

# The Effects of Trade Liberalization on the Labour Standards in Iran

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## Abstract

Since early 1980s, in consequence of debt crisis, developing countries have faced mounting pressure from the international institutions, to ease market regulations and create "*flexible*" working conditions, to reduce the production costs for being able to attend in the competitive international markets. So the solution of the poor economic performance and unemployment problem is considered to be de-institutionalization of the labour markets.

Structural adjustment programmes have had deep effects on Iran's labor market. Iran's labor laws have been amended. Workshops with less than five employees have been excluded from the labor code. Short term contract for 1 to 3 months has become the most common form of employment in public and private enterprises.

Employees of small and medium size enterprises as well as workers in the large public and private firms are getting out of the scope of the labour laws. A significant presence of informal employment is visible across all economic sectors. Important part of the Iranian labour laws, which insist on job security, social insurance and minimum wage is increasingly ignored by employers; and the Ministry of Labour and Social Affairs do not control severely the violation of the labour law.

In this paper the changes of economic growth, changes in production and employment in different economic sectors, as well as changes in labour law and the process of labour market informalization and its economic and social outcomes in the past two decades are studied. This research shows that de-institutionalization of the labour market has not been successful enough to accelerate labour-intensive non-oil exports in Iran. and it discusses how the Iranian government should adopt sound policies to minimize the costs and maximize the benefits of the workforce in the era of globalization.

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## 1. Introduction

Economic globalization is a historical process, the result of human innovation and technological advancements. It has created considerable controversies. Some view it as a process that is beneficial and also inevitable and irreversible. Others believe that globalization increases inequality within and between nations, threatens employment and living standards and thwarts social progress.

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Globalization offers extensive opportunities for worldwide development but it is not progressing evenly. Countries that have been able to integrate are seeing faster growth and reduced poverty. By contrast, many developing countries have not been able to gain from open and liberalized international trade.

Iran has undergone important socio-economic and institutional changes and has been affected by significant economic and political upheavals since the Islamic Revolution in 1979. During the period of revolution and the Iran – Iraq war (1979-1988) Iran chose an inward-looking strategy. Sanctions of western countries (after the American embassy hostage-taking crises) against Iran, prolonged the revolutionary views regarding the necessity of the economic self-sufficiency (Zonooz 2006).

Since the end of the Iran-Iraq war, the country has started a new phase of reconstruction and economic reforms for encouraging private investment and attracting foreign capital. In this contest, Iran has moved towards a more liberalized and open market structure for interacting with the rest of the world. The globalization process has loosened the labour standards in Iran.

In this paper the literature about the winner and losers of globalization is briefly studied to show the causes of Iran's difficulties during reform programs. Then the country's macroeconomic performance and the pattern of employment and unemployment are analyzed to pave the way for analyzing the opportunities and challenges of trade liberalization and its effects on labour standards.

## **2. Winners and Losers of Globalization**

The globalization process has intensified in the past three decades leading to a new global outreach through an unprecedented surge in international trade flows and cross-border capital movements.

Not every developing country is going to be a winner in the new global contest. Adverse effects and asymmetrical impacts across various sectors and countries are to be widely expected (UNDP 2005). Success and failure in trade is cumulative. Exports are important as a source of income, as a means of financing imports of the new technologies needed to generate growth, productivity and employment, as a way to improve people's living standards and maintain competitiveness in world markets. Thus, trade marginalization can be translated into technological marginalization, with impacts on global income distribution and poverty (Lall and Pietrobelli 2002). In fact, export growth is as much a consequence as a cause of higher income growth, and the relationship between trade and growth is determined by a complex array of domestic and external factors. The evidence to support the proposition that import liberalization is automatically good for growth is weak—almost as weak as the opposite proposition that protectionism is good for growth. Many empirical studies show that successful trade liberalization and deepening integration are often outcomes of sustained high growth, with countries lowering tariffs as they grow richer. For example, China and India have gained considerably by implementing trade liberalization policies, but Brazil, Peru, Kenya, Nicaragua and many other developing countries have faced stagnation or economic decline since market opening (Seguino 2000).

