

While oil-induced booms, such as the one Iran has experienced in recent years, tend to reduce poverty, they do not necessarily improve the distribution of income because the rich may gain even more than the poor resulting in greater inequality.[11] To compare how the rich and the poor have fared over the years, we turn to the change in the ratio of the shares of the top richest to the bottom poorest ten percent of the distribution of household

[11]The boom of 1970s worsened the distribution of income (Pesaran and Gahvary 1978).

Figure 4: The share of the top richest expenditure decile has declined relative to the poorest, 1984-04



Source: Author's calculations using Household Expenditure and Income Surveys for 2000-2004.

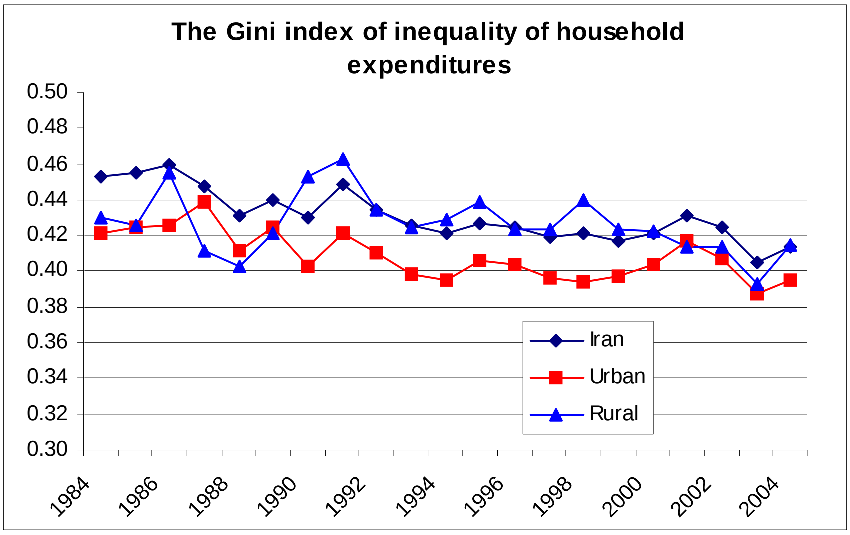
expenditures (Figure 4). Since the early 1990s the poor have gained in expenditure share relative to the rich in both rural and urban areas.[12]

To see the change in the overall inequality of expenditures, we turn to Figure 5 which depicts the Gini index of inequality of household expenditures for the last two decades. As with relative decile shares, the overall trend is toward more equality. Income distributions tend to be rather stable over time so a stronger trend would be rather unusual. In Iran, the Gini index has been relatively stable over the last three decades.[13] It is worth noting that whereas during the 1970s economic growth worsened the distribution of income Pesaran and Gahvary (1978), the most recent economic growth has not been bad for equality.

[12]It is preferable to consider change in the distribution of per capita expenditures rather than household expenditures, but to make my calculations comparable to the published data by the Statistical Center of Iran, which produces the decile share in its reports (see Statistical Center of Iran and Management and Planning Organization 2004), I use the household level distribution. The counterpart graph for per capita expenditures shows a smaller decline in relative shares.

[13]The values of the index reported by Pesaran and Gahvary (1978), Table 10:7, for the early 1970s and by Behdad (1989) for the late 1970s are also mostly in the 0.40-0.45 range, which is remarkable given the fact that the country has experienced a major social revolution.

Figure 5: The Gini index of inequality of household expenditures for rural and urban areas, 1984-2004



Source: Author's calculations using Household Expenditure and Income Surveys for 2000-04.

2.2 Unemployment

The government's claim that unemployment has fallen during the Plan period by one third, from about 15 to 10 percent, is met with disbelief by Amuzegar (p. 51).[14] Given the difficulty of defining and measuring unemployment in a country with a large informal sector, it is hard to defend Iran's official figures in any given year as an accurate reflection of the state of joblessness in the country. But the trend in the same statistic that has been calculated in the same way for a number of years, however inaccurate, is hard to dismiss.

Iran's unemployment statistics are based on the Household Employment and Unemployment Survey (HEUS), which has been collected every year since 1997 by the Statistical Center of Iran. The survey applies a more strict test in determining who is employed than the one recommended by the International Labour Organization (ILO). SCI's test is whether a person was gainfully employed for at least two days in the week prior to interview compared with ILO's one hour. So, the SCI standard would count many more people with

[14] Even the higher 15 percent rate was rarely taken seriously. See, for example, this statement from Ramin Jahanbegloo, "Unemployment numbers are not very reliable: the official figures stand around 15 percent, but in reality can be assumed to be well over 30 percent," "Ahmadinejad will face tough economic challenges," *Daily Star*, July 11, 2005.

