

## Effects of the Government Taxation Policy on Distribution of Income with an emphasis on Human Development Index in Iran

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**Abstract:** The present article aims to discuss possible impacts of taxes on distribution of income through an examination of dependent variable of "Human Development Index" (HDI) as well as a study of factors affecting or otherwise are unlikely to affect the taxation system (the entity of government) in advancing an optimal distribution of income in Iran in the course of three specific post-revolutionary development plans. First of all, a deductive method was applied to assess the effect of taxation on the behavior of human development index where a statistical analysis was conducted by means of the E-VIEWS program. Then, an in depth, qualitative research method based on interviews with the elite was applied to examine possible qualitative effects of government taxation policy on income distribution policies. Coefficient and value of tax driven revenues in the model indicate that wherever tax driven revenues increases by one percent, the human development index will decrease by 0.07 percent and vice versa. It also shows that whenever the coefficient and value of the share of direct tax revenues from the GDP except for oil revenues increases by one percent, the human development index will increase by 0.14 percent and vice versa. Statistically speaking there is no meaningful relationship between taxation driven revenues and human development index. Given to the fact that the Human Development Index (HDI) stood as a dependent variable indicative of distribution of income in the present article, the paper concludes that taxes show no distributive efficiency in the course of the development plans. As for the role of the entity of government in the distribution of income, rentier government indexes were confirmed which points to clientelism in economy as well as no dependence on the part of the establishment to tax revenues. Put it another way, with a rentier government in place in the Iranian economy, the taxation system has failed to pick a distributive efficiency.

**Keywords:** taxation system, distribution of income, rentier government, taxes, Human Development Index (HDI).

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### Introduction

Welfare as a concept is connected to motions, understanding and experience. Once viewed from the prism of economics, the notion of welfare would further pick its experiential and functional features and allow researchers to examine the concept within the framework of distribution of income. Indeed, various kinds of incomes in an economy such as wages, benefits or interest shall be distributed between economic units in the society one way or another. It is expected however to see such distribution of income acting as a factor to reduce inequalities and boost social welfare through a favorably systematized mechanism of distribution. According to official figures available in Iran, the share of the upper decile from total revenues is 30 percent while the share of the lower decile only enjoys 1.5 percent of such revenues. Similarly, 30 percent of the affluent class in the society enjoys more than 65 percent of total consumption of gasoline – a commodity receiving the largest tranche of subsidies for energy containers in Iran – whereas the lower income strata almost gain no such subsidies (Report on Third Development Plan Implementation, 2004: 173). Taking the statistics into account, it seems that there are several shortfalls in the country's income distribution policies, leading to such unfavorable outcomes.

When it comes to income, tax revenues serve as key to distribution. Taxes by virtue of law and in keeping with financial policies in any country are generally collected from the upper hand strata and distributed among the lower hand strata in the society with a view to advance an optimal distribution of common goods (distribution of income). Such financial policies are thus expected to embed maximum pursuit of the goal of income distribution. Be that as it may, a study of some financial statistics in Iran, such as ratio of taxes to gross domestic product, as comparison of growth of taxes, operational taxation methods, provision of minimum living standards and how the government is engaged with economy indicates

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several shortfalls which the author believe stem from an inefficient taxation system as regards an optimal distribution of income, let alone the cases where it runs counter to the goal.

### **Statement of the Problem**

Welfare economics hinges around two operative terms: allocation of resources and distribution of resources. The argument here is that once resources are efficiently allocated and effectively distributed, welfare might be elevated by optimal levels. The role of government thus proves significant in the distribution of income as it is determined and assessed based on collective approaches and social virtues and norms (Tayyeb Nia, 2004: 5). In the same regard, tax resources are viewed as the most important tool in hand of government for the purpose of redistribution of income.

Taxes as share of any person either legal or natural from common goods and facilities in the society has always been accepted as an appropriate means of distribution of income, to the extent some call taxation a guiding principle. While there is such emphasis on the role and importance of taxation system in expansion of aspects of welfare in society, poor indicators of inequality in Iran (for example, figures released by the Management and Planning Organization show that in 2004, the share of the lower decile has been a meager 1.6 percent) might give rise to several questions in mind as to the quantities and quality of the country's taxation system. Iran, a country historically with a central government, has indeed a history if taxation affairs dating back thousands of years. It seems however that with the country stepping into the modern era and with oil standing as a source of revenues for the government which coincided with an expansion of duties for the establishment in the modern time, taxation has lost its previously principle position in helping the government to fulfill its duties. The current theoretical approaches towards the role of taxation in distribution of income commonly consider a major role for taxes in advancing the social goal. Such approaches initially dealt with incidence of tax as well as the final tax payer. Over time however, they were increasingly tailored towards defining and assessing how a government's budgeting policies would help insure minimum living standards. Based on the second theorem of welfare economics, the government intervenes in the redistribution of initial wealth through collection of taxes so as to allow individuals to freely exchange in a competitive market after such collections. The situation would pay off in Pareto's criterion and would maximize welfare (Dadgar, 2001: 32).