Access to markets is a necessary but not sufficient condition for integration into international trade. Most successful globalizers (such as Republic of Korea, Taiwan

and China) have involved government action to overcome market failure, by creating incentive for the development of local technological capacity by restricting imports, encouraging reverse engineering<sup>1</sup> of imported technologies and regulating foreign investment (Lall 2001).

Since the early 1980s because of declining oil prices, appearance of economic stagnation and recommendations by international financial institutions such as the World Bank and IMF, oil-exporting countries have started reform programs for privatization to increase the efficiency of economic sectors (Bell 1995). The efforts for implementing the reforms agenda have not been successful enough in most cases. Governments cannot manage the outcomes of reforms, such as closures of inefficient enterprises and continuous lay-offs of redundant workers in public and private firms. Therefore, in most oil-exporting countries considerable costs of economic restructuring are paid without realization of the aims related to rapid increase in economic efficiency.

### **3. Economic and Social Changes in Iran**

Iran is a large country with population of about 70 million people.<sup>2</sup> More than 65 percent of the population live in the cities and the proportion of the rural population is continuously declining. Although the country is rich in mineral resources and has some of the largest hydrocarbon reserves in the world, its per capita income is about USD 2300 and is among the lower middle income countries (World Bank 2006).

In the 1980s, after the Islamic Revolution, Iran experienced one of the highest rates of population growth in the world (during 1976-1986 the annual average growth rate was 3.9 percent). The enormous population growth in this period was partly due to the influx of almost 3.5 million refugees from Afghanistan and Iraq; and yet, even after adjusting for the effect of migration, the average annual growth rate of the population exceeded 3 percent.

Two major non-economic factors have contributed to the baby boom: First, soon after the revolution, the government abandoned the family planning schemes based on religious values and political grounds. In addition, the pre-revolution family court, and legislation on the legal minimum age for marriage, sterilization and medically authorized abortion clinic were all abandoned.

The first post-revolution national family planning, with relatively generous financing, was formally adopted in 1989. This plan was the main reason for reduced total fertility rates. In 2005, the population growth rate in Iran has been 1.4 percent which is one of the lowest rates among the Middle East countries (ERF 2004). Iran faces the serious problem of high growth rate of labour supply; despite this fact that women's participation rate is very low. In the year 2002 about 37 percent of the entire population, who are more than 10 years old, have been active in the Iran's labour market. This rate for men and women has been 63 and 11 respectively.

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<sup>1</sup> Reverse Engineering is a process of dismantling the parts of a products and then finding the methods for producing these parts.

<sup>2</sup> Iran has many Arab neighbors, but it is not considered an Arab country. Only in the south of Iran, Iranian Arabs live.

### **3-1. Public Sector Dominance**

As the recipient of oil revenues, the government is the dominant economic actor in Iran. More than 500 state-owned enterprises and about 1,000 semi-public companies are active in different economic fields. In 2001, state-owned enterprises accounted for 15 percent of the total number and 70 percent of value added of enterprises in the industrial sector, respectively (Mostashari 2004).

In the immediate aftermath of the Islamic Revolution (1979) a considerable proportion of large-scale industries, as well as the entire banking and insurance system were nationalized because in many cases the owners and managers of enterprises had left the country and some enterprises were on the verge of collapse (Hakimian 2000).

The American hostage crisis (1980-81) and subsequent sanctions of western countries against Iran, marginalized the country. Limited foreign currencies, obtained mainly by oil export, were allocated for importing the most necessary items. As allocated currencies have huge profits for individuals and firms,<sup>3</sup> some of the officials responsible for currency allocation got involved in corrupt and informal deals to approve requests of firms.

The result of an inward looking strategy in 1979-1988, mixed with the effects of war and reduced oil export income, was a failure regarding GDP growth and per capita income. Gross domestic products declined about two percent annually.

### **3-2. Economic Reform Agenda**

After Iran-Iraq war, the government decided to change the negative trend of economic growth. At the same time it needed the foreign investment and financial help from international institutions like the IMF and World Bank to reconstruct the damaged economy. It was obvious that severe government controls in different economic sphere could not be continued after the war, so a reform agenda was necessary. The government had to open up the economy and promote private sector activities by providing an encouraging business environment. It is widely believed that the package of structural adjustment programmes (SAPs) such as limitation of government economic activities; privatization of state-owned enterprises; cut in subsidies in basic foodstuffs and government services; liberalization of foreign trade; retrenchment of public sector employees; depreciation of the Rial; that was reflected in the First Development Plan (1989-1994) was recommended by the IMF and World Bank. The major policies of the reform package were:

During the First Development Plan, unemployment remained high due to privatization and lay-offs in the public sector. Yet the Plan prediction regarding high growth in the private investment and sufficient job opportunities in the long-term, especially by the industrial sector was not realized.

