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Financing Job Guarantee Schemes by Oil Revenue: The Case of Iran

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ABSTRACT

Iran's constitution emphasizes social justice and obliges government to provide a job for every citizen. But in fact, the government's duty to provide jobs has shifted to government support for a measure designed to create new employment opportunities through subsidized loans to the private sector. This policy has not been successful to date, and the current stock of unemployed workers is about three million—12.75 percent of the country's labor force.

To realize the desire of the Iranian people to achieve full employment and social justice, the government must implement employment guarantee schemes, or EGS, in the most deprived areas. Elected town and village councils can design and manage the public works with the help of other government, as well as nongovernment, institutions. Programs can be financed using less than ten percent of the annual oil-exporting revenue that is deposited in the Oil Stabilization Fund.

Keywords: Job Guarantee, Full Employment, Iran, Employment Policies

JEL Classifications: E51, E63, J01, J08

1. INTRODUCTION

The Constitution of the Islamic Republic of Iran[1] emphasizes social justice through poverty eradication and elimination of all kinds of deprivation in nourishment, housing, employment, health, and social insurance, and the Iranian government is obliged to provide all the means for a decent life for every citizen (Majlis 2005).

Increasing unemployment has created concern and discontent. In order to change the unfavorable conditions in the labor market, the government has implemented different supportive measures, however, credit schemes have formed an essential part of such programs. In the past two decades, huge amounts of highly subsidized loans to the private sector by state-owned banks could not solve the problem of unemployment and the number of unemployed increased rapidly, creating concern of social unrest and economic crisis. The government has to apply effective programs to mitigate the problem. Employment guarantee schemes (EGS) can create a considerable number of new jobs and, at the same time, stimulate economic activities, especially in backward areas. Rising oil prices can facilitate EGS finance without imposing pressure on interest rates and private sector investment.

This paper briefly reviews the arguments about finance for employment creation through private-sector investment and job guarantee schemes. Next, the changes in the labor market and the role of credit facilities in generating new jobs in Iran during the past two decades are studied. In the following sections, the applicability of employment guarantee schemes by using a small fraction of oil exporting revenue in Iran and its consequences on inflation and female unemployment are analyzed. Concluding remarks are presented in the last part.

2. FINANCE FOR EMPLOYMENT GENERATION

The weak growth performance of developing countries in 1980s and 1990s has led to poor labor market outcomes, which have prevented the creation of sufficient jobs for the large increases in the labor supply (Cornia 2004).

In the 1990s, credit policy had been promoted as the single most important mechanism in poverty alleviation and job creation. The lack of access to informal and formal

[1] Iran's new constitution was approved in 1980, after the Islamic Revolution in 1979.

credit by many entrepreneurs had been identified by numerous studies as a major, some even say *the* major, constraint. ILO studies in the Philippines, Bangladesh, and Trinidad and Tobago place the lack of capital, especially in the start-up period, as the problem most often mentioned by microentrepreneurs. (Schreiner 2002; Honohan 2004).

Chen (1996) insists that credit facilities are not the answer to all the problems of poverty and unemployment in developing countries, but they are indeed "inducers" to a great many actions that can lead to a better quality of life for the low-income groups; however, credit programs rarely reach the poorest. One reason for this is that the tiny loans required by the very poorest people are too small to generate significant interest income for lenders and are expensive to deliver, especially in the case of hard-to-reach rural populations. They cannot benefit from credit policies because of their initially low resource base, lack of skills, and few market contacts. In some contexts, schemes mainly benefit those who are already better off (Montgomery 1996; Kabeer and Murthy 1996; Seibel 2003).

It is increasingly believed that the government's role in promoting employment is not limited to financial support. Subsidized loans can create a kind of rent for people who have a good relationship with the officials responsible for confirming the loans (Imboden 2005; Fisher, Bush, and Gruene 2000).

Hyman Minsky (1986) states that there is no internal mechanism in market economies to identically match jobs to those seeking them, therefore, government intervention is necessary for realizing a full-employment goal. Government can create "an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run profit expectations of business and can absorb the unemployed, releasing them back in the market as needed" (Minsky 1986).