Classical economists argued in favor of a fair distribution of tax burden among different classes provide that taxes can help systematize governmental duties including public security as well as healthcare and education. Keynesians extended the list by enhancement of social security system. They also expanded governmental duties in other spheres. It is clear that income distribution policies have been of more significance for the Keynesians than the Classics (Rangriz and Khorshidi, 1999: 37). A concept of merit goods was introduced by Richard Musgrave by which he placed an emphasis on the role of government in application of taxes and subsidies as a tool for distribution of income. According to the concept, households should consume a series of specific goods and services on the basis of need of their country even without making any income. Hicks and Musgrave's distributive criterion led to introduction of a newer interpretation of incidence of tax. In their views, a fall of tax means a change in distribution of income created by budgeting policies (including in taxes and government expenditures). In so doing, the concept of effect of taxation system on income distribution is evolving in the course of time into a concept of availability of objective conditions for a series of public goods.

Nevertheless, it proves useless to try to find the position of taxes without paying attention to the function of entity of government in this regard. The entity of government can play a substantial role in advancing the goals of taxation system, having been assigned with the two major undertakings of policy setting. A major theoretical approach in this regard has been introduced by Gil who places a premium on the role of government in creating an environment free from discrimination where a political resolve exists to carry out taxation reforms effectively, sufficient resources are available to implement proper measures and unequivocal policies are in place which show the way to the objectives (Gil, 2005: 20). In the same regard, the author would like to touch on other relevant theories concerning the role and function of government. For example, as rentier government theory holds, since a rentier government's revenues are

derived from a way rather than the people's efforts, taxation system lacks any distributive efficiency in principle. Mindful of the research literature, this study examines the trend of effects of tax driven revenues on income distribution in the span of 16 years following the first post-revolutionary development plan until the end of the third development plan in Iran with a focus on budgeting policies in place during the period. They also examine the role of entity of government as a major segment of taxation system, an area of research still understudied and in need of specific studies.

## **Review of literature**

### **a. Research background**

Few researches have been conducted in Iran to examine the effect of taxation system on income distribution in specific terms. Nevertheless, those researches which have dealt with indicators of inequalities have generally given a touch to taxation policies.

- Parvin (1989) has devoted his doctoral dissertation to a study of economic grounds of poverty in Iran. In chapter four of the study, effects of redistribution of taxes have been examined and divided into eight categories on the basis of Gini coefficient. The research finds that taxation policies had no equilibrating effect on income distribution and rather have an adverse effect due to such factors as poor structure of taxation system, high share of indirect taxes and an inefficient tax collection system so that with an assumption of possibility of incidence of tax to the consumers, lower income strata have dedicated a higher share of their income to tax payment than the affluent.
- Abu Nouri (1997) in a paper examines the effect of some economic indicators on the distribution of income. After conducting a pattern based study of indicators in two decades (1971 - 1991), he projects that employment has more helped reduce inequality than other factors. The study also finds that under the taxation system in place during the period, any one percent increase in the taxes collected from households has upped the indicator of inequality by 1.8 percent in the following year.
- Nili and Farahbaksh (1998) in a paper examined the relationship between economic growth and distribution of income and found that economic growth has a direct relationship with distribution of income. The study also found that in Iran, taxation is seldom used as a tool for distribution of income and instead, subsidization policies and manipulation of prices are applied to advance the goal even though leading to lower rates of economic growth.
- Gilak Abadi (1990) in a doctoral dissertation, entitled "Possibility of Replacement of Taxes Levied on Income with khums (Islamic fifth tax) and Related Implications for Certain Macro Economic Variables," believes that a large share of tax should be levied on those companies which enjoy a high capacity in incidence of tax. The author blames meager share of tax on wealth in the period for the low effect of taxation on distribution of income in the country.

Most of these researches thus consider a small role for taxation in the distribution of income. Be that as it may, the present article applies a distributive efficiency to the case on the basis of budgeting policies and to that effect, it studies the effect of taxation system on the human development index. Furthermore, the paper is original in that it examines the role of the entity of government in advancing the distributive objectives of the taxation system.

### **b. Theoretical foundation**

As argued earlier in the paper, the authors seek to examine the two following hypotheses for the sake of which they have collected and developed the theoretical literature of the article.