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<sup>3</sup> For example, the formal value of USD1 was 70 Rials, but in the black market a dollar was about 700 Rials.

### 3-3. Macroeconomic Performance

Throughout 1965-1978, Iran was one of the fastest growing countries in the world, by relying on oil export revenue for financing its diversified industries and services. Islamic Revolution (1979) and the destructive Iran-Iraq war (1980-1988) changed the positive economic trend. (Table 1). During 1976-1989, because of internal and external shocks to the economy the average growth rate of GDP was minus two percent and income per head declined considerably (Karshenas 1998; Hakimian and Karshenas 1999).

Since the end of the war the negative trend changed and the country experienced high growth rates. On average, during 1989-2003 GDP growth has been more than 5 percent.

**Table 1**

**Iran GDP Growth Rate (1965-2003)**

Period	Average GDP Growth
1965-1976	11.96
1977-1988	-2.1
1989-2003	5.1

Source: Extracted by the author, using Iran Central Bank Economic Reports (different years).

### 4. The Effects of International Trade

After the Islamic Revolution in 1979, Iran chose an inward-looking strategy and the government got the duty to control imports and exports. Since the late 1980s the country has started to reform the economy to become more active in the globalized world. Iran applied for WTO membership almost a decade ago, but due to rejection by the US, its membership request has not been accepted (WTO 2005).<sup>4</sup>

However, Iran's export growth has increased drastically since 2002, thanks to high oil prices, and the current account surplus is projected to rise with international reserves reaching about \$50 billion by the end of 2006 (World Bank 2006) its prospects look challenging. Oil price volatility and capacity constraints in the oil sector, international tensions over the nuclear issue, and the possibility of a prolonged period of "wait and see" on the part of the private sector has adversely affected the economic outlook. Therefore, the probable achievements from economic globalization have been largely out of reach (UNCTAD, 2005).

#### 4-1. Non-oil Exports

As explained in the previous section, Iran depends heavily on exports of crude oil and natural gas for the bulk of its foreign exchange earnings. In 2004 it accounted for

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<sup>4</sup> Only recently (June 2005) Iran was accepted as observer in WTO.

about USD28.8 billion or 86.1 percent of the total exports (Management and Planning Organization 2005)<sup>5</sup>.

Because of Iran's natural comparative advantage and low production costs, foodstuffs and processed agricultural products have been favored by exporters. In 2004, agricultural products (pistachio, saffron, fresh and dried fruits, animal skins) and manufactured commodities (chemical and petrochemical products, carpet, metal and other products) consisted of 4.6 and 8.6 percent of the total export of the country respectively. Relatively high inflation rates, while the exchange rate remains more or less fixed by a managed floating exchange rate, constrain Iran's non-oil exports.

Carpet is one of the most important non-oil export for Iran. But the value of exported carpets has shrunk gradually since the mid 1990s. For example, in 1994 Iran exported more than USD 2 billion in carpets, but carpet export dropped off to USD 489 million in 2004 (Table 2). As there are about 1.5 million carpet weavers in Iran, mostly women in rural areas, Iran's declining international market share, has caused huge job losses (Iran Chamber of Commerce 2006).

There is a similar story for Iranian pistachios, saffron and animal hides. During the last two decades, rival producers of pistachio, especially from the US, as well as Spanish saffron exporters have captured part of the market previously belonging to Iran. In addition to the harsh competition of other countries, political problems take a toll on the Iranian traditional exports.

**Table 2**

**Iran Major Non-Oil Export (2004)**

Commodity	Value US\$ Million	Percent
Chemicals & Petrochemicals	1100	16
Metal Products	872	12.7
Pistachio	548	8
Carpet	489	7.1
Saffaron	87	1.3
Animal Hide and Skin	61	0.9
Others	3690	54
<b>Total</b>	<b>6847</b>	<b>100</b>

Source: Iran Custom Administration (2006).

