Economics of Iran and Israel: Comparative Examination

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Economics of Iran and Israel: Comparative Examination

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13 September 2013,

CNMS, Fachgebiet Wirtschaft des Nahen und Mittleren Ostens/ Martin-Luther Schule (MLS) Meeting
Overview of Middle East Economics @ CNMS

1. The only Middle East Economics Department as a part of Faculty of Economics at the level of University in Germany.

2. We offer specialized courses and seminars at BA and MS programs:
   - Schwerpunkte BA Orientwissenschaft Wirtschaft: [http://www.uni-marburg.de/cnms/studium/studiengaenge/ba-ow/studiengangsprofil/schwerpunkte](http://www.uni-marburg.de/cnms/studium/studiengaenge/ba-ow/studiengangsprofil/schwerpunkte)
   - Master Economics of the Middle East (EMEA): [http://www.uni-marburg.de(fb02/emea](http://www.uni-marburg.de/fb02/emea)
   - We offer also possibilities for doing a PhD
Overview of Middle East Economics @ CNMS

1. Our department at CNMS is a part of „Fachbereich Wirtschaftswissenschaften“
Overview of Middle East Economics @ CNMS

1. And also affiliated to "MACIE - Marburg Center for Institutional Economics"

http://www.uni-marburg.de/fb02/macie
Overview of Middle East Economics @ CNMS

• In addition to our teaching activities we put strong emphasize on research.

• Our main fields of research interests are:
  – Wirtschaftliche Ursachen und Folgen des Arabischen Frühlings
  – Ölreichtum und Ressourcenfluch
  – Demografischer Wandel, Globalisierung, Armut, Arbeitslosigkeit
  – Klimawandel, Wasser- und Nahrungsmittelknappheit
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More details about Middle East Economics at CNMS: http://www.uni-marburg.de/cnms/wirtschaft/
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Agenda

• Introduction of economic, social, political and demographic indicators

• Examining key indicators in Iran before and after Islamic Revolution

• Comparing key indicators of Iran with Israel

• We will learn about Resource Curse

• We will learn about Demographic Transition

• Future Outlook
A Short Film on Political Development in Iran (Shah, Revolution)

- Iran der Wille zur Großmacht (Democracy for Shah, Khomeini)
- (07/10) Iran der Wille zur Großmacht ARTE DOKU (Revolution, Hostage US Embassy)
- (08/10) Iran der Wille zur Großmacht ARTE DOKU (War with Iraq and death of Ayatollah Khomeini and Atom Program)
- (09/10) Iran der Wille zur Großmacht ARTE DOKU (11 September, Iraq and Afghanistan, Israel, Atom Program)
Where is the Middle East and North Africa (MENA)?
Ranking of MENA Countries Based on the Size

Surface area (sq. km)

Countries: Algeria, Saudi, Libya, Iran, Egypt, Yemen, Morocco, Iraq, Oman, Syria, Tunisia, Jordan, UAE, Djibouti, Israel, Kuwait, Qatar, Lebanon, West Bank, Bahrain, Malta.
Ranking of MENA Countries Based on the Size

Population, total

Millionen

Egypt: 75.424285
Iran: 7.7659
Ranking of MENA Countries Based on the Income per citizen

Income per person (constant 2005 US$)

Qatar, Kuwait, UAE, Israel, Malta, Oman, Bahrain, Saudi, Libya, Lebanon, Tunisia, Iran, Algeria, Jordan, Morocco, Syria, Egypt, Iraq, Djibouti, Yemen.
Ranking of MENA Countries Based on the Human Development Index (index für menschliche Entwicklung)

Human Development Index (HDI)

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>0.90</td>
</tr>
<tr>
<td>Malta</td>
<td>0.82</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.79</td>
</tr>
<tr>
<td>UAE</td>
<td>0.76</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.75</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.74</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.73</td>
</tr>
<tr>
<td>Libya</td>
<td>0.72</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.71</td>
</tr>
<tr>
<td>Iran</td>
<td>0.69</td>
</tr>
<tr>
<td>Oman</td>
<td>0.68</td>
</tr>
<tr>
<td>Algeria</td>
<td>0.67</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.66</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.65</td>
</tr>
<tr>
<td>World</td>
<td>0.63</td>
</tr>
<tr>
<td>Occupied Palestinian</td>
<td>0.61</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.60</td>
</tr>
<tr>
<td>Syria</td>
<td>0.59</td>
</tr>
<tr>
<td>Morocco</td>
<td>0.58</td>
</tr>
<tr>
<td>Iraq</td>
<td>0.57</td>
</tr>
<tr>
<td>Yemen</td>
<td>0.56</td>
</tr>
</tbody>
</table>
Components of Human Development Index