- Taxes are not a determining and influential factor in improvement of the human development index.
- The features of a rentier government hinder any taxation system from advancing such redistributive goals

Concerning the first hypothesis, the assumption is that the existence of a competitive market coupled with Pareto efficiency might give rise to some aspects of injustice in the society and in general, supply and demand mechanism which run the market prove to be neutral towards the governing norms in the society which provide and inspire the guiding principle for the distribution of income (Balz George, 1993). For the same reason, the government intervenes in the distribution of initial wealth through taxes

and then allows economic brokers to study and apply their approaches in a free, competitive market. The approach is known as the second theorem of welfare economics (Dadgar, 2004: 31). According to the theorem, in order to assess whether a distribution of income is optimal there should be such objective parameters at hand that help examine the role of entity of government in the taxation affairs accurately and independent from any other factors involved. For the same reason, the authors have tried to opt for such a variable to explain the distribution of income that enjoys the properties discussed, albeit it is somewhat at odds with typical researches of the kind. The concept of merit goods introduced by professor Musgrave seems to be providing the theoretical foundation of the argument. Musgrave in his concept of merit goods places a premium on the role of government in application of taxation and subsidization tools for the purpose of distribution of income and in a similar vein, introduces an inventory of goods and services – which should be consumed by members of households in the society, even though they earn no income – which the government should supply and distribute free of charge among different income classes after matching the inventory with the status and conditions governing the country (Dadgar, 2001: 95). Put it another way, Musgrave derived his concept of merit goods from a specific approach to social welfare which in the following years provided a basis for development of various indices of social welfare and development, including HDI, PD, etc which were developed and introduced by international bodies, the United Nations in particular. Musgrave's concept of merit goods stands as the only theory which explicitly discusses and examines the role of tax driven revenues in advancing an optimal distribution of income or social welfare as Musgrave puts it. Application and involvement of entity of government as a variable further proves how high Musgrave regards the effect of taxation in the distribution of income.

On the other hand, effect of taxation on income distribution has a direct relationship with incidence of tax. Many original tax payers actually transfer the real burden of taxes so that at the end, an individual would bear the burden of taxes which is never targeted by the taxation law. The problem might hinder the goals of income distribution sought from taxation policies. How burden of tax is transferred is dependent on how the supply and demand mechanism proves elastic; "given to price elasticity of demand (with a commodity not of much importance for a buyer or with replacements already available), the buyer would simply transfer a tax to the supplier. Similarly, given to price elasticity of supply, that is when a producer can easily make use of the agents or factors involved in the production to produce other commodities, what the produced gains from the sales of a taxed commodity will not reduce by notable amounts with the buyer bearing a substantial portion of the levied tax" (Mohandes and Taqavi, 1997: 119).

Hicks and Musgrave have introduced a newer interpretation of incidence of tax. In their views, a fall of tax means a change in distribution of income created by budgeting policies (including in taxes and government expenditures). It can be thus argued that in traditional notion tax incidence, a fall returns to the monetary burden of taxes while in the modern interpretation, it returns to changes in distribution of income stemming from an exertion of budgeting policies (Rangriz and Khorshidi, 1999: 41). The latter notion of distribution of income seems to be more compatible with the concept of merit goods as adopted and argued in the present article.

There is no question that taxes can intervene in the distribution of income in the society through such other economic efficiencies as impact on saving rates, inflation tax and volume of underground economy besides budgeting policies. However, such functions are not relevant to the present article as the author aim to study the budgeting effects of a taxation system within the framework of optimal provision of public commodities and expansion of welfare by an examination of human development index (HDI). As for the second hypothesis, the role of entity of government seems to be crucial considering the fact that distribution of income is driven by the virtues which govern the society. Similarly, the government as a policy setter and enforcer of taxation affairs shall bear a determining undertaking in the taxation system. Several studies indicate that the levels of reliance of a government on the redistributive duties are more dependent on the nature of the government than any other factors. In taxonomy of governments, those governments which run a bureaucratic role in economy and engage in wealth production prove to be unsuccessful in fulfilling their redistributive duties as regards taxes. B. S. Gil (2005: 20) holds that

an effective presence of government in the taxation system might be materialized through a political resolve for an efficient implementation of taxation system, an unequivocal policy on how to reach the goal and, finally, sufficient resources for fulfilling proper measures. Evans believes that the government is required to rely on the society in order to materialize the objective (Ebrahimbay Salami, 2004: 91) but such reliance is subject to a financial dependence on the part of the government to different social groups. On the flip side, any government which earns 42 percent or more of their total revenues through the rents of exports of one or more raw materials, is known as a rentier government which are otherwise financially independent from a civil society. The independence stands to such extents that a rentier government feels no need to consider the interests of the society when it comes to carry out its policies. Similarly, since taxes do not make a major portion of revenues for a rentier government, the civil society fails to command any substantial power in the face of such a government (Shakuri, 2005: 55). The situation would bring about a clientelistic approach within the government under which a taxation system would fail to pick a distributive efficiency. The hypothesis might be more studied by an examination of indicators and features of a rentier government in relation to Iran's taxation system.

## Methodology

### a. Research method

For the purpose of the hypotheses of the present research, deductive method was applied to assess the effect of taxation on the behavior of human development index (the first hypothesis) where a statistical analysis was conducted by means of the E-VIEWS program. The tool of research here is multi variant, linear regression where a dependent variable functions alongside several independent variables. Accordingly, the econometric method of the present article is a single equation, multi variant estimation. Furthermore, an in-depth, qualitative research method was applied into the second hypothesis. Grounded theory was applied to lay out and describe the features of a rentier government. Strous and Corbin (1994) hold that grounded theory is a method for rendering any data comprehensible. The tool to conduct the methodology is in depth, semi structured interviews with reference groups in the sphere of taxation affairs. Such interviews enable a researcher to analyze the collected data in his or her own term or apply open questions wherever a professional would like to speak freely (Hutchinson, 1986).