## 4-2. Legal and Illegal Imports

Iranian non-oil trade is geared more toward imports than exports. Tariffs, quotas, permits and authorizations were designed mainly for imports. Despite these restrictions, many entrepreneurs tend to be importers because of its high profit margin.

As Table 3 shows, since 2002, thanks to the sharp increase in the oil exporting revenue import has escalated. Total imports in the year 2000 were USD 18.1 billion and they reached more than USD 39 billion in 2005<sup>6</sup> (Iran Central Bank 2006). Huge amounts of imported goods threaten domestic production and employment. Domestic

<sup>5</sup> Since 2005 the oil export revenue has jumped to more than US\$50 billion.

<sup>6</sup> US sanctions against Iran is only related to the import of high-tech products, so it does not affect imports of consumer commodities, non-high tech capital and intermediate goods.

**Table 3**

**Growth Rate of Imports into Iran**

<b>Year</b>	<b>Import Growth (%)</b>
1999	17.06
2000	-6
2001	13.2
2002	22.9
2003	37.1
2004	15

Source: Central Bank of Iran (2006).

In addition to the legal imports the volume and value of smuggled commodities are rising. The vast land and sea borders are not fully controllable. Moreover, as price differentials create a high profit margin for the dealers who do not pay any custom clearance charges. It is estimated that over USD 3.5 billion worth of imported commercial goods were smuggled in 2002 (The Ministry of Interior Affairs 2003).

Flows of cheap commodities have increased the risk of bankruptcy, especially in the Iranian textile, clothing, leather and wooden products and sugar industries. At present, many factories work much lower than their capacity due to the problem of insufficient domestic demand.

### **4-3. FDI Attraction**

Iran's Constitution (1980) prohibited granting concessions to foreign companies in trade, industry, agriculture, mines and services. However, the new Foreign Investment Law that was approved by the legislative bodies in May 2002 was a turning point in attracting foreign investment. The new law aims to reduce the political risk of investment for other countries' citizens. Although there were large increases in FDI flows to the Islamic Republic of Iran, following the adoption of its new FDI law, such flows remained modest, amounting to USD 0.5 billion on average over the period 2002-2004 (UNCTAD 2005); and since 2005, because of intensification of dispute about Iran nuclear energy, FDI number and value has declined.

Iran has established free trade zones in order to attract the capital of Iranians expatriates as well as the investment of other countries' citizens and to promote non-oil exports; but due to political instability and discouraging business environment, the free economic zones have not been very successful in attracting FDI. In fact, they have become new channels for smuggling foreign commodities into the country. Private firms in these zones are interested to import with very low custom clearance charges rather than export to international competitive markets.

## **5. Changes in the Labour Market**

In Iran, like most developing countries, the share of agriculture in employment has declined in past decades. During 1976-86, war and severe economic instability

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damaged the industrial production and employment. After the war, the trend changed; the number and percentage of industrial workforce increased drastically, but the services sector has been the major source of employment in the past two decades (Table 4). Public sector services, especially education and health, have been the major source of employment for educated workforce.

**Table 4**

**Employment by Economic Sectors ( in1000 Persons)**

	1976		1986		1996	
	Total	Percent	Total	Percent	Total	Percent
Agriculture	2992	34.0	3241	29.4	3358	23.0
Industry	3760	42.7	2790	25.3	4473	30.7
Services	2047	23.3	5005	45.4	6741	46.3
<b>Total</b>	<b>8799</b>	<b>100</b>	<b>11036</b>	<b>100</b>	<b>14572</b>	<b>100</b>

Source: Extracted by the author, using Iran Statistics Center data of different census years.

Iran's textile and clothing sector has had the highest share of industrial employment. In 1996, about 43 percent of industrial employment has been created by this sector. More than 50 percent of the Iranian T&C workforce is women. Chemicals, especially petrochemical plants, have the highest share in the value added and industrial exports, but their employment share is low (Iran Statistics Center 1997).

By implementing trade liberalization policy, products from other countries have conquered the Iranian market and international market for reputable Persian carpets, pistachio and saffron have been restricted by powerful rivals.

