

The New Public Management And Social Justice In Iran: Elimination Of Subsidies

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The purpose of the present study is to demonstrate the role of management changes in post-Islamic Revolution Iran to provide better and more efficient services for people and more equitable distribution of income resources and opportunities among different social classes. Then the new public management system is pivotal in social justice. This fact is crystal-clear for all that management is an effective factor in increasing social justice. However, this does not reveal all aspects of the issue because most financial tools and resources are in the hands of the government and these financial tools are only one of the elements of management system. Therefore, the importance of the management system in the reduction of class differences becomes clear. Thus, over the past 50 years, for most subsidies have been paid for goods and energy, and this has caused trouble for both the government and the nation for the reasons other than the financial pressures because great amounts of subsidies have been wasted by the rich classes. As a result, the difference between the social classes have been increasing. Although the removal of subsidies can create problems for low caste in the short run, in the long run it can

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lead to optimum distribution of resources among all castes, bridging the class gaps, and development of economy.

Keywords: Social justice; New Public Management; Subsidies; Traditional Management; Cash payment.

JEL Classifications: H25, H50

Introduction

One of the important issues in modern management is the role and size of the government in their economy. Before classical theories of economy put forward, governments used to have an important role in their economy and trade. After Adam Smith and his followers developed classical theories of economy, the role of government in economy greatly decreased. Theoretical principles of classical economy were based on the free enterprise of business firms and markets and the only sign for the correct allocation of resources was the point of intersection of supply and demand. Therefore, classical economists did not accept government intervention in the market in every case; hence a minimum budget should be allocated for the government.

As a result of the industrial development, economic growth, the expansion of market share of large companies, creation of monopolies, identification of economic and non-economic externalities, increasing in volume and quantity of tasks, classical theories about government's role in the economic system changed, and thereof new theories emerged about the economy and government activity in the economy. The result of this development was to create a new branch of economic science called public economics or new finance. The difference between old and new theories of economy is finance problems and different approaches in the field of taxation and public expenditure, viz a difference in fiscal policy.

Governments in different communities have held various roles in the economy of that society. One important criterion for analyzing the role of government is the volume and composition of public spending. However, regarding changes in absolute costs can not reflect their importance for us. Rather we must be careful in changes of government costs compared to economic indicators. In this way we can divide public expenses in two categories:

First, all possible expenses or fees that are ultimately supposed to be paid by the government. These costs do transfer resources from private sector into the public sector. These expenses include investment in public sector, buying goods and services, etc.

Second, costs of transfer payments. These expenses include subsidies; government's spending for pensions, etc. In contrast with the first category of public expenses, the second one does not transfer resources from private sector into the public sector. In other words, they are allegedly not considered economic resources. These costs only distribute resources between the society and the private sector. When speaking of an increase in the public sector and its economic effects, it is better to distinguish between these two categories of costs.

The effect of government role in economy cannot be determined only by looking at the costs, the amounts or quality of them. In other words, governments can have significant effects on society's economy without any costs.

To control economic, political and social affairs, governments make rules and regulations that have no significant costs to the public. Despite the low costs of these decisions, many of them have significant effects on private sectors.

Government economic intervention is determined upon taking into consideration the three tasks of income distribution, effective allocation of resources, and economic stability. Government organizations can be in different sizes. Here the public sector and government spending are specifically considered.

One of the major tasks of government is to protect the vulnerable and low-income classes. Therefore, among these tasks the income distribution favours a special consideration.

It is accepted that income distribution has economic and political purposes. In other words, in economic terms the change in income distribution not only can affect rates of savings, investment, demand in different markets, and other economic factors, but also can politically stimulate voters to vote for the government.

Iran, like other developing countries, emphasize on income distribution through taxes and subsidies. However, during the last five decades subsidies have been increasing illogically whereby price level has artificially been kept low and this has damaged low-income classes and government financial resources. Therefore, in view of modern management, realization of social justice through the gradual elimination of subsidies and use of those resources in economic growth, economic development and real protection of the vulnerable classes can modify significantly management and social justice theories.