Table 1: Unemployment rates by age, 2000-04

	2000			2004		
Age group	Men	Women	Total	Men	Women	Total
15-19	33.9	30.5	33.1	21.0	35.0	23.3
20-24	33.6	36.2	34.1	20.5	43.2	24.5
25-29	17.3	18.3	17.5	11.2	19.4	12.4
30-54	6.0	3.7	5.7	3.2	3.8	3.3
55-64	4.0	1.3	3.8	3.1	0.0	2.8
Total	14.8	17.0	15.1	9.3	18.3	10.7

irregular jobs as unemployed than the ILO. Also, female unemployment tends to increase with time as more women are willing to describe their activity status to data collectors as unemployed as opposed to homemaker.[15] Both of these factors should be kept in mind when considering unemployment in Iran.

Using the unit record data from the employment surveys Table 1 shows a 30% drop in the overall unemployment rate from 15.1% in 2000 to 10.7% in 2004.[16] The decline in unemployment is highly uneven, however, but the variation is quite plausible given the Iranian context. While male unemployment fell by one-third, the female rate increased, from 17.0% to 18.3%. Even more telling is the substantial gap between the unemployment rates of the young (under 30) and mature adults (over 30). For the latter, unemployment has all but disappeared. Economists consider unemployment rates of less than 4 percent, such as what we observe for the over 30 age group, very hard to eliminate (the natural rate). Lest a die-hard skeptic thinks that even the raw data have been cooked, consider the high unemployment rates for young men and women. The unemployment rate for women aged 20-29 years actually *increased* during the Third Plan period. Nearly one in four young men and two out of five young women were unemployed in 2004. This is definitely not a picture one would want to present if one were manipulating the raw data, but it comes from the same source that shows a decline in the overall rate of unemployment. Indeed, Iran's biggest social ill–youth drug addiction–is a direct result of high youth unemployment, which the data do not hide.

[15] Interestingly, survey data show that a large proportion of households have more than one homemaker.
[16] The 2004 sample includes the fall season round of the survey only.

3 Conclusion

Press reports and opinion pieces in the US routinely describe Iran's economy in poor shape, and link a presumed widening gap between the poor and the rich to political discontent in Iran. These characterizations of Iran's economy are also routinely voiced inside Iran, by the political opposition from the right and the left. This comment on Amuzegar's assessment of the Third Development Plan provides an opportunity to examine the record carefully and dispel growing myths about the deteriorating economic conditions of Iranians in recent years. I show evidence based on micro data indicating that economic growth of the past five years has raised personal incomes and reduced poverty, without widening the gap between the rich and the poor.

Setting the record straight is important in is own right, but it has even greater value for understanding the recent turn in Iranian politics and for US policy toward Iran. With regard to politics in Iran, the record is seen by one side as the fruits of economic reform undertaken by two presidents–Rafsanjani and Khatami–who tried to take the country in the direction of a competitive market economy with closer interaction with the global economy. From the other side, where one finds an unlikely convergence of opinion between the left and the right, the same record is seen as one of rising poverty resulting from the neo-liberal policies of the two administrations, globalization and the betrayal of the Revolutions's egalitarian principles. For the two former presidents, their allies, and others in Iran who consider the achievements of the post-Iraq war economic growth worth preserving, the record exerts a moderating force in the current encounter with the US. The consequences of worsening international relations and the risk of economic sanctions may be seen differently by their opponents, however, particulary by the ascendant conservative groups who now control the presidency. For them, whether or not they believe their own rhetoric of worsening conditions of the poor, disrupting the current course of reform may seem less costly. In the United States, inaccurate information about the dire economic conditions in Iran may make the hawks within the Bush adminstration overly optimistic about the prospects of regime change supported by a dissatisfied population. Careful analysis of available data rather than reliance on press reports or consensus among unnamed observers provides a more sound basis for US policy toward Iran. In particular, the evidence shows that economic conditions have improved, even for the poor.

To deny that the gap between the rich and poor has widened, as I have done here, is not to deny the existence of serious economic ills that fuel discontent in Iran. Iran's social and economic problems stemming from its rapidly changing demography and family behavior are immense and their solutions go beyond political reform, though that maybe a precondition. High youth unemployment, to take the most pressing problem resulting from changing demography, requires not taking more of "the oil money to people's dinner tables," as President Ahmadinejad has famously said, but to take bold action on labor market and social protection reform which would allow the young to compete with the older generation for work and for the government to focus its considerable financial resources to promote equity and efficiency at the same time. On the positive side, the public debate in Iran, though it is at quite distorted by domestic censorship and external threats, is dealing earnestly with economic reform and may even succeed if time and circumstances permits.

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