### 5-1. Surging Unemployment

The weak growth performance of Iran has led to poor labour market outcomes, which have prevented the absorption of the increased labour supply. However, the difficulties for finding jobs have not been similar for male and female workers. As Table 5 indicates, during 1976-2005 unemployment among women has been much higher than men.

**Table 5**

**Changes in Unemployment Rate**

	1976	1986	1996	2001*	2005*
Total	10.2	14.2	9.1	14	11.5
Male	9.1	12.9	8.5	13	10
Female	16.4	25.4	13.3	19.5	17

Source: Iran Statistics Center (2006).

- Data for 2001 and 2005 are extracted from sampling survey.

Unemployment rate has been highest in 1986, due to the Iran-Iraq war and the sharp decline in oil prices. During 1979-1986, hiring women in public and private institutions decreased drastically. Many employed women lost their jobs. Nevertheless, by the end of the war, implementing economic reforms and starting the reconstruction period, the trend changed and the growth rate of women's employment



increased considerably; thus, women's unemployment rate is lowest in 1996.

Since the mid-1990s, in addition to the entrance of baby boomers to the labour market (about 50% of the country population is below the age of 20) and the enormous labour surplus in rural areas, the increasing number of active educated women has come into the overcrowded labour market. The problem of the high growth rate of labour supply has been exacerbated by the presence of more than 800,000 illegal immigrant workers from Afghanistan, Iraq, Pakistan and Bangladesh<sup>7</sup> (Ministry of Interior Affairs 2005). These poor, desperate, and often unregistered workers have effectively chased native unskilled labourers from the strained job market by demanding lower wages, with a willingness to work in less pleasant or more hazardous occupations. A huge migration of workers has created a cheap labour pool and contributed to the flexibilisation or casualisation of the labour force.

Every year some 800,000 job seekers enter labour market, among them 150,000 to 200,000 are university graduates. The creation of 800,000 jobs per year is a Herculean task.

### **5-3. Changes in the Labour Standards**

Since early 1980s, as a consequence of the debt crisis, developing countries has faced mounting pressure from the international financial institutions, inter alia, to ease the labour market regulations and create "flexible" working conditions. This approach was seen to reduce the labour costs and to enable competition in international markets (Stiglitz, 2002). Therefore, the globalization process has damaged the labour standards in most countries, especially in developing countries. As the governments in many developing countries grew concerned about the political effects of workers' strikes and unrest in the industrial relation, they began restricting activities of workers' organizations, by interfering in the process of election of workers' representatives and influencing the performance of controlled workers' institutions. So, workers in such countries can not defend their rights, leading governments to ignore the violation of labour laws in order to attract private sector investments and to promote exports.

#### **5-3-1. The Role of Workers' Associations**

Iran has not ratified ILO conventions 98 and 111 (right to organize and collective bargaining and freedom of association). Political control is relatively strict on workers' associations and there is *de facto* a single union structure. Freedom of association is practically non-existent. There is only one authorized labour organization, which is close to the most powerful political party (ILO 2006).

About 20 percent of wage and salary earners work in agriculture and construction sectors. In these sectors Iranian workers, generally do not have any form of organized action. More than 42 percent of the workforce is involved in small businesses as self-

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<sup>7</sup> At the same time Iran faces the problem of brain drain. Highly educated Iranians seek to migrate to industrialized countries.

employed or family workers (Table 6). A large part of this group also works in informal activities and do not have any form of organization. Hence, the share of unpaid female workers has declined during 1976-1996, but still more than 40 percent of employed women are either self-employed or unpaid workers, and they do not have any association to have their voices heard.

**Table 6**

**Employed Persons More Than 10 Years Old (1976-96)  
(1000 Persons)**

	1976		1986		1996	
	Total	Percent	Total	Percent	Total	Percent
Entrepreneurs	182	2.1	341	3.1	527	3.6
Self-Employed	2811	31.9	4398	39.9	5198	35.7
Public Sec. Wage Earner	1673	19.0	3454	31.3	4258	29.2
Private Sec. Wage Earner	3072	34.9	1882	17.1	3327	22.8
Unpaid Family Workers	1022	11.6	497	4.5	798	5.5
Unspecified	40	0.5	464	4.2	463	3.2
<b>Total</b>	<b>8800</b>	<b>100</b>	<b>11036</b>	<b>100</b>	<b>14571</b>	<b>100</b>

Source: Extracted by the author, using Iran Statistics Center data of census years 1976, 1986 and 1996.