EGS are viewed by many economists as programs of promoting pro-poor development (Mitchell 2001; Bhaduri 2005; Hirway 2006; Kregel 2006). EGS and employer of the last resort can modify the economic growth path so as to include segments of the population that are presently excluded from remunerative and productive employment. EGS reduces a number of other social and economic costs, such as expenditures on prisons and the criminal justice system, health care, social work, and other spending necessitated by the effects of the unemployment that has been rising rapidly in recent years. In addition, social capital will increase through more social inclusion and economic justice.

3. CHANGES IN IRAN'S LABOR MARKET

One of the most pressing challenges facing the government of Iran in the new millennium is the creation of enough jobs to absorb the growing number of its work force. According to a projection, the labor force in the country will increase by 3.4 percent annually during the Fourth Development Plan (2005–2009). This means that the national economy will have to provide nearly 4.5 million new jobs by the end of the 2009 to avoid an unemployment crisis, which clearly shows the formidable task ahead (Iran's Management and Planning Organization 2005).

Rapid growth of the labor supply on one hand and the increased capital mobility combined with an accelerated pace of technological change on the other, has posed serious challenges for the Iranian workforce. Alarming bankruptcies of inefficient public and private firms since the mid-1990s have caused their share of the increased unemployment. As Table 1 indicates, the number of unemployed has been rising during the past decade. During the period from 1976–1986 (The Islamic Revolution and Iran-Iraq War), the growth of unemployment was very high, but since 1996 it has been escalating again due to a baby boom in the 1980s and the increasing presence of educated women in the labor market. While in 1976–1986 the average annual increase in the labor force and unemployed was 303,000 and 82,000 persons, respectively, these figures for 1996–2000 increased to 744,000 and 154,000 respectively. Hence, the Iranian economy was able to create 590,000 new jobs during past decade thanks to booming oil prices, however, it could not prevent an increasing number of people from joining to the reserve army of unemployed.

Table 1: Average Annual Increase in Labor Force (in 1000s of persons)

	Labor Force	Employed	Unemployed
Men and Women			
1976–1986	303	220	82
1986–1996	321	357	-36
1996–2006	744	590	154
Men			
1976–1986	317	244	72
1986–1996	248	278	-30
1996–2006	585	489	96
Women			
1976–1986	-14	-24	10
1986–1996	73	79	-6
1996–2006	159	102	58

Source: Iran Statistics Center (extracted from different census years)

The stock of the unemployed for 2006 was 2.992 million persons (12.75 of the labor force). However, a more immediate concern was that unemployment has increased considerably from 1996 to 2001; although the number of discouraged workers, or voluntary unemployed and involuntary part-time workers, is not available. At the same time, the number of unemployed women in the labor force is rising. Despite the rapid increase in the number of employed women, the differential between male and female unemployment rates has widened during this period. Women's unemployment rate increased from 13.45 percent in 2001 to 23.35 in 2006, while unemployment for men was 10.81 in 2006 (Table 2).

Table 2: Unemployment Rates by Sexes, 1976–2006

	Whole Country			Urban Areas			Rural Areas		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
1976	10.2	9.1	16.4	5.1	5	6	14.2	12.6	21.6
1986	14.2	12.9	25.4	15.3	13.6	29.2	12.9	12.1	20.6
1996	9.1	8.5	13.3	8.9	8.4	12.5	9.4	8.6	14.4
2006	12.75	10.8	23.35	11.82	9.83	22.47	14.74	12.89	25.48

Source: Iran Statistics Center (extracted from different census years)

The rapid increase in unemployment in Iran after 1996 was a reflection of a major shift in the composition, as well as structure, of both the demand and supply of labor. Private firms were reluctant to invest under the prevailing uncertain conditions and risky business environment, so the expansionary policies of the government had negligible effects in reducing unemployment. From 1996–2006, unemployment rates for men and women, both in urban and rural areas, had risen sharply. Unemployment rates in 2006 (during oil boom) were close to those in 1986 (at the height of Iran-Iraq War and the lowest oil prices). Female unemployment rates indicate an insufficient number of job opportunities for an increasing number of active women. The rapid improvement of the educational profile of the labor force brought into the labor market a large number of mostly young, well-qualified female workers. These developments took place at a time of significant restructuring and slowdown in the pace of economic growth in Iran. The government tried to create more "flexibility" in the labor market and to provide subsidized loans to encourage investment, as well as to promote production and employment at private firms. However, reduced production costs have been too low to compensate for the high risk of economic sanctions against Iran, and domestic and foreign investment has remained low. As the result of this preventive business environment, the unemployment rate will likely continue to increase unless the government successfully implements new employment schemes.