Difference between classical and modern management systems with reference to the financial policies of the government

The classical approach in management was an approach that places reliance on such management principals as unity of command, a balance between authority and responsibility, division of labour, and delegation to establish relationships between managers and subordinates. Mary Parker Folet as mentioned by Richard Barrett (2003, p.51) defines "management as an art of doing things by people." This type of management needs a thorough understanding of divided staff in financial principles which is divided again into two sub-categorical affairs namely organizing and efforts.

Modern management has been recently emerged. Some scientists were for and some were against it. Even some scientists claimed that

the ancient management never needed a substitution. Nevertheless, writings and thoughts of modern management are a typical topic for discussion in academic settings. In order to make the subject clear enough, we would better examine modern management principles once more.

Modern management came into view in response to different factors in the late 1960s and the early 1970s. These factors were: war in Vietnam, racialism and dissatisfaction of management basis and total changes in social sciences. The new pattern involves various forms of modernism (Murdick, 1984), modern management (Panigrahy, 1994), office of governmental affairs on shopping malls (Len Rose Neblum, 1992), or innovative government Certo, et. al. (2011). Bolman and Terrence (1984) believe that modern management includes three basic approaches: emphasis on management instead of approach, emphasis on evaluation of performance and efficiency.

Modern management or modernism needs a behavioural view of a society that civil rejection in that is a subject on customers' request. One of the ambiguities that exist in modern management is a doubt in the importance of relatively equal and justice values in modern management laws.

There has been a criticism that social justice is of the first desired and undesired changes in modern management. Although the change in governmental section on modern management creates this threat, physical and economical motivations available in modern management laws do not harm the approaches in social justice.

To sum up, ancient values of modern management served us as much as possible, but the experience in the past decades shows that modern management values like social justice, responding the customers, staff's and people's participation in decision-makings, people's elections are equally important for ancient values. These values, especially social justice does not mean to reject the importance of interest, efficiently and economizing in the government's costs.

Rather it states that even the most productive, efficient and economical government can eliminate poverty, injustice in reaching the opportunities and unfairness. In modern management, the meaning of justice is not only used for total executive and fair activities, but also for offices that result in the definition of what the governmental management is looking for.

New governmental management role in the distribution of income

Solving the problem of income distribution is one of the most important tasks of government, especially in developing countries such as Iran, because in any case the distribution of income in the economic development process can create different tensions. Income distribution that is determined by market sometimes is not acceptable in society, in other words general welfare cannot be achieved. Government can influence the income distribution in two forms:

First, changing distribution of income through long-term policies and indirectly, including ownership system reform, reform in the tax system and rules of inheritance, job creation, price stability, provision of health and public education, social insurance, etc.

Second, government influence in income distribution is through taxes and transfer payments. This influence is very common. Obviously, taxes and government transfers have much faster effects in direct form than indirect form of policies on income distribution. Taxes can be applied in a variety of ways; for example, the progressive tax on income distribution and wealth can be very efficient and useful. Governments can also decrease inequality in income distribution through transfer payments (negative taxes) to low income individuals.

Policies available to governments to intervene in the distribution of income are called redistribution policies. Of course choosing the right tax forms and rates have to be chosen with care and concordant with the purposes specified. Because changing income distribution has

significant influences on economic variables such as consumption, saving, investment, growth rates and so on, it becomes clear to what extent governments can be effective in the use of proper tools, fiscal policy and management in the distribution of income and thus reduce the economic pressure on the low caste.

Subsidy payment system reform in Iran as a modern management practice

To distribute income and wealth in society efficiently and to achieve social justice, governments use different policies such as subsidy policy. These policies have always been regarded by different narrowly governments because through their application they have tried to achieve social justice. Practice of this policy in different countries has had very different results. Here the effects of this policy in Iran are discussed. Studies carried out on this issue show that the use of subsidies in recent years has caused not only a financial burden for the government but also one of the major obstacles in the course of growth and development as well as social justice. Therefore, during the last three years, the Iranian government has gradually been trying to remove and/or correct subsidies.

Since Iran is rich in oil, the easiest method to keep the prices low has been the public subsidy payment. In some cases due to the absence of real price, subsidy has created a serious problem. Considering the fact that large amounts of subsidies are annually paid to the nation indirectly, this subsidy payment system has had many shortcomings. Therefore, the Iranian government determined to minimize the economic problems of the people by reforming the subsidy payment system.

