

# Transforming for future Downsizing gov't, revitalizing Iran's economy



By Amin Shojaei  
Guest contributor

**OPINION  
EXCLUSIVE**

Iran's economy has long been plagued by the challenges of having an oversized government. Official statistics indicate that in 2023, over 3,500 trillion IRR was spent on expenses related to the operation of the government, with 75% allocated to the salaries of public employees. The number of government employees in Iran exceeds 4 million, far surpassing comparable countries such as Turkey, which employs only 2.5 million public workers. This inefficient structure not only imposes a financial burden on the public budget but also limits the government's ability to invest in infrastructure and developmental projects. A similar pattern is observed in state-owned enterprises (SOEs). Reports reveal that out of over 500 SOEs, nearly 70% are unprofitable, incurring annual operational losses of over 150 trillion IRR. Privatizing these enterprises could reduce costs and improve efficiency.



Iranian President Masoud Pezeshkian (facing camera) attends a session of the country's parliament to defend his proposed ministers, who are sitting beside him, on August 17, 2024.  
IRNA

Positive effects of downsizing gov't  
Downsizing the government could have profound positive impacts on Iran's economic and social fabric. First, reducing government operating expenses frees up resources for critical investments in infrastructure and industrial development. Experiences from countries like Turkey and Argentina demonstrate that privatization and reducing state intervention foster private sector growth and job creation. For example, Argentina's President Javier Milei achieved a 30% reduction in government costs in sectors like energy and transportation through strategic privatization. Moreover, downsizing the government plays a vital role in curbing administrative corruption. Transparency International reports that countries with smaller governments generally score higher on transparency indices. Reducing overlapping institutions and limiting government interventions can enhance fiscal transparency and minimize corruption.

## Priorities for downsizing

One of the most critical areas requiring reform is the unprofitable SOEs. Privatizing these entities, especially in the energy and transportation sectors, could reduce the financial burden on the government while boosting efficiency. For instance, privatizing 20% of

state-run hospitals, according to Iran's Islamic Parliament Research Center, could save the government up to 15 trillion IRR annually without compromising the quality of healthcare services.

Moreover, reducing the number of ministries and merging parallel institutions can have a significant impact on reducing administrative costs. In Iran, the existence of more than 18 ministries and affiliated organizations has increased overlapping responsibilities and inefficiencies. Merging related ministries, based on thorough expert studies, can reduce the operational costs of these entities by up to 10%.

## Lessons from Argentina, US

Javier Milei, the president of Argentina, introduced sweeping economic reforms that brought significant changes to the nation's economy. By reducing the number of ministries from 21 to 14 and privatizing unprofitable SOEs, he simplified the government structure and increased productivity. These measures led to a reduction in government expenses and improvements in key economic indicators. For example, monthly inflation dropped from 25% to 2.7%, and for the first time in nearly a year, the annual inflation rate fell below 200%, reaching 193%.

Former US president Donald Trump undertook efforts to reduce

the size of the federal government and increase its efficiency during his presidency. He introduced plans to cut federal workforce numbers and emphasized privatizing government services. In his 2024 campaign, Trump promised to leverage innovative technologies and private sector capabilities to cut federal expenses by \$2 trillion. His agenda included reducing bureaucracy in the healthcare, energy, and transportation sectors.

Additionally, Elon Musk, CEO of Tesla and SpaceX, whom Trump recently named the leader of a government efficiency commission, proposed using artificial intelligence and advanced technologies to streamline government processes and save billions in public spending.

Downsizing the government, though a significant challenge for Iran's economy, is an unavoidable necessity to achieve sustainable development and social equity. The successful experiences of Argentina and the reform strategies proposed by Donald Trump in the US demonstrate that, despite challenges, a smaller government can lead to reduced expenses, improved transparency, and enhanced efficiency. It is time for Iran to learn from these experiences, embark on structural reforms, and pave the way for a brighter economic future.

## Lights off in Iran

# What caused power crisis, what comes next?



By Aarti Nagraj  
Journalist

**PERSPECTIVE**

As Iran struggles with a major energy crisis, with businesses and government offices partially shut and remote learning underway in certain areas, strong and immediate government action is needed to stem the "significant" economic impact it is

having, according to analysts.