4. EMPLOYMENT POLICIES AND THEIR CONSEQUENCES

In the late 1980s, the Iranian government started to open up the economy, privatize state-owned enterprises, and promote private-sector activities. It is widely believed that the package of structural adjustment programs that were reflected in the First Development Plan (1989–1994) were recommended by the IMF and World Bank. Yet the plan prediction regarding high growth in private investment and sufficient job opportunities in the long-term, especially in the industrial sector, was not realized and the stigma about the low productivity of public sector employees and inevitable corruption in expanding government institutions remained strong.

In the Third Development Plan (2000–04) creation of 765,000 new jobs per year was expected to be realized by applying different employment policies, especially through credit facilities to private sector, but despite all efforts, total new job opportunities were only about 580,000. In other words, only 77.3 percent of the employment goal was achieved.

It is estimated that the labor force will grow by the rate of 3.2 percent during Fourth Development Plan (2005–09) and will exceed 26 million persons by the end of 2009, so the crisis of the labor market will be exacerbated in the near future unless an annual creation of 900,000 jobs during the plan will be able to decrease the rate of unemployment from 12.5 percent at its starting year to seven percent by the end of the plan (Iran's Management and Planning Organization 2005).

However, while mitigating unemployment has been the priority of development plans, the government was obliged to facilitate private investment that would generate new jobs while decreasing the number of public employees. The most important remedy so far has been credit facility. During 2000–2006, credit facilities to the private sector had risen by more than 35 percent each year (Table 3).

During the Fourth Development Plan, the Iran Central Bank is obliged to use up to three percent of commercial banking reserves for financing employment-creating projects in the private sector. Job creation credits can be given to finance labor-intensive projects, facilitate the establishment of small- and medium-size enterprises, motivate the private sector to invest in deprived regions, and promote non-oil exports.

Table 3: Credit Facilities to the Private Sector (In Billion Rials[2])

	Total Amount (Billion Rials)	Annual Growth (Percent)
2000	170,895	33.1
2001	231,354	35.4
2002	314,039	35.7
2003	431,547	37.4
2004	597,324	38.4
2005	804,361	34.7

Source: Iran Central Bank Economic Report (extracted from different years)

Since 2005, all state banks have to finance investment of small enterprises whose plans are confirmed by provincial employment councils. In 2006, the banking system was obliged to provide at least 35 percent of their deposits to small businesses. This rate increased to 50 percent of total deposits in 2007. It is expected that these credits will provide

[2] During 2000–05, the equivalency of an Iranian Rial to a U.S. dollar was USD 1 = about 9000 Rials.

820,000 new jobs (Iran Central Bank 2007), yet Iran's parliament (Majlis) announced that there has been widespread corruption in providing loans to small influential groups. Majlis concluded that such loans are inflationary and cannot create sufficient, sustainable jobs. Furthermore, there is no effective mechanism to supervise the use of the loans. In 2006, the banking system provided about USD 90 billion to small firms to create 765,405 new jobs. On average, the cost of each new job in small Iranian firms was about USD 12,370 (Iran Central Bank 2007), yet it is not clear how many jobs were really created.

Many empirical studies show that a large part of the credits that were allocated for industries have been used for real estate and could not create expected jobs (Iran Central Bank 2007; Karimi 2005). For example, despite government support of cooperatives in the course of past 25 years, the Iranian cooperative sector has experienced a very slow growth in production and employment, and, at present, there are many inactive cooperatives all around the country. As Table 4 shows, more than one-third of the total cooperatives are inactive; and it is not clear that among "active" cooperatives what proportion of the firm is really working. It seems that it has been very easy for seven people[3] to register a cooperative, receive the loan, and divide the money between themselves or use it for more profitable businesses like trade, never bothering to start a business and create sustainable jobs.