Subsidy payment has been used as a supportive practice in Iran. The main objectives of subsidy payment are to protect vulnerable groups and to develop social justice as to avoid price increase. Although support production and exports, food security and other issues have been less considered by the government, the continuation of this

situation, i.e. subsidy payment, not only will increase the public expenditure, budget deficiency, and inflation, but also will bring about large amounts of costs for the country's economy. These huge costs can impose themselves into the country's economy in one of the following forms:

Increase of uncontrolled consumption of basic goods and energy consumption;

Discriminatory use of subsidized energy carriers by the rich classes;

Creation of parallel markets and trafficking;

Reduced economic growth;

Maintenance of artificial price level stability, prevention of investment in new technologies, and lack of efficient energy consumption; and,

A sharp increase of importation of energy carriers, and vulnerability of the country's economy.

Therefore, to prevent this problem and to succeed in the reform movement of the subsidy payment system, some prerequisites have to be met as follows:

Attempt to control prices and inflation that can be increased by eliminating subsidies;

Identification and inclusion of target subsidy-deserving households and consideration of modifications in family situation during the subsidy payment reform implementation;

Creating the optimum subsidy payment;

Fair scheduling of the subsidy payment reform to reduce organizational and official costs;

Clarification of likely externalities and goals to reform executive management;

Use of the results of the reform system to improve productivity and production processes, efficient management of consumption, optimum use of resources, social justice, inflation and unemployment reduction, etc.;

Consideration of the ratification process of elimination and improvement of subsidy, economic, political, social, cultural, and social capacity of the population, inflation, and many other issues by experts' and lawmakers' decision.

Social consequences resulting from the elimination of subsidies and reform

Implementation of every policy has several social consequences. Sociologists believe that economic and political changes should be implemented when the society is in peace and relaxed. It is only in this case that the repulsiveness of the implementation of the project is expected to be manageable. Now some of the problems and issues arising from the implementation of this project are detailed from a socioeconomic point of view.

In a consumerist economy, cash-paid subsidies often cause buying and using unnecessary products and services. If this is combined with a reduction of subsidy payments for basic goods, it will cause a decrease in the consumption basic goods. This will in turn threatens economic security and social health;

Cash-paid subsidies in a society which is under demand pressure will lead to anomaly in the expenditure program of households. Similarly an increase in income without work will lead to anomaly in the expenditure program of households. That is why it is usually emphasized that an increase in family income must happen gradually and carefully and also in accordance with the work done. Otherwise, a surplus of the household income will pest the society;

The consumption must accord with the household income. Always changes in a consumer model are made according to income changes, but with a different logic. So if the income in family consumption model is higher than that of the income model, this situation can be considered as a terrible threat to the society;

One of the social consequences of cash-paid subsidies is a modification in the work culture. The cash-paid subsidies in some

cases exceed both the wage and monthly household income. Therefore, sometimes this may lead to idleness; and,

An illogical increase in the household income will increase family great expectations. This is usually ignored that an illogical increase in income goes with inflation.

The implementation of any modification in the national policy and program in the economy, which is considered a major surgery in the national economy, will probably face the above-mentioned consequences. However, it should be tried not be sceptic in its implementation and the experience of other countries in this issue should be used. According to ILO² 2005 estimates, more than 80% of the population of industrialized countries used the direct subsidies; in Asian and African countries only 10% of the population received direct subsidy. These estimates for South America countries were 15% - 60%; for middle-income North African countries they were 20% - 25%. For in-transition East-European countries they were 50% - 80%. Among developing countries only some countries pay direct subsidies to individuals with little income and this is less than 1% of GDP³. And in the OECD⁴ countries this figure is 8%. Finally, direct subsidies paid in developing countries are less than those paid in developed ones. The main reason for this is a lack of financial resources in developing countries. It must be mentioned that the economic policy-makers of these countries give priorities to public expenditures when budgeting because they are after reducing obstacles to structural economic growth.

In most developing countries, many poor castes work in the black market (informal sector), and this makes the implementation of tax-receiving very arduous for the government. If poor families earn a large portion of their income in the black sector, in this case cash-paid

² . International Labor Organization.

