The Misery of Unemployment and Inflation in Iran

The combination of high unemployment and rapid inflation has been the biggest challenge facing the Iranian economy. Commodity prices have been rising at rapid rates. The country’s inflation data illustrate two distinct trends. The inflation rate declined from 23.1 percent in 1987 to 9.7 percent in 1991, but climbed to all time high rates of 35.2 percent in 1995 and 49.1 percent in 1996. While remaining in double-digits, the inflation rate dropped to 17.1 percent in 2010. With an average inflation rate of 19.6 percent, prices are double in three and one-half years. With a standard deviation of 6.7 percent, inflation has been unpredictable from one year to the next. In recent years, for example, the inflation rate climbed from 18.5 percent in 2008 to 25.2 percent in 2009, but dropped to 17.1 percent in 2010. Iran’s rapid inflation is largely due to the continuous expansion of the demand for basic-need items such as food and fuel, insufficient supply of farm output and refined petroleum products, and excessive reliance and heavy taxation on imports.

Meanwhile, Iran experienced chronic unemployment. Between 1987 and 2010, the unemployment rate averaged 13 percent. The country’s unemployment data also depict two distinct trends. The unemployment rate dropped from 13.8 percent in 1987 to 9.1 percent in 1997, but climbed back to double-digits from 13.5 percent in 1998 to 14.6 percent in 2010. With a labor force of 25.7 million members, nearly 3.4 million workers were jobless in 2010. The rate of unemployment has remained in double-digits.
because of a rapidly growing labor force, limited productive capacity to create jobs, erratic economic growth, and increased business uncertainty.

The rate of unemployment is particularly high among the youth. For example, teenage (15 to 19 years) jobless rate was about 30 percent for men and 40 percent for women, according to the 2006 census. Professor Salehi-Isfahani of Virginia Tech describes the problem well:

_I know of no other labor market that treats its young as badly as does Iran’s. This is not just a problem for youth, however. The vast majority of unemployed youth are supported by their parents. More than 70 percent of youth in their twenties live with their parents. Naturally, their parents are suffering as much if not more than the young themselves. It is not fun seeing your children hang around the house after they have graduated from college, engaging in odd jobs or waiting for a suitor to call._

Families helping their grown-up, jobless children need additional resources to pay not only for their expenses but also for rising prices. In particular, middle-income families, who cannot provide such additional resources, are hurt badly. Family finances became even more complicated in recent months when the government, following IMF’s austerity program recommendations, phased out subsidies on electricity, natural gas, and gasoline and replaced them with targeted social assistance programs for the poor.

Economists calculate the misery index to illustrate how massive unemployment and soaring inflation create despondent conditions. A study looking at large-scale surveys in

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1 “Tyranny of numbers: What is wrong with Iran’s unemployment data?”
http://djavad.wordpress.com/2009/05/05/what-is-wrong-with-irans-unemployment
Europe and the United States concluded that the basic misery index underestimates the unhappiness caused by joblessness. Researchers suggested that these estimates imply people would trade a one-percentage-point increase in the unemployment rate for a 1.7-percentage-point decrease in the inflation rate.\(^2\)

In particular, high values of the misery index suggest a depressed economy. With a mean of 33.4 percent and standard deviation of 7.8 percent, Iran’s misery index remained in double-digits. The misery index dropped from 36.9 percent in 1987 to 22.2 percent in 1991, but climbed to a record high of 58.7 percent in 1996, and gradually declined to 23.9 percent in 2006. Over the past three years, the misery index exceeded 30 percent.

The correlation coefficient between unemployment and inflation is -0.59 and statistically significant at the one percent level. The trend line shown on the following graph is the depiction of a simple linear regression model: \(^3\)

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\text{Inflation Rate} = 38.0 - 1.3 \times \text{Unemployment Rate}
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Here, the coefficient of Unemployment Rate is statistically significant. The value of this coefficient indicates that, all being equal, the cost of lowering the unemployment rate by one percent is a rise of 1.3 percent in the rate of inflation. These findings depict a trade-off between inflation and unemployment in the Iranian economy.

In an unstable economic environment, policy makers should not exploit such a trade-off to fight against unemployment or inflation. Using the unemployment-inflation model, various trade-off scenarios can be simulated. For example, public policies to lower the


\(^3\) The regression results are corrected for autocorrelation.
unemployment rate to single-digits, say 9 percent, will push the inflation rate to 26.3 percent and the misery index to 35.3 percent. Conversely, policies of reducing the inflation rate to 9 percent will raise the unemployment rate to 22.3 percent and the misery index to 31.3 percent.

Persistent and soaring inflation has led to chronic depreciation of the Iranian currency and increased business uncertainty, thus depressing investment and employment in productive activities. Attempts to curb inflation will aggravate the already grim employment picture, especially for educated and semi-skilled youth. Instead, policymakers must address the problem of excessive unemployment and soaring inflation in the context of structural rigidities and systemic inefficiencies of the Iranian economy. Using the vast amounts of petrodollars, economic policies must support productive investment, accelerate and sustain growth, reduce excessive regulations and rampant corruption, and create high-paying, year-round jobs.4

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