Table 4: Active and Inactive Cooperatives in Iran (2003)

Activities	Active	Inactive	Active and Inactive	Inactive (Percent)
Industries	4,026	3,216	7,242	44.4
Mining	864	668	1,532	43.6
Agriculture	7,960	3,054	11,014	27.7
Carpet Viewing	553	440	993	44.3
Civil Works	430	1,224	1,654	74.0
Services	6,013	1,904	7,917	24.0
Total	**19,846**	**10,506**	**30,352**	**34.6**

Source: Iran's Ministry of Cooperatives (2004).

According to formal statistics, in 2003 the total employment of the cooperatives was about 800 thousands person (Iran's Ministry of Cooperatives 2004), but more than 30 percent of employment possibilities were lost in the inactive cooperatives, as most of the formally announced jobs had never been created. Credits to other private entities have more

[3] Cooperatives must have at least seven members.

or less similar stories. Prices of real estate sky rocketed[4] in 2001–05 and clearly showed the tendency of the private sector towards high and quick profits in speculation of nontradable goods.

4.1 Employment Emergency Measure

During Khatami's reformist government (1997–2005), the political pressure of opponents concentrated on the problem of unemployment. In reaction to the mounting pressure, in 2003 the government applied an emergency measure against unemployment. Due to the new regulations, any employer that employed a job seeker through the channel of the job seekers registration centers of the Ministry of Labor could receive more than USD 3,500 as a medium-term loan (repayable in four years) with a highly subsidized interest rate (four percent); even though the inflation rate was about 15 percent and the interest rate was about 20 percent in the formal capital market and nearly 50 percent in informal capital market.

Many employers received the loans without adding to existing jobs. In Mazandaran province, cooperative officials and the job seekers registration centers agreed to encourage job seekers to establish new cooperatives to get about USD 25,000 in loans. Obviously enough, as job seekers did not know each other in advance and did not necessarily like to have similar activities, many of these newly registered "cooperatives" were not able to continue their work and create sustainable employment.

The banking system officials stated that in most cases the creditors were neither employers nor employees. For example, the owner of a small supermarket could give confirmation of seven newly employed workers and receive a loan for USD 25,000. The borrowed money was then used in more profitable activities (like real estate speculation) without creating any new jobs, as there was no efficient mechanism to control the use of these loans. Lack of transparency, accountability, proper supervision, and parallel government institutions created great difficulties in decision making and policy implementation. The government budget tolerated the burden of about USD 1 billion by applying the employment emergency measure. This policy created a limited number of unstable jobs, but also caused the inflationary pressure on the economy.

The experiences of the past two decades have shown that financing private-sector investment with subsidized loans cannot solve the problem of unemployment, and the

[4] During 2001–05, prices of real estate increased more than 300 percent in urban areas.

number of the reserve army of unemployed is increasing, nearly reaching the critical point that may result in social disaster.

5. IS AN EMPLOYMENT GUARANTEE SCHEME POLICY APPLICABLE IN IRAN?

As mentioned earlier, Iran's Constitution has emphasized the "right to remunerative work" and "right to food" for all citizens. In the Fourth Development Plan (2005–09), the basic rights to productive employment are again accentuated (Iran's Management and Planning Organization 2005). Since 2004, Iran's oil exporting revenue has increased sharply, but this positive external shock has not been able to speed up the economy. The government is expected to privatize the state-owned enterprises, while the private sector is reluctant to invest in productive activities and generate new job opportunities. It is obvious that the government must react to the rising unemployment with new policies. EGS can create productive work for people who are interested and able to participate in the economic life of society and, at the same time, revitalize the sense of civic duty, citizenship, social cohesion, and community involvement.

Iran, like most developing countries, faces large deficits in social services and basic physical infrastructure, especially in remote and deprived regions. Water delivery systems, electrification, roads, drainage and sanitation, schools, and health care centers are in short supply. At the same time, many people are excluded from productive remunerative employment. A large number of projects could be designed by local governments and NGOs (such as town and village councils, environmental protection groups, charities, and women and children's advocacy organizations) to cater to community needs by employing the persons who are willing and able to work. So, by implementing EGS employment, production will increase and poverty will be eradicated in poor, remote areas. Rising international oil prices provide the possibility of implementing EGS without pressure on interest rates and private investment.