³ . Gross Domestic Product.

⁴ . The Organization for Economic cooperation and development.

subsidies can reduce poor-family poverty-line very little and it will have no effect on the replacement of their formal income. In other words, in this case a direct subsidy is effective only in the short run and in the long run it will be of little effect on family revenues. Another reason that explains the difference in subsidy payments (direct and indirect) is the difference of information. To implement the cash-paid subsidy reform, a lot of information is needed and this information in developed countries is more than that of developing countries. An increase in the number the self-employed and a high incidence of informal labour force in developing countries have made the access to authentic and reliable information on income and wealth so difficult. Lack of information on plans for social support, inefficient public management, organizational constraints, and performance in managing the social security system are among other reasons for low levels of this. Administrative costs of implementing the projects of cash-paid subsidies in developing countries are very high. This is due to the dispersion of vulnerable population and restrictions on public services in urban areas. All these issues have reduced the incentive for workers to join the social insurance organizations and all efforts made in this area are difficult to extend social security systems.

Consequences of subsidy reform with the Gini index

One of the important goals of any and every government is the equitable distribution of income among individuals in society. The income distribution in the real world is fairly debatable, but some measures can be taken by the government to achieve that goal.

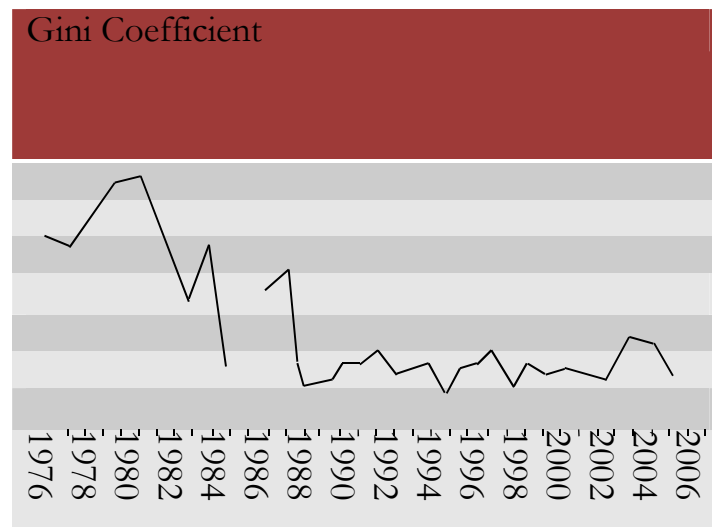
Using an index called the Gini coefficient; economists calculate the amount of equity and justice in income distribution. Gini coefficient is always between 0 and 1. The closer the index to 0 is, the more equitable income distribution is, and vice versa.

The comparative statistics of the UN⁵ Human Development Report for 2005, the highest Gini coefficient belonged to Brazil which was 0.593. It indicates neither the goals for a reduction in the social gap in this country have met nor a fair distribution of income among the people of this country in comparison with other countries has happened. The lowest Gini coefficient among the countries surveyed by the UN belonged to Sweden was .25 which indicates a very fair distribution of income.

Gini coefficient in 2009 in Iran is equivalent to .385. Interestingly, this study shows that Egypt Human Development Index which ranks lower than Iran, with a Gini coefficient of .344, favours a more equitable distribution of income in this country than Iran does. Studies on Gini coefficients done since 1982 indicate a decrease in the equal distribution of wealth among. The Gini coefficient has been reduced in Iran. The diagram below shows this trend.

⁵ . United Nation.

Figure 1

A new record in diminishing Gini Coefficient

Therefore, from these statistics it can be concluded that in spite of its rich natural resources, and very high income, income distribution in Iran is not suitable and the gap can be greatly reduced in the country. Statistics related to the Gini coefficient in 2010 reflect the improvement in income distribution between different classes in different income deciles in the country and the country has improved thanks to the removal of subsidy reform and it has been able through funds generated from the reduction and subsidy reform and thus has achieved economic growth.

According to the latest reports of Central Bank of Iran, as it is shown in the following table, Gini coefficient has reached to 0.385 by the year 2009 which is an unprecedented record during the last 40 years. It shows that income distribution activities in country have reduced the income equity gap between the different deciles of society.