### b. Variables analysis tool

Ordinary least square (OLS) was applied into an assessment of effect of taxes on the dependent variable, i.e. human development index. The analytical model of the assumption is as follows.

$$D = \alpha_1 + \alpha_2 X_1 + \alpha_3 X_2 + \alpha_4 X_3$$

In this model

$\alpha$  stands for a fixed number

$X_1$  stands for the Td/ GDP relation

$X_2$  stands for Tt

$X_3$  stands for Oi

and D is a dependent variable representing the HDI.

The  $X_1$ ,  $X_2$ , and  $X_3$  are regression coefficients.

Necessary data were collected from accredited authorities and organizations in a time series manner (1989: 2004) and were analyzed through the econometric model. Several available software were also applied as research tools. For example, Excel was used to process the statistical data while SPSS and EViews were used for the purpose of statistical tests.

Ass for the second hypothesis, qualitative method was applied within the framework of the grounded theory by means of the technique of interview with professionals on behalf of specialized social groups. In such interviews, the following directions were followed.

- The sample of interview should be objective oriented and for the same reason, the respondents should be specialized in the area of research.
- The respondents should be willing and have sufficient time to participate in the research.
- It is imperative for the participating individuals to express their views. (Morse, 1993)

For the same reason, the society under research was selected in eight social groups, all of them being specialized and beneficiary concerning the role of the entity of government in the taxation system.

**Table (1): The group of professionals which took part in the in depth interviews**

- Group 1 – Economists who advocate a free market
- Group 2 – Institutional economist
- Group 3 – Taxation policy makers
- Group 4 – Tax collection authorities
- Group 5 – Tax payers
- Group 6 – Political parties
- Group 7 – Scholars of social sciences
- Group 8 – Nongovernmental organizations and professional, civil associations

**c. Research indices**

As pointed out earlier, this study aims to examine the external effect of the taxation system, as the independent variable of the thesis, on the distribution of income as the dependent variable and then analyze the effect of element of rentier government on the distributive efficiency of taxation system. Accordingly, in the first hypothesis that "the Iranian taxation system is not a determining and influential factor in improvement of the human development index" we deal with the external effect of the taxation system on the distribution of income. In order to turn the complex, socioeconomic variable of income distribution into a comprehensible concept, the authors after consulting with competent individuals decided to apply a new social, economic and cultural index which, in light of the review of literature, can reflect the behavior of budgeting policies in the distribution of income. The index is Human Development Index (HDI) which is calculated and announced by the UNDP for all countries on an annual basis.

For the purpose of an accurate elucidation of the model, such indexes as Dt (direct tax)/ GDP, Tt(total tax)AX and OI (oil income) were applied as quantitative indexes of the independent variable so as to give an objective and factual aspect to the analysis. The argument to use the oil income indexes is that the human development index is a cost based variable which can partly be explained by taxes. However, in light of the undeniable role of oil revenues in the government budget as well as their effect on the public goods and the constituents of the human development index, the oil income index was involved in the mathematical model of the present research.

As regards the second hypothesis which argues that "the features of a rentier government hinder any taxation system from advancing such redistributive goals," the main embedded concept, in accordance with the methodology, is the structure of the policy setting system which has been dealt as part of dimensions of government. As said earlier in the review of literature, government's proper role in income distribution would be materialized by means of the triple principles of political resolve, unequivocal policy and sufficient resources (Gil, 2005, 20). Accordingly, the authors believe that because of the rentier nature of the Iranian government, this dimension of the taxation system fails to work efficiently and the goal of redistribution of revenues would fail to materialize. The assumption is founded on the tenfold features of a rentier government discussed above: independence to oil revenues, governmental bureaucracy, fail welfare promises, application of inflation taxation policy, complex bureaucracy, high exchange costs, excessive institutional and thematic tax exemptions and preferences, disproportionate imports and foreign loans, meager tax researches, fledgling civil parties and institutions, and poor tax payment attitude (Shakouri, 2005 and Katouziyan, 2003).

**c. Setting symbols for the analytical pattern**

For the purpose of simplification of the theoretical foundation and analysis of relationships as well as enhancement of potentials, an attempt was made to designate a set of plain symbols, each standing for a variable in the research or their relevant index. "An analytical pattern can vary proportionate with method of identification or method of analysis. Statistical or econometric analyses usually apply written, illustrative symbols" (Ezzati, 1997: 197). As for the first hypothesis, in light of the research method applied in the research as well as the type of relationships existing between the variables, the authors would like to define such relationships between the variables in the form of the following econometric relation:

$$D = \alpha_1 + \alpha_2 X_1 + \alpha_3 X_2 + \alpha_4 X_3$$

The symbols in the above relation signify the following concepts.