5.1 The Role of Oil and Gas Exports Revenue in Financing EGS

The Iranian government can finance EGS with a fraction of the revenue from oil and gas exports. During Khatami's presidency, an "Oil Stabilization Fund"[5] was formed to buffer the economy from the external shocks. Due to the rules of the fund, the Iranian government only benefits from an internally set price of oil (in 2007, the price of oil was fixed at USD 37 per barrel). The difference between the fixed price and the actual market price (USD 90 in October 2007) is deposited into the Oil Stabilization Fund. Some fifty percent of this fund is put aside for offsetting probable low oil prices in the future and securing a stable income. The other fifty percent can be used by the nongovernment firms as loans for investment. According to the Fourth Development Plan (2005–09), the government is allowed to use up to fifty percent of the Oil Stabilization Fund for investing in productive projects and encouraging private entrepreneurship. Therefore, increasing oil prices enable the government to implement EGS to generate new jobs, expand infrastructure, and eliminate poverty in deprived regions. EGS will help to mitigate regional disparities as workers in such programs can participate in many community-based and beneficial activities that will accelerate economic growth and have intergenerational payoffs.

EGS finance will have no negative effects on the private sector. On the contrary, EGS will stimulate private investment by increasing aggregate demand and improving the infrastructure of backward regions, as well as in job training of employed workers—all vital factors for encouraging private investment.

EGS can be implemented at the first stage in the seven provinces with the highest unemployment rates. The total population of people age 15–64 years in these provinces is about 6,162,000 (Iran Statistics Center 2007). About 23.5 percent of the members of this age group are students. Therefore, if EGS rations the jobs to one worker for each family, the total number of workers in the program in all seven provinces would be less than two million (Table 5). All generated jobs would be part-time and temporary, with an average duration of four months. About two million people could be employed in these programs at any one time. To prevent competition with existing private sector employment, EGS would pay about fifty percent of the formal minimum wage for five hours of work per day.

[5] The Oil Stabilization Fund is a special reserve from the oil export revenue. This fund was established in 2000 for preventing fluctuations in the economy caused by the changes in the international price of oil.

Table 5: Population Aged 15–64 Years in Selected Provinces (2006)

Provinces	Women	Men	Total
Eilam	189,873	192,720	382,593
Hormozgan	440,405	471,998	912,403
Lorestan	599,626	607,629	1,207,255
Kordestan	491,954	493,893	985,847
Kermanshah	340,777	351,481	692,258
Sistan and Balouchestan	697,764	702,443	1,400,207
Chahar Mahal & Bakhtiari	291,807	289,582	581,389
Total	**3,052,206**	**3,109,746**	**6,161,952**

Source: Iran Statistics Center (2007)

The formal minimum wage is equal for all sectors and occupations in Iran. In 2007, the monthly minimum wage was about USD 200, yet it is not attainable for a large part of the short-term contract workers in public and private enterprises. The "flexible" labor market in Iran has pushed down the already low and declining wages. In most small- and medium-size firms, and even in several large companies, employees either do not have written contracts or sign a contract for only one to three months with a monthly salary equal to 40–60 percent of the minimum wage. Therefore, the wage of EGS cannot be more than 50 percent of formal minimum wage for five hours daily work. The short-term and relatively low-paid work in EGS supports the buffer stock of employment. Whenever the private sector demands labor at a higher wage and for more stable jobs, workers can move from public work to the private sector.

Each council would have the responsibility of preparing an annual action plan for taking up works according to the needs of the people. It is expected that a sufficient number of projects could be defined in the backward regions. For example, construction of labor-intensive roads and railroad networks, town and village sewage system construction and maintenance, renovation of agrarian and farm drainage systems, cultivation of forests, construction of small public facilities and repairs to existing public utilities, community centers and welfare institutions, as well as roadside cleaning and rubbish collection can all

generate huge employment opportunities and, at the same time, promote economic activities in the deprived provinces. All of these programs focus on labor-intensive infrastructure creation and maintenance works. Central and state budgets for job guarantee schemes would be released directly to the town and village councils.