1- Life Expectancy at birth
   (Lebenserwartung bei der Geburt)

2- Mean years of Schooling
   (Erfolgte Schulbildung
    (Mittelwert in Anzahl Jahren))

3- Expected years of schooling
   (Erwartete gesamte Ausbildung
    (Mittelwert in Anzahl Jahren))

4- Income per capita
   (Bruttonationaleinkommen
    (BNE) pro Einwohner)
Human Development Index
Ranking of MENA Countries Based on Health Spending per capita

Health expenditure per capita - Average 2000-2011 (US dollar per person)
Ranking of MENA Countries Based on Life Expectancy

Life expectancy at birth, total (years) - Average 2000-2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>81 years</td>
</tr>
<tr>
<td>Egypt</td>
<td>71 years</td>
</tr>
<tr>
<td>West Bank</td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td></td>
</tr>
<tr>
<td>Iraq</td>
<td></td>
</tr>
<tr>
<td>Yemen</td>
<td></td>
</tr>
<tr>
<td>Djibouti</td>
<td></td>
</tr>
</tbody>
</table>

Countries listed: Israel, Malta, Qatar, UAE, Syria, Bahrain, Kuwait, Libya, Tunisia, Oman, Saudi, Jordan, West Bank, Algeria, Lebanon, Egypt, Iran, Morocco, Iraq, Yemen, Djibouti.
Ranking of MENA Countries Based on Military Budget

Military expenditure (% of GDP) - Average 2000-2011
Ranking of MENA Countries Based on Education Budget

Public spending on education, total (% of GDP)- Average 2000_2011
Ranking of MENA Countries Based on Control of Corruption

Control of Corruption (2.5: least corrupt, -2.5: most corrupt)-
Ave. 1996_2011
Ranking of MENA Countries Based on Freedom

Voice and Accountability (2.5: most freedom, -2.5: least freedom)
Ranking of MENA Countries Based on Rule of Law

Rule of Law

- Malta
- Israel
- Qatar
- Oman
- Kuwait
- UAE
- Bahrain
- Jordan
- Saudi
- Tunisia
- Egypt
- Morocco
- West Bank
- Lebanon
- Syria
- Iran
- Algeria
- Djibouti
- Libya
- Yemen
- Iraq
Ranking of MENA Countries Based on Political Stability (1996-2011)

Political Stability and Absence of Violence/Terrorism

- Malta
- Qatar
- UAE
- Oman
- Kuwait
- Tunisia
- Libya
- Bahrain
- Djibouti
- Saudi Arabia
- Jordan
- Morocco
- Syria
- Egypt
- Iran
- Lebanon
- Israel
- Algeria
- Yemen
- West Bank
- Iraq

Political Stability and Absence of Violence/Terrorism

-1.00
-1.36
-1.5
-1
-0.5

24
A Short Film on Political Development in Iran

- (07/10) Iran der Wille zur Großmacht ARTE DOKU (Revolution, Hostage US Embassy)
- (08/10) Iran der Wille zur Großmacht ARTE DOKU (War with Iraq and death of Ayatollah Khomeini and Atom Program)
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Iranian Economy: Follow the Oil Money

- real income per capita of Iran (left axis)- USD
- oil price per barrel (USD, right axis)
Iranian Economy: Dependence on Oil

Oil export (as % of total exports)

- 1960: Approximately 60%
- 1965: Approximately 60%
- 1970: Approximately 60%
- 1975: Approximately 60%
- 1980: Approximately 97%
- 1985: Approximately 79%
- 1990: Approximately 85%
- 1995: Approximately 85%
- 2000: Approximately 75%
- 2005: Approximately 75%
- 2010: Approximately 76%
Iranian Economy: Dependence on Oil

oil export (as % of GDP)
Iranian Economy: Dependence on Oil

oil exports per Iranian (US dollar)
Dependence on Oil: Comparing Iran and Israel

Oil rents (% of GDP), Average 1993-2009

- Iran, Islamic Republic: 27.92%
- Israel: 0.00%
Dependence on Natural Resources: Comparing Iran and Israel

Total natural resources rents (% of GDP)

- Iran, Islamic Rep.: 35.07%
- Israel: 0.15%
Natural resource wealth: comparative picture

Total rents (% of GDP)

Dependence on Natural Resources: Comparing Iran and Israel

- We call Israel a **Resource Poor Country**
- And Iran a **Resource Rich Country**
- The Problem of **Resource Curse (Ressourcenfluch)**
What is The Resource Curse? (Ressourcenfluch)
Natural Resources and Economic Growth - Transmission Channels

Resources *per se* may not be the problem!

