A Solution to Help Resolve Stagflation

Sanctions reduce activity and growth: that is their outcome. Budget deficit constraints also have similar effects. Iran's economy is now in a stagflationary trap - with low GDP growth, high unemployment and chronic inflation – and also under both external sanctions and a budget deficit constraint. These can't be seen separately. All this makes choice of a policy approach and related programming very difficult for Presidents Rohani's new Government. What is a simple, feasible and cheap solution to help in resolving such a complex problem – and raising activity and growth?

Generally, getting the domestic economy growing through small-scale local enterprise development is a good way to overcome both external sanctions and budget deficits. Such endogenous growth approaches rely on local resources, knowledge, activities and markets; they prompt domestic demand; and enables more revenue and tax generation. The dependence on external elements is limited. The solution suggested in this article is a public investment approach targeting full employment and programmed at the District (shahrestan) level. With about 4 million persons unemployed, the challenge is huge and meeting it is necessary.

Iran needs to create about 800,000 new jobs annually just to retain the current level of unemployment, and more than 1.5 million jobs a year if we are to achieve full employment. Previous job-stimulus initiatives and credit packages did not have desired results, so a new approach and serious employment creation drive is essential: for mobilizing the significant capabilities of the unemployed population for generating higher value-added through micro enterprise development. A difficult task.

But why full employment targeting? Isn't that inflationary? Not if it is achieved through small-scale based growth programmes. Such targeting modalities, with

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some simple institutional restructuring, and programming for labour-intensive approaches to micro enterprise development can achieve such significant objectives. Inflationary consequences are small.

Strategies and techniques do exist. By focusing on development of potential capacities at the District level, using techniques that are "integrated" and which simultaneously combine individual initiative with group dynamics, training, funding, support systems and business incubators - and which are targeted to specific categories of people and work - the generation of local "inclusive" growth and development becomes possible. Such endogenous growth and development ensures quality local outcomes, high value-added products and sustainable services.

The expected outcome of the proposed technique is both local GDP growth and local full employment. With well over 400 Districts in Iran, once operationalised and implemented appropriately, a significant national impact is possible, and at least an additional 1% on overall national GDP growth can be achieved (if not more).

A Multi-Purpose Solution

The specific solution for such a targeted approach is usually termed the "social-mobilisation and micro-credit (SMMC) strategy at the District level". In Farsi: basij ejtemaiee va etebarat-e-khord dar sat-he shahrestan.

The SMMC technique is a fully "integrated" area-based growth and development model, and now a global best practice: well recognised at the 2005 China Poverty Conference. It has been successfully tested in Iran. The principle is to enable individuals to become catalysts for development, learn to think and work better locally, and to improve their own welfare. This is very different from the "sector" based segregated approach to skills training, licensing and credit provision that is currently practiced in Iran for entrepreneurship development.

The SMMC is a "second-best" solution to Iran's current stagflation/sanctions/budget-deficit impasse. But it will prompt domestic growth. The technique is multi-purpose, versatile, cheap and robust. It is not difficult to plan; is not costly; nor difficult to implement. It quickly generates local entrepreneurship, employment, income, wealth and social capital. It also instills higher productivity and lower local inflation. It is especially useful for poor areas and poor groups (i.e. the unemployed). Further, it stabilizes and sustains people locally. A good way to overcome sanctions effects.

Given more than 400 Districts, the adding up properties for income and capital formation are significant[1], once expanded nationally. Any District Governor (Farmandar) can implement it. It is feasible, with a cost of about 25 million Rials per employment generated: relatively small budgetary requirement for a District. The current national cost estimate for generating one employment (based on macro industrial development strategies) is considered to be about 500 million Rials per employment. Quite a difference.

The SMMC characteristic of combined economic growth and social capital development make it truly sustainable. Individuals are organized and trained, and enabled to save (and funded), and then an endogenous process is established. The organization of individuals, work groups, micro-credit funds and related mechanisms/institutions ensure:

1. group-based support and protection for continuity of work;
2. continuous learning that raises value added;
3. simple management systems and networks that help organize and coordinate;
4. standardisation of operating procedures making work easy/efficient;
5. quick development of business case plans by individuals and work groups;
6. improved local financial circulation through the revolving savings-credit systems – and linkage to banks;
7. good division of tasks/labour and use of local resources and opportunities;
8. vertical integration into markets and into access possibilities.

The initial SMMC investment cost is organizational: with low initiation, training, managerial and overhead costs. The micro-credit funds depend on scale of work and business plans produced. The estimated direct cost for a two year period to either self-employ or employ 10,000 unemployed persons in each District, is about 25 million Rials per person. A total of 250 billion Rials per District over two years. The micro-credit financing: 10 to 50 million Rials per person.

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The micro credit element, especially, is noteworthy. The 5th Development Plan (2012-2016) adopts micro-credit and funds systems, with an initial focus on regional based development. This supports the SMMC approach. Small loans access, granted by community based work groups, and supported by local banking systems, are now expanding all over the world. Findings from many pro-

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grammes and projects (even in Iran) show that loans provided by micro funds have been used for a variety of needs: productive micro-employment and income generation; purchase of semi-durable and non-durable commodities and equipment; training and education; medical expenses; consumption; etc. Further, they have prompted diverse and innovative activities, and supported knowledge based growth in local areas.

The utilization of loans for developmental purposes such as health and education is in fact also an investment in the effectiveness of the local work-force: with positive impact on income diversity and lessening vulnerability of households – thereby raising development indicators. An outstanding feature of such loans is the high rate of repayment – well above 90% are returned.

The National Impact

Through small scale domestic organization, Iran can circumvent the adverse sanctions effect. Results of ongoing SMMC work in Iran well indicate income gains for the established work groups to be well above the average local income growth: along with improved confidence and social capital in communities. As local communities are directly involved it also remains sustainable. Once the macro planning framework and meso level support system and mechanism is developed, the diversity and scale of domestic demand induced endogenous growth and inclusive development is significant – with other high synergies and multipliers.

Using the SMMC technique in all Districts, the full national cost is about 100,000 billion Rials (about $4 billion), over a two year period to initiate the process and ensure results. This is 50,000 billion Rials per annum: approximately one-fourtieth (1/40) of the annual Government budget. An amount that could resolve the 4 million unemployment problem. As a whole, the cost of achieving such growth and employment is small: about 1% of annual GDP; much less than the current annual $35 billion cash transfer (pardakht mostaghim yaraneh) package; and, a small percentage of the Government annual budget. In other words, it is feasible financially.

Given global experience, the SMMC package has a good chance of success, and would probably result in an estimated 1% (and up to 2%) national GDP growth in the first few years: plus the secondary-tertiary multiplier affects that would help Iran's growth go even higher, and get it out of the current low-level equilibrium stagflationary trap (which is also partly due to the large scale approach we have previously taken).

What would remain is to think about ensuring the overall stability of the economic system: by preventing conflicting project level investments (and inconsistent outcomes) at the District level. Such investments should be targeted at goods/services that generate combined efficiency, equity and sustainability, to ensure a good "inclusive" GDP growth path. Each different District in Iran would follow a similar approach; allocate its investment resources for SMMC approaches to alleviate unemployment, ensure local development and stabilize populations. It would also require the combined efforts of the Presidencies planning arm, Ministry of Interior, Ministry of Labour, and Agriculture Bank to help implement. ■

1. Research on these aspects have recently been undertaken by the author – and are available upon request.