The bulk of employment would be created for unskilled and semiskilled labor, both male and female, with or without previous work experience. Like *Jefes* in Argentina, a large influx of women to the program can be expected in Iran, as large numbers of inactive women are interested in working if a job is accessible.

As mentioned earlier, according to the Iran Central Bank, the cost of one new job in small enterprise is about USD 12,370, which is financed mainly by subsidized loans from state-owned banks. If the government implements EGS, it must allocated USD 1,000 per worker in labor-intensive projects for machinery and equipment, as most of such works require very little capital equipment or training (Mitchell 1998). In addition to capital goods, the government must pay about USD 100 monthly wage to two million workers on all projects combined, making the total costs of EGS less than USD 5 billion, which can be easily financed with the money from the Oil Stabilization Fund. The whole package of programs would be less than ten percent of government expenditure and less than two percent of GDP. Furthermore, by financing EGS with the money deposited in the Oil Stabilization Fund, it would not be necessary for the government to cut its current and investment budget for implementing the program. By gaining fruitful results and successful experiences, the programs can be expanded to all provinces and to all people who are able and willing to work.

5.2 Limitations and Challenges

Organizational Obstacles

As EGS must be implemented through close cooperation of local government officials and NGOs who are most familiar with the economic needs of their communities, arranging the processes of design, finance, and execution of projects in appropriate manner will be a difficult task, especially in the beginning. “Labor-intensive public works require an extensive and solid network of institutions at the local level, with the technical and operational capacity to choose the works to be done, to organize the production process, and to channel resources to the needy poor” (Márquez 1999).

Experiences of *Jefes* in Argentina and Maharashta EGS in India have shown that political manipulation of funds is one of the major problems. The program's aim is to achieve pro-poor targeting, but it may reach only a fraction of the poor so that jobs in the program can be rationed. Given the large numbers of unemployed poor who may not participate, it is possible that the program may reach its targeted population, but that political considerations influence who among the targeted population will benefit. For example, the allocation of program funds between provinces or states might be politically biased—favoring the factions or groups in power or their supporters—rather than determined by objective indicators of need, even if the process of selecting individual program participants is pro-poor (Marshall 2004; Murgai and Ravallion 2005).

EGS will face difficulties, especially because of mismanagement and lack of experience with cooperation between government and nongovernment organizations on serious public works in Iran. There is also the risk of clientelism, discrimination against special groups, and political manipulation of workers in the implementation of the programs.

Local officials and NGOs, especially town and village councils, must play vital roles in defining projects and implementing the programs effectively with transparency and accountability. In past six years, elected town and city councils have had negligible effects on the economic and social well-being of their constituency. They do not have the financial and technical capability to design and apply serious programs. They rely mainly on the voluntary work of the community and have not been successful in mobilizing the local physical and human resources to stimulate economic and social change. EGS will be a capacity building program for activating town and village councils and other NGOs by providing necessary capital facilities and money for approved public work projects, as well as supervising the process of job placement to avoid abuse of resources and discrimination against any group of applicants. All EGS applicants must be registered, the list of selected workers must be announced, and the data must be accessible to all members of related communities to prevent corruption**.**

If EGS cannot be arranged by harmonized cooperation of government officials and NGOs, its impacts on the lives of people in deprived areas will be limited and, after a while, people will start to think that public works are new source of rent-seeking for interest groups. Yet, successful results from EGS in Argentina and India create hope and optimism about the probable positive consequences of implementation EGS in Iran.

Rising Inflation

In 2006, about three million people were unemployed and about 53.6 percent of the population aged 15–65 years were inactive. By applying EGS at first stage, two million persons in deprived provinces would be able to find work with a monthly salary of USD 100. The program would increase aggregate demand that may, in turn, generate inflation. Furthermore, the private sector must offer wages higher than the EGS fixed wage to employ new workers and to prevent their workers from applying for EGS. At the same time, the rising income of poor families (as a result of their work in EGS) will cause an increase in the demand for domestically produced goods and services, and motivate the private sector to expand production capabilities and create new jobs. At present, insufficient demand for domestic products such as textiles, home appliances, and electronic devices, coupled with high demand for imported clothing and luxury durable goods, has raised the risk of bankruptcy for Iranian producers.