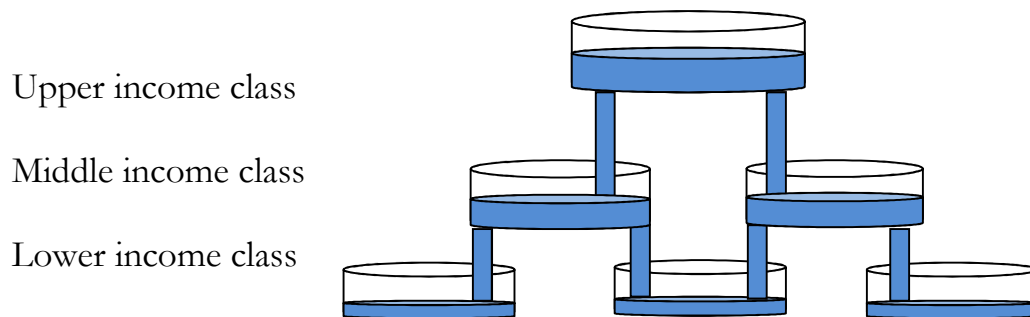
Table 1

Income distribution in Iran 1972- 2009

Income distribution diagram in the last 40 years					
Year	Gini Coefficient	The richest share to the poorest one	Year	Gini Coefficient	The richest share to the poorest one
1972	0.4679	24.4	1991	0.3969	15.9
1973	0.4606	22.8	1992	0.3996	16.3
1974	0.4775	26.2	1993	0.387	15.9
1975	0.4992	29.5	1994	0.3976	16
1976	0.502	33.8	1995	0.3993	15.7
1977	0.4805	31.4	1996	0.4074	16.1
1978	0.4584	24.7	1997	0.391	14.5
1979	0.436	19.6	1998	0.4029	15.7
1980	0.4618	26.6	1999	0.3965	14.2
1981	0.3984	17.9	2000	0.4009	15.4
1982	-	-	2001	0.3991	15
1983	0.441	22.2	2002	0.3985	14.4
1984	0.454	25.5	2003	0.4191	16.9
1985	0.4043	18.5	2004	0.4156	16.2
1986	0.391	16.1	2005	0.3996	14.6
1987	0.3944	17	2006	0.4023	14.5
1988	0.4038	17.4	2007	0.4002	14.9
1989	0.4043	17.3	2008	0.4045	15.2
1990	0.4092	17.6	2009	0.3859	13.5

Source: Central bank of Iran, 2010.

As an example in the year 2009, the Gini coefficient was 0.385. This coefficient can be shown through the share of each class as it follows.



Conclusion

Using modern methods of public management to achieve social justice is one of the most important and persistent issues in various countries, including Iran. Thanks to many revenues that come from natural wealth (oil and natural gas) in Iran, the Iranian governments have always tried to bridge the social gap by the proper distribution of revenues. In this case the Iranian governments have used different policies and tools such as transfer payments and subsidy reforms. Since for many decades the Iranian governments have used foreign reserve currency and even the loans to invest on the oil industry, natural gas refineries, electricity plants and so on, the present government hopes that these infrastructures to be updated and managed more efficiently. Hence the government can develop and improve social welfare and services. So now we need to ask to what extent these policies have been successful. As a result, the cash-paid subsidy system reform has been seriously considered by the government.

Widespread subsidies paid for more than five decades with the purpose of keeping prices low and ultimately increasing consumer welfare and also increasing government intervention in the national economy have been the main obstacles to Iran's economic dynamism.

In this case net production per capita has not increased as it was expected and is not comparable with other developing countries. In other words, it was less than half of the world average. We can claim that a sudden total removal of subsidies can lead to the creation of different types of problems for the poor castes because of the out-datedness of subsidy system and inefficient payment system and calculating it in the household basket. In this case although in the short run the government program (eliminating subsidies and reforms) may create problems such as a reduction in consumer welfare, inflation, and have no effect on the state budget deficit, in the long run the implementation of this program will have many positive effects, such as improvements in consumption programs, increase in productivity, reduction in unemployment, bridging social gaps, improvement in economic growth, development and so on.

Resources

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