D signifies the dependent variable of distribution of income on the basis of the HDI index

$\alpha_1$  stands for fixed coefficient

$X_1$  signifies the independent Td/ GDP variable where Td represents the amount of direct taxes.

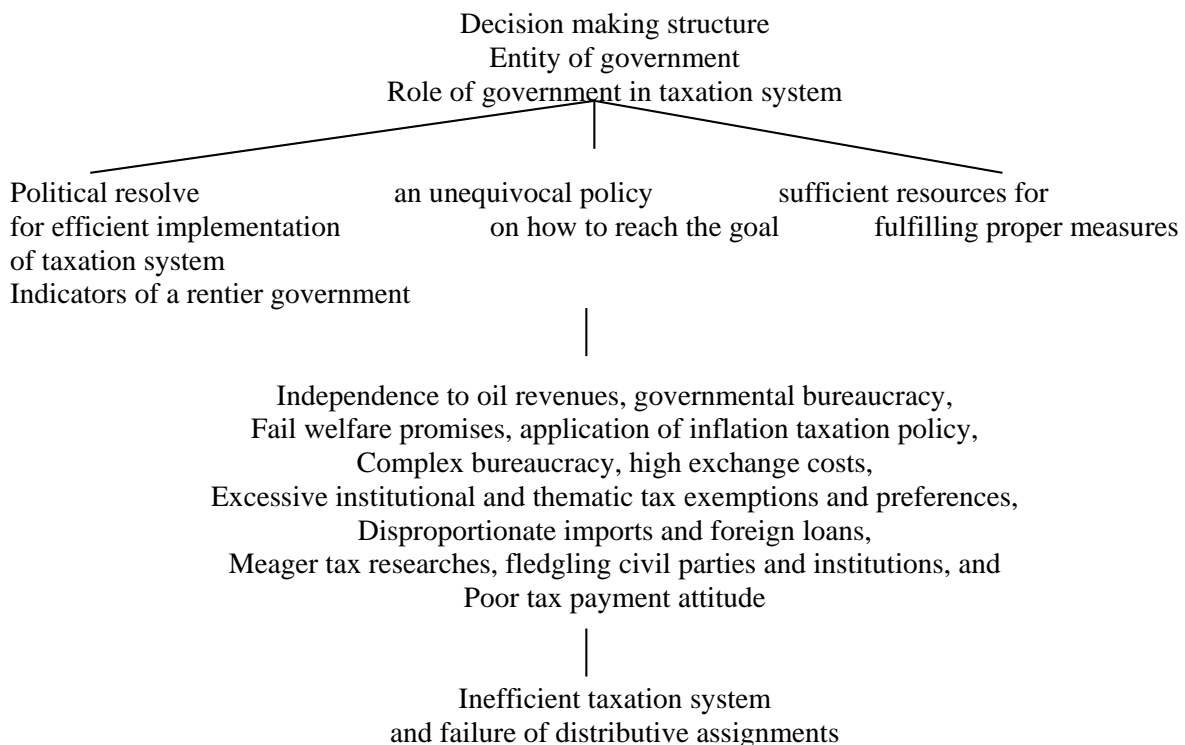
$X_2$  signifies the independent Tt variable where Tt represents the total amount taxes.

$X_3$  signifies the Oi variable which represents the oil revenues. This variable has been incorporated into the model omnly for the purpose of better elucidation of the two independent variables discussed in the model. The process would help further precisoin and acuracy of the R<sup>2</sup> coefficient. However, it shall not be a baisis of analysis in the research. As for the second hypothesis, in light of the research method applied in the research as well as the type of relationships existing between the variables, the authors would like to outline the concepts and indexes of the model on the basis of the theory of rentier government.

**Table 2 – Relationships among the components and indexes of the second hypothesis**

Concepts (main variables)	Dimensions	Component	Indexes
Structure of decision making system	entity of government	Rentier government	Oil revenues
		Bureaucratic government	Fail welfare promises
			Inflation tax
			Complex bureaucracy
			Various exemptions
			Imports and foreign loans
			Poor tax researches
			Weak civil institutions and business guilds
			Poor tax payment attitude

The authors also would like to illustrate the analytical symbol of features of the rentier government as follows.



**Findings**

**a. Effect of taxes on human development index (HDI)**

Statistics and figures applied or investigated in the present research have been collected from several sources. Figures and tallies of tax collection have been obtained from releases of the Ministry of Economy and Finance. Statistics related Human Development Index (HDI) and oil revenues have been taken from the United Nations' reports on human development as well as releases of other official institutions. The relation of Human Development Index (HDI) and other econometric indices, notably the tax driven revenues collected in the span of 1989 to 2004, have been estimated in accordance with the regression pattern as well as the available data and information. Also in this part of research, such relevant tests as Dickey Fuller's, Chi square, and correlation matrix have been conducted. The main form of the model is as follows.

$$\ln(\text{HDI}) = \alpha_0 + \alpha_1 \ln(\text{TGDP}) + \alpha_2 \ln(\text{TT}) + \alpha_3 \ln(\text{OIL}) + \alpha_4 \text{DI}_{78}$$

The results of the Dickey Fuller's test are as follows.