The considerable part of government personnel are not permitted to establish any form of union. For example, in large government companies such as national oil, gas and copper enterprises there is not any formal workers' association. Due to the labour laws, firms with less than 35 personnel are not required to form workers' associations. However, less than 2 percent of Iranian firms have more than 30 personnel (Iran Statistics Center 2005)<sup>8</sup>. Enterprises with more than 35 workers have to establish Islamic Council of Labour (ICL), whose members are a mixture of workers' and employers' representatives. In 1998, 2901 ICLs have been formally registered, but some of them have not been active (Karimi 2001). In total, more than two third of workforce have not trade union and do not have the power of collective bargaining. Even among the enterprises with more than 35 personnel, less than 12 percent of them have ICLs. Workers are not insisting on establishing ICLs because these organizations are not capable for expressing their demands. Therefore, Iranian workers do not have genuine and powerful associations<sup>9</sup>; and employers easily ignore such weak workers' institutions and are not obliged to meet their demands.

Due to the lack of powerful workers' organizations, workforce protests against the violation of workers' rights were limited until 1997. Then workers' demonstrations and strikes raised significantly. In this year, the reformist government did realize the right to strike and eased the process of forming workers associations. But the protests against job insecurity and low wages have not been successful to change the powerful process of "*flexibilization*" of the labour market. Iranian government, as many

<sup>8</sup> In 2002, there have been about 6200 industrial firms. Less than 1.3 percent of the whole industrial firms have more than 30 personnel in Iran (Iran Statistic Center 2005).

<sup>9</sup> During President Khatami's reformist government, new workers syndicates were established. For example, journalists and workers of the Bus Transport Company have established independent associations.

governments in developing world, ignores the violation of workers' rights in order to lower production costs and enhance "competitiveness".

### **5-3-2. Informalization of the Labour Market**

Rapid growth of the labour supply on one hand and the increased capital mobility combined with an accelerated pace of technological change, on the other hand, have posed serious challenges for the Iranian workforce. Alarming bankruptcies of inefficient public and private firms, since mid-1990s, have had their share of the increased unemployment.

The informalization of Iran's labour market is continuing in different ways. The economic reforms, during the past two decades, have weakened Iranian workers' bargaining power. Many important articles of the labour laws have been amended to reduce the labour costs for the employers. For example, in 1999, by approval of the parliament, all workshops with less than five employees have been excluded from the labour laws. In other word the process of informalization of the labour market is accelerating, as the workshops with less than 5 employees consist more than 91 percent of the whole workplaces in Iran; and for escaping the labour laws, the entrepreneurs try to downsize their firms. It was justified that labour market flexibilization, along with cheap and affluent energy sources, will help to magnetize domestic saving to productive investment in the country. Again, these measures were undertaken in order to attract the capital of Iranian expatriates and foreign investors as a way to promote production and employment. However, reduced labour costs have been too low to compensate high political risk of investment in Iran, and domestic and foreign investment has remained low.

In many privatized companies, redundant workers are fired and short-term contract workers replaced the permanent ones, in order to reduce the labour cost and ease the procedure of workers' dismissal. Large proportion of employees are short-term contract workers and are not fully covered by the labour laws<sup>10</sup> (Amouzegar, 2004). The "flexible" labour market in Iran has pushed down the already low and declining wages and has increased poverty.

The legal minimum wage is revised annually by the "Supreme Council of the Labour" which is a tripartite committee that consists representatives workers' and employers' representatives and the Ministry of Labour and Social Affairs. In fact, the government officials largely decide about the minimum wage in accordance to the inflation rate. The minimum wage is not attainable for large part of short-term contract workers. In most small and medium-sized enterprises, even in several large firms, employees either do not have written contracts or sign a contracts for one to three months with a monthly salary equal to about 40-60 percent of the minimum wage. Some employers get a separately signed paper from the employees, confirming that the workers have received all deserved wages and benefits. By such agreements, workers can not make any claim against employers (Aftab 2006). By such arrangements it is not possible for the workers to complain against the employer because of violation of the labour laws.