As mentioned earlier, subsidized loans to the private sector have been the most important policy to generate employment in the past two decades. Huge amounts of oil exporting revenues have been injected into the country through these loans and there is no efficient supervision mechanism to control the use of borrowed money. No one can guarantee that the loan can generate new sustainable jobs; yet it is for sure that such credit policies are inflationary. Huge amounts of borrowed money are concentrated in real estate, accelerating the pace of the price hike. Increasing rent costs were responsible for the 44.6 and 37.7 percent rise in CPI in 2001 and 2005, respectively (Iran Central Bank 2007). Part of the money deposited in the Oil Stabilization Fund can be borrowed by town and village councils to be reallocated for EGS instead of for providing more subsidized loans to the private sector. As there will be control mechanisms for public projects, increases in value added and employment in different economic sectors will occur at the regional and national levels. Furthermore, successful implementation of EGS can control inflation by encouraging productive investment in the private sector, increasing production in agriculture and industrial sectors, and decreasing the share of money that is attracted by real estate speculation. Growing private-sector investment can create sustainable jobs and curtail the need to implement EGS in future.

Jobs for Women

In 2006, 84.7 percent of women ages 15–64 years were inactive; there are not job opportunities for women in most economic sectors. Educated women are concentrated in limited activities like education and health, and less educated women workers are mainly involved in the manufacturing of textile and clothing, handicrafts, and farm works. By implementing EGS in backward provinces, a considerable number of women would be interested in participating in the programs, yet labor-intensive projects (mainly construction works) would provide very limited opportunities for women. Therefore, it is necessary to design special jobs in health centers, child and elderly care centers, libraries, accounting, and supervision for educated and less educated women (especially female heads of households). Such works would promote the well-being of the communities and empower women as well.

Implementing EGS at the first stage cannot reduce women's unemployment rates considerably, as many women would enter to the labor market to fill the positions that were created as a result of EGS. In fact, EGS would reveal the real number of potentially active women who do not have enough courage to continue the desperate search for jobs in the current stagnant situation of the labor market.

6. CONCLUDING REMARKS

In the past two decades, credit facilities to the private sector by state-owned banks were the most important leverage for creating new jobs. However, generously subsidized loans were not successful in generating sufficient employment opportunities for an increasing workforce. In fact, a considerable part of the public budget has been poured into channels that have not created sustainable jobs. The private sector is not interested in productive investment in an unfavorable business environment and credit facility cannot bond the creditor to use the money in job-creating businesses. Empirical studies show that a large part of the formally registered new firms have been established for obtaining credit facilities and either never started any significant economic activities or shut down their firms very soon because, in many cases, borrowers tried to maximize their profit by investing in real estate or by solving the most important, short-run financial problems with the loans they obtained.

The government has not generated employment opportunities in the recent years because of implementation of structural adjustment policies such as privatization and government downsizing. However, an escalating number of unemployed and increasing

concerns about the high economic and social costs of unemployment oblige the government to react to the problem with effective policies. EGS can be the most efficient program to prevent unemployment and income inequality from becoming a social disaster.

Recent oil price hikes enable Iran's government to apply EGS without imposing financial pressure on the private sector. EGS can stimulate the economy of the backward provinces and provide the necessary infrastructure to encourage private investment and raise agricultural and industrial production in such regions. In the first stages, EGS can be implemented in the seven provinces of Iran with the highest unemployment rates. The government is capable of financing EGS to create two million jobs in public works by using less than ten percent of its oil export revenues. The program can be administered locally through cooperation between government institutions and town and village councils, as well as with NGOs who are familiar with their communities' needs. As there were no past experiences of such cooperation in serious works, coordinating the appropriate organizations will be a great and difficult task. There is also the risk of abuse of resources and corruption among the officials and NGOs. Hence, the experiences of Argentina and India in EGS implementation create hope and optimism that similar programs can be applied in Iran successfully, too.

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