*Table (3): The amounts of function of Augmented Dickey Fuller test (ADF)*

Variable	ADF statistic	Mc Kinnon's critical values		
		1 pc	5 pc	10 pc
HDI	- 4.06	- 4.06	- 3.12	- 2.7
TGDP	- 5.81	- 4.22	- 3.18	- 2.73
TT	- 4.86	- 4.22	- 3.18	- 2.73
OIL	- 4.85	- 4.22	- 3.18	- 2.17

The results of the Dickey Fuller's unit root test, presented in the above table indicate that the I(1) assumption or having a unit root is ruled out. In this case, regression estimation shall be conducted.

*Table (4): Results of Chi square test*

Human Development Index (HDI)	Independent variables
3 pc	Tax driven revenues (TT)
0.09 pc	Share of direct tax income from GDP (TGDP)
0.05 pc	Oil revenues (OIL)

The results of the Chi square test indicate that tax driven revenues have little correlation with the human development index (HDI) and thus the H0 assumption is ruled out.

Through the correlation matrix formula, the authors examine the relationship between the independent variables, including the tax driven revenues on the one hand and the human development index on the other hand and remove any uncorrelated explanatory variables from the model.

*Table (5): Coefficient of correlation matrix on the basis of tested variables*

Human Development Index (HDI)	Independent variables
- 0.13 pc	Tax driven revenues (TT)
0.38 pc	Share of direct tax income from GDP (TGDP)
0.49 pc	Oil revenues (OIL)
0.04 pc	Share of tax revenues from the GDP after taking the oil revenues into account (TGDPO)

The results obtained from the multiplication of correlation matrix of the human development index (HDI) by other indexes indicate that the variable of share of tax revenues from the GDP after taking the oil revenues into account which has been considered and examined as an independent variable in the model shall be removed because its coefficient of correlation with the human development index is very low.

With the necessary tests conducted, let's make an estimation of the main model.



The model on effect of taxes on human development index:

$$\ln(\text{HDI}) = -0.44 + 0.14 \ln(\text{TGDP}) - 0.07 \ln(\text{TT}) + 0.06 \ln(\text{OIL}) - 0.06 \text{DI}_{78}$$

$$R^2 = 0.69$$

HDI = Human development index in the span of 1989 to 2004

TGDP = Share of direct tax revenues from the GDP except for oil in the span of 1989 to 2004

TT = All tax revenues in the span of 1989 to 2004

OIL = Oil revenues in the span of 1989 to 2004

DI<sub>78</sub> = Virtual variable; the variable was incorporated with a minus sign in the function which signifies a fall in the calculation of life expectancy on the basis of human development calculation in 1989.

In the aforementioned model, the R shows that independent variables can provide explanation for 69 percent of changes in the total human development index, indicating a favorable fit for the model.

The DW statistic, having a value of 1.5, has been located at such a zone that proves there is no self-correlation.

According to the estimation of the said function, the values of all variables are as expected earlier. The estimation of the function also indicate that the effect of all variables which have been removed from the model but which have some effect on the human development index equals 0.44 percent. The coefficient and value of the share of direct tax revenues from the GDP except for oil revenues in the model indicate that whenever the coefficient and value of the share of direct tax revenues from the GDP except for oil revenues increases by one percent, the human development index will increase by 0.14 percent and vice versa. Furthermore, the coefficient and value of the share of oil revenues in the model show that in case the oil revenues increases by one percent, the human development index will increase by 0.06 percent and vice versa<sup>1</sup>. In this part of the research, the authors sought to examine the effects of taxes on the distribution of income, including the human development index (HDI) and to that effect, they applied the econometric model or linear regression model into the examination. The economic variables were divided into independent variables (namely tax driven revenues, share of direct taxes from the GDP except for oil revenues as well as oil revenues) and dependent variables (namely the human development index or HDI). These variables pointed to a specific relation in the formation of the econometric model and helped express the economic correlations in a mathematical language by application of the theoretical foundation of distributive effects of taxes on the distribution of income.

To conduct estimation for the said model, two-way logarithmic linear model was used where coefficients of the variables indicate the existing elasticity. Meanwhile, prior to carrying out the model estimation, several tests, including Chi square test, were conducted in order to examine levels of correlation between the independent and dependent variables especially as regards the tax revenues and the human development index. In the same regard, correlation matrix test was conducted to examine the correlation of all independent and dependent variables with one another. On the basis of the test, unfitting variables were removed from the model. Furthermore, the Dickey Fuller test or unit root test (DF) was conducted in order to ensure reliability of the model and then the authors started to make estimations and projections about the said model.