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<sup>10</sup> There is not specific statistics about short-term contract workers, but an official of the Ministry of Labour and Social Affairs has stated that close to 70 percent of wage earners in public and private enterprises are employed on the short-term contract basis (Kar-va-Kargar 2006).

Therefore, short-term contract workers lose the chance for protest against low wages, long working hours and other unfavorable working conditions.

The number and proportion of short-term contracted employees is increasing very rapidly in the public and private sectors. Employers can fire the contract workers, just at the end of the contract without difficulty. The World Bank study (2006) about labour market position in different countries shows that the process of firing workers in Iran (Index 10 from 100) is much easier than OECD (Index 27.4) and the average Middle East countries (Index 35).

Iran has ratified ILO conventions 95 and 100 regarding the protection of wages and equal remuneration in 1972 (ILO 2006). New Iran labour laws, however, limit workers' associations and collective bargaining. The laws also are silent regarding the right to strike. Yet they emphasize a reasonable minimum wage than can cover the expenses of a worker's family and that provide equal remuneration for equal work. The labour laws also state that all workers must be covered by social insurance, but most employers attempt to shirk this obligation. If the inspector from the Social Insurance Organization visits a firm and registers the name of employees, the employer is obliged to pay social insurance costs for the registered workers. In many work places, some workers must hide themselves during inspectors' visits as a sly way to reduce social insurance costs for the employer. For example, the official of the Social Insurance Organization does know that a certain firm has more than 30 employees, but an inspector may report the names of 19 workers. Then the employer only has to pay the cost of social insurance for about 70 percent of the total workers<sup>11</sup>.

The result of sampling surveys from the Iran statistics center shows the decline of the coverage of social insurance during 1997-2000 (Table 7). The Table shows that informalization process of the labour market is more rapidly for women.

**Table 7**

**Social Insurance Coverage in Industrial Sector**

	1997	1998	1999	2000
Male	41.77	39.08	37.25	36.44
Female	15.47	9.02	8.16	7.49

Source: Iran Statistic Center, Survey of Employment and Unemployment (2005).

It is worth noting that employers have to pay 23 percent of workers' wages (at least the formal minimum wage) as the cost of social insurance, hence the real wage is much lower than the minimum wage for most part of the contract workers. Therefore, workers' wages on the lists of the Social Insurance Organization is higher than their real wages. It is a new phenomenon in recent years. As the number of job seekers is rising and private investment is not enough to create sufficient job opportunities, the growing number of educated workers are willing to accept low wages. In fact, the legal minimum wage generally just recorded on paper, not in practice. Officials in the Ministry of Labour and Social Affairs know that many private firms do not pay the legal minimum wage, the legal wage for overtime work, social insurance and other workers' benefits, but do not interfere with the contracts of employers and employees, unless a worker formally complains against the employer. Contract workers do not dare protest against low wages and illegal working conditions because s/he is anxious

<sup>11</sup> Interview with an official from the Social Insurance Organization.

whether the contract will be extended for the next three months or not.<sup>12</sup> In total, most employers do not pay the workers' legal wages and benefits due to high number of unemployed who are willing to work for low wages; and the short-term contract workers should just be happy that they have been successful to find a job.

In Iran, like other developing countries, many formal jobs in the urban areas have become "informal" as employers seek to increase job "flexibility" and lower labour and production costs through subcontracting. Many women accept this kind of work – with its insecurity, low wages, and absence of benefits – as a convenient form of income-generation that allows them to carry out domestic responsibilities and care for children. Many private firms prefer to hire women who can do "piece work" in their houses<sup>13</sup>. In such cases, female workers receive piece-work which earns less than legal minimum wage; employers do not pay additional costs for social insurance or overtime work. There are no labour regulations regarding hiring and firing of such casual workers.

The behaviour of real wages is a good test of the flexibility in labour markets. Since the mid-1980s, real wages have declined in Iran, especially in the private sector and among women. During 1985 -1989, real average and minimum wage decreased considerably. Since 1990 the negative trend has changed, but in 2004 the real average and minimum wage have been much lower than 1979 (Table 8).