What is X?
Oil *per se* may not be a problem: Iran and Norway

**Total oil rents (US$), average 1971-2008**

- **Iran, Islamic Rep.**
  - $27,174,706,720
  - (27 billion dollars)

- **Norway**
  - $13,181,361,106
  - (13 billion dollars)
Oil *per se* may not be a problem: Iran and Norway

**Population, average 1971-2008**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>51,837,450.87 (52 millions)</td>
</tr>
<tr>
<td>Norway</td>
<td>4,274,731.947 (4 millions)</td>
</tr>
</tbody>
</table>

**Note:** The diagram above illustrates the population of Iran and Norway over the average period of 1971-2008.
Oil *per se* may not be a problem: Iran and Norway

Oil rents per person (US$), average 1971-2008

- Iran: $512
- Norway: $3005

6 times more oil rents per Norwegian than per Iranian
Oil *per se* may not be a problem: Iran and Norway

Income per person (adjusted for inflation rate US$), average 1960-2011 (52 years)

- **Iran, Islamic Rep.**
  - 1,699

- **Norway**
  - 37,487

- **World**
  - 5,404
Oil *per se* may not be a problem: Iran and Norway

**Annual Inflation rate %**

- **Inflation rate, Iran**
- **Inflation rate, Norway**

- **1961**
- **1963**
- **1965**
- **1967**
- **1969**
- **1971**
- **1973**
- **1975**
- **1977**
- **1979**
- **1981**
- **1983**
- **1985**
- **1987**
- **1989**
- **1991**
- **1993**
- **1995**
- **1997**
- **1999**
- **2001**
- **2003**
- **2005**
- **2007**
- **2009**
- **2011**

**Inflation rate, Iran**

**Inflation rate, Norway**

- **%**
Oil *per se* may not be a problem: Iran and Norway
Oil *per se* may not be a problem: Iran and Norway - Democracy Index
Natural Resources and Economic Growth - Transmission Channels

Message: Oil *per se* is not the problem! *Factor X* is guilty!

- Deterioration of Institutions
- Civil Conflict
- Rent-Seeking
- Dutch Disease
- Neglect of Human Capital
- Reduction in Saving & Investment
Oil and Democracy in Iran

Dependence on oil reduces political openness. Why?

No Representation without Taxation!

[Graph showing Oil Revenues (% Total Revenues) and Tax Revenues (% Total Revenues) from 1970 to 2008.]
Oil and Democracy in Iran

Dependence on oil reduces political openness. Why?

The Oil state buy political oppositions by increasing subsidies and creating public jobs.

Total Number of Government Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>849,085</td>
</tr>
<tr>
<td>1980</td>
<td>849,085</td>
</tr>
<tr>
<td>1981</td>
<td>849,085</td>
</tr>
<tr>
<td>1982</td>
<td>849,085</td>
</tr>
<tr>
<td>1983</td>
<td>849,085</td>
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<tr>
<td>1984</td>
<td>849,085</td>
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<td>1985</td>
<td>849,085</td>
</tr>
<tr>
<td>1986</td>
<td>849,085</td>
</tr>
<tr>
<td>1989</td>
<td>1,085,085</td>
</tr>
<tr>
<td>1997</td>
<td>2,147,195</td>
</tr>
<tr>
<td>1999</td>
<td>2,147,195</td>
</tr>
<tr>
<td>2001</td>
<td>2,147,195</td>
</tr>
<tr>
<td>2003</td>
<td>2,147,195</td>
</tr>
<tr>
<td>2005</td>
<td>2,147,195</td>
</tr>
<tr>
<td>2006</td>
<td>2,147,195</td>
</tr>
</tbody>
</table>
Fossil Fuel Consumption Subsidies in Top 25 Countries, 2010 (Billion US Dollars)

Source: Compiled by Earth Policy Institute
And Results…

Higher Polity score means higher democracy
Finally we talk about demographic structure
Politics, Economics and Demography!
Origins of Fertility Change
Fertility Change in Iran and Israel

- Iran, Islamic Rep.
- Israel

Year:
- 1996: 2.9

Values:
- 1.636

Years:
Working Age Population in Iran and Israel

- Iran, Islamic Rep.
- Israel

2001: 62
Increasing Working Age population can be blessing if the government and economy uses this opportunity: more labor force, if employed productively, can lead to more growth.

It can be a curse if economy cannot absorb them: higher unemployment and political instability. Example: Arab Spring.
What we mean by *demographic transition*

When the baby boom ends, working age population (15-64 years) increases: **That is what we call demographic transition!**
Vielen Dank!

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