The results obtained from the model or examination of effect of tax driven revenues on the human development index (HDI) indicate that the tax revenues have had no positive effect on the said index. Put it another way, tax driven revenues, unlike economic theories which designate them as a tool for improvement of indicators of distribution of income, have failed to provide a key tool in the hand of the

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<sup>1</sup> The coefficients of every explanatory variable have been achieved independently in relation to the dependent variable, without taking into account other variables of the model. As a result, each of these coefficients indicates the amount and direction of effect of the independent variable with the dependent HDI variable on the basis of the unit designated in the model. Such kinds of models merely indicate the effect and direction of independent variables on the dependent variable separately, provided that other factors remain fixed.

government in Iran for the purpose of optimal distribution of income and related costs as a prerequisite for human development. The estimation of the model also indicated that additional variables can affect the human development index, including the share of direct tax revenues from the GDP except for oil revenues as well as the oil revenues. Such effect is so that a rise in the share of direct tax revenues from the GDP except for oil revenues would lead to a rise in the human development index (on the basis of the coefficients mentioned in the previous section). That is to say, at a time when direct taxes undergo a rise in an oil free economy, the government's expenses too would be consumed for the purpose of human development (education, culture and healthcare). This indicates that the variable (share of direct taxes from the GDP) has a positive effect on and moved in a similar direction with the human development (HDI). The results and findings attest to the fact that the taxation system in the Iranian economy, at least within the scope of the present study which covers the span of 1989 to 2004, has run in a way that it has failed to leave any positive effect on the distribution of income on the basis of the human development index (HDI). Similarly, based on these findings and results, the hypothesis that tax driven revenues have no positive effect on the human development index is confirmed.

#### **b. Indices of rentier government**

For the purpose of review of indexes of a rentier government in relation to taxation system, 10 indexes were raised in an in depth interview without explicitly noting the respondents about them. The argument behind the selection and classification of the respondents, whom were administered an in depth interview with the elite, was to collect a set of different views concerning the nature and features of the government in relation to the taxation system.

The eight fold groups (free market economists, institutionalist economists, taxation policy makers, tax collection authorities, tax payers, political parties, scholars of social sciences, and, finally, civil institutions). It was decided to interview with two individuals in each of these eight fold groups. The interviews were conducted according to the schedule and timetable except for the two groups of political parties and civil institutions where only one individual was interviewed. Collectively, 87.5 percent of the planned interviews (14 interviews) were conducted. Each interview consisted of 10 questions. Three of these questions received no answers in three interviews. Altogether, the interviewees provided answers to 97.84 percent of the questions. The 14 interviews took 537 minutes to complete.

#### **c. Magnitude of effect of oil revenues on HDI**

Katouziyan (2003: 75) argues that since the oil driven revenues are paid and received in the form of currencies, they virtually render the current account of payments positive and removes any need on the part of the government to the domestic political economy and subsequently the taxes collected from the public. Be that as it may, since the oil revenues have entered the current accounts of the country, they have certainly affected the tax revenues one way or another. Oil revenues seem to have stealthily been undercutting the roots of creativity and productivity in the Iranian society and undermining a predilection towards transparency and enquiry either on the part of the government or the social classes. At the moment, the Iranian budget depends on oil revenues by more than 50 percent. The reality has triggered an expansion of rents as well as generation of special politico economic relations in Iran and deprived the taxation system from any growth. Out of the total 14 in depth interviews, 62 percent of the respondents denounced oil revenues as a key factor which undermines the taxation system. They also described the oil revenues as the most unfair tax collected by the government from the public. For instance, Mr. Hussein Raqfar, from the group of institutionalist economists, holds "oil has rendered the political structure of Iran rent stricken and has prompted the public sector, which must otherwise promote a healthy economy, to seek and use rents. At such conditions, an oil driven economy would certainly runs counter to the interests of underprivileged groups in the society whereas the paramount purpose of a taxation system shall be to improve the living conditions of impoverished social groups." 29 percent of the respondents, combined of four interviewees, believed there some successful tax collection models are also underway worldwide with oil revenues accounted for and involved. Taking the viewpoints of the individuals into account, the authors would like to conclude that a majority of the respondents believe that oil revenue has more undercut the nation – government relationship than the taxation system.

Concerning the research hypotheses, 62 percent of the respondents were of the same opinion with the authors' conviction. The proponent individuals as regards the hypotheses were those selected from free market economists, institutionalist economists, scholars of social sciences, political parties and civil institutions. In other terms, those interviewees who have come from the scholarly class of the society as well as those from the third section of the society (civil institutions) have more reacted to the destructive effect of oil revenues on taxation system in the Iranian economy.

Other interviewees (taxation policy makers and tax payers) by no means showed advocacy to an injection of oil revenues to the current revenues and rather advocated a proper planning for use the raw material in the most optimal way. They however offered no token in their remarks that could substantiate the idea that they hold the government acts as a rentier entity in this regard. The existence of an agreement between the taxation policy makers and the tax payers in this regard somewhat adds momentum to the views of other respondents who are of the opinion that the Iranian economy and society have grown dependent on the oil driven revenues.