The country has been struggling to cope with increased demand during the winter months and has already called on households to lower heating levels to avoid blackouts.

Recently, Iranian President Masoud Pezeshkian also apologised to the public in a local interview. "Unfortunately, this [Iranian calendar] year, we are compelled to ask the public to show some restraint," he said, adding that "we will work hard to ensure that such events do not occur next [calendar] year."

The current crisis stems from the government's "inability to manage energy and petrol consumption costs effectively," said Mahdi Ghodsi, an economist at The Vienna Institute for International Economic Studies. In Iran, one litre of fully subsidised petrol costs about 15,000 rials or less than 2 US cents, according to the unofficial rate on December 25 on the currency exchange site Bonbast.

In 2023, the fossil fuel subsidy per capita for Iran was estimated to be about \$917.5, according to International Energy Agency estimates. Subsidies covering oil, electricity, and gas increased to more than \$154 billion in 2022, before falling to \$81.8 billion in 2023, the IEA said.

Daily petrol consumption reached 111.3 million litres in the last Iranian fiscal year, which starts mid-March, up from 102 million litres the previous year, according to official data.

"This heavy consumption is coupled with significant government subsidies, which have become unsustainable," Ghodsi said. Long-standing issues such as underinvestment in power infrastructure have also led to the current situation.

Iran possesses vast hydrocarbon reserves — it was the fourth-largest crude oil producer in OPEC in 2023 and ranked as the world's third-largest oil and second-largest natural gas reserve holder the same year, according to the US Energy Information Administration.

However, despite being a major oil producer, the main reason for the imbalance in energy production and consumption in Iran is energy subsidies, said Mohammad Farzanegan, professor of Middle East economics at the Centre for Near and Middle Eastern Studies, Philipps-University Marburg in Germany.

"As a result of cheap energy, the energy intensity of production remains high, and there is less interest or incentive to improve energy efficiency," Farzanegan said. "It is also problematic to attract private investors and foreign direct investment in sectors where the government actively intervenes in regulating prices."

Economic sanctions have also increased the political risk in Iran and raised the transaction costs for international projects, he added.

## Dimming economic growth

Iran's economy has already been struggling under crippling Western sanctions and while the economic impact of the power

crisis is "significant," it grows more severe as power cuts become longer and more frequent, said Ghodsi.

"Power cut disrupts economies of scale, reducing efficiency not only during the outage itself but also in the recovery period once power is restored. This inefficiency compounds over time, particularly if the power cuts are unpredictable," he explained.

While the economic cost of the power crisis has not yet been fully estimated, Farzanegan cited a recent estimate by the former director of the Iran Chamber of Commerce in local media, which projected a loss of \$110 million a day due to power cuts last calendar year.

While there is talk about increasing fuel prices and cutting out subsidies, "energy is sensitive and ... a lot of people rely on cheap energy," said Alex Vatanka, senior fellow and director of the Iran programme at the Middle East Institute.

"Instead of suddenly increasing the price of energy, the government could have spent the last year or two educating the public about good practices when it comes to energy use. [People] have become used to almost free energy, but the government doesn't engage in education on those things. Instead, it educates about ideological issues," he said. Subsidies can be reduced and removed, but the government will need to compensate for that, he explained. Energy efficiency can and should be improved, considering the amount of energy that is wasted in the country, but political and foreign policy change is critical for any change, Vatanka said.

According to Farzanegan, to rectify the situation, there is a need for energy subsidy reform and the removal of US sanctions.

"Both require a strong government, political will, and significant support from civil society. A large campaign within Iran is necessary to raise public awareness of the significant and costly effects that the continuation of energy consumption subsidies has caused."

At the same time, the government needs to find a way to negotiate with the new administration in the US to lift the sanctions. The latter may "require difficult agreements," he said.

To navigate the current crisis and restore stability, the government must take bold and decisive action, added Ghodsi. It must "prioritise cutting unnecessary expenditures that do not serve the public interest."

The full article first appeared on *The National*.



Two women request a taxi on a phone app during a recent blackout in Tehran, Iran.  
NYT