**Table 8**

**Minimum and Average Wages ( Rials)**

Year	Min. Wage	Min. Wage	Avg. Wage	Inflation	Min. Wage	Avg. Wage
	Daily	Monthly	Monthly	Rate	Index	Index
1979	567	17,010	55,230	11.3	100	100
1980	635	19,050	61,260	23.6	90.6	89.7
1985	720	21,600	77,920	6.8	51.8	57.6
1990	1000	30,000	94,300	9	27.6	26.7
1995	5333	159,990	378,936	49.4	39.5	28.8
2000	15267	458,010	1,075,041	12.6	48.8	35.3
2004	35534	1,066,020	2,460,830	15	65.3	46.4

Source: Central Bank of Iran (2006).

The formal daily minimum wage, for 8 hour work, is equal for all sectors and occupations; but as mentioned earlier, actually a large part of workers receives less than the minimum wage. Salaries for specialists and highly skilled workers are much higher than the minimum wage. Therefore, the average wage becomes more than the minimum wage. Yet during the past decade the difference between average and minimum wages has reduced. During 1990-2006, the growth rate of the minimum wages has been higher than 1980s. As many enterprises pay less than legal minimum wage, so the decline in the real average wage has been sharper than minimum wage.

It is worth noting that a working class family cannot live on average and minimum wage<sup>14</sup>. In 2004 the monthly minimum and average income have been about

<sup>12</sup> Interview with an official in the "Dispute Office" of the Ministry of Labour and Social Affairs.

<sup>13</sup> Interview with an employer of a large factory.

<sup>14</sup> As Iran had multiple exchange rates until 2000, it is not easy to calculate the wages in other currencies for different years.

USD 125 and 290 respectively. The result of a 2002 employment survey shows that 61 percent of male and 30 percent of female labourers work more than 44 hours per week to cover their family expenditure (Iran Statistics Center 2003). This feature of the Iranian labour market, in turn, has exacerbated the unemployment problem because given job shortages, one worker may fill at least two job vacancies, excluding other workers from getting the jobs.

Increased global competition and rising legal and illegal imports of textile, clothing and handicrafts in the past two decades has limited the already insufficient job opportunities in the Iran's labour market. Due to the SAPs, Iranian government tries to lower the number of its employees. Increased lay-offs and high unemployment have worsened the economic conditions of most families and Iranian low-income families are especially under great pressure to cover the expenses of daily life and the needs of children by decreasing real incomes.

If, because of the nuclear issues, economic sanctions are put on Iran, the currently unfavorable labour market situation will be exacerbated. The insufficient job opportunities will be more limited, as a huge amount of Iranian capital will escape from the country to be landed in safer place.

## **6. Concluding Remarks**

Iran has moved from an inward oriented economy to a more liberalized and open market economy in the late 1980s. Hence, surging international trade has increased the risk of layoffs and weakened labour standards in the country. Short-term contracts have become the most common form of employment. Increasing proportion of small, medium and even large enterprises pay less than formal minimum wage; Workers' associations are very weak and due to the high unemployment rate, the Ministry of Labour and Social Affairs do not control severely the violation of the labour law. There are massive jobs loses due to imports of foreign goods.

Diversification of exports and export markets has been the main objective of the reform policies, but until now the reform programs have not been successful enough to sustain production growth, non-oil export and employment in Iran. In the past decade, Iran has lost part of its share in the international markets of carpets, pistachios and saffron. Cheap imported goods created bankruptcy for many domestic textile, clothing and leather products producers. Therefore, growing international trade has imposed high costs on Iranian unemployed and low-wage workers. Workers' legal rights are violated in many work places, and the government do not intervenes in industrial relations, which it sees as a way to encourage private investment. But lower labour cost have not improved competitiveness.

Accepting the forces of market in the industrial relation has not been the secure way for confronting low private investment and high unemployment in Iran. On the contrary, the presence of trade unions in the labour market can reduce the cost of reforms, help adaptation to new labour circumstances and avoid high societal tensions.

Economic and political stability is crucial for putting Iran on a sustainable growth path. The international community can be helpful to Iran's economic success by

cooperating in reducing political tension and opening the way for direct negotiations for solving the problem of nuclear energy issues. These kind of friendly, non-violent international relations can pave the way for creating a stable and prosperous business environment for Iran as well as other countries in the Middle East and in Asia-Pacific region.

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