#### **d. Bureaucratic government**

There is no question that the government has been conspicuously involved in the Iranian economic bureaucracy. Some experts claim that more than 80 percent of financial resources in Iran are in possession of or controlled by the entity of government (Ta'ak journal, 2002: 5). The government's economic bureaucracy has emerged and exerted in the form of state run companies and enterprises. One of the goals of the economic development plans has been to curtail the size of activities of state run enterprises and companies and instead promote privatization schemes. The authors believe that the efforts to meet the goal have been slow and unsuccessful. "Since the government itself has adopted and enforced such downsizing policies, it has failed to strike a successful performance in this regard. The policy makers have claimed that in the process of the past two post-revolutionary plans, the privatization process has been dedicated to creation of relevant institutions with such example as the Supreme Board of Privatization and the Privatization Organization" (Report on Third Development Plan Implementation, 2004: 455).

In the same regard, a review of the funds of state run enterprises and companies prove that in the span of 1989 to 2003, the share of such funds from the budget has been boosted by 35 percent. The increase attests to a quicker expansion of state bureaucracy and reduction of rate of privatization (Report on Third Development Plan Implementation, 2004: 457). Accordingly, it would be natural for the taxation system to incur damages under the bureaucratic government to the extent that it fail to collect the tax from an income which is directly generated on the market. The respondents to the interviews agreed in large part that a bureaucratic economy leave unfavorable effects on the taxation system. For example, 93 percent of the individuals made it clear during the in depth interviews that state bureaucracy would hinder expansion and promoting of the taxation system. For instance, Qolam Heiydar Ebrahimbay Salami, a respondent from the group of scholars in social science, blames state bureaucracy for a deficient industrialization process in Iran, saying "by ceding the rents to state run enterprises, the government has prompted establishment of oil dependent industries instead of tax dependent industries and this is an outcome of a deficient industrialization process. Much efforts are needed to get rid of the situation and the undertaking somewhat proves very difficult in light of the fact that our social constructs have grown to put claims to the government. We have more sought a developed government than the interests of people." Only one of the respondents who was among the institutionalist economists in implicit terms put up a defense in favor of involvement of state enterprises in a bureaucratic oriented economy, at least as regards the taxation system. Farshad Momeni said "in my opinion, the state enterprises are not less competent than private companies to pay taxes if not to say more. For the same reason, state bureaucracy would not cause any tax related problems."

#### **e. Failure of welfare promises**

A principle of economics which is gradually turning into an institutionalized part of world political economy is the need to identify and preserve the resources of a welfare government. The argument is that welfare policies shall be regulated and executed in such a way as to prevent the country from running

out of reserves and capital resources. At stake here is the performance of the entity of government in this regard. Governments mostly tend to increase their expenditures so as to boost their popularity and at the same time keep social classes dependent on the government. "As a matter of fact, oil revenues constitute an owner style interest which is directly paid to the government. These revenues turn into an invisible source of welfare. These revenues help the government to pick a sizeable flexibility in its payments. In a word, this is not the money reimbursed by tax payers and as a result the government feels no responsibility with regard to how to spend the money" (Katouziyan, 2003: 290). For the same reason, rentier governments show more tendencies to adopt such oil oriented policies. 86 percent of the respondents to the in depth interview held that welfare promises which lack any financial backings are altering the original norms of effort and productivity in the Iranian society into consumerist values albeit on a stealthy and gradual pace. Accordingly, taxation system would fail to grow in a society where no production takes place. To offer an instance, Ali Farzin from the group of civil and ultra-national institutions touched on a surge in poverty in the oil revenues model, adding "With a T/GDP relation equal to 7 percent and with the fluctuations in the currency market due to fluctuating world prices affecting the budget by 50 percent, the situation is paramount to an increase in the price of public goods incurred by impoverished consumers."

#### **f. Inflation tax**

A surge in the volumes of fiat liquidity has always been a problem for the third world countries. The adoption of such policies as fiat money supply is somewhat an intervention tool in the hand of government with regard to monetary policies. Central Bank as an independent body has been assigned with the implementation of the fiat money policies. Inflation tax is levied with a view to creating more stray cash for the current expenses in the society and for its inflationary nature helps transfer the public's actual consuming power to the government. Since the tax is collected publicly however it would act against the interests of the lower classes of society and would expand poverty in the long run. Adoption of such inflationary policies constitutes another feature of the rentier government in Iran which has prompted the government to show excessive inattention towards taxation system. In developing countries the government usually resorts to supply cash money in order to remove or curb the sizes of the government's budget deficit. The policy however leads to larger amounts of liquidity in the society. In a similar vein, Cukierman, Edward and Tablini (1992) have proved that the more the levels of political instability and polarized and concentrated decision making expands the more the government gains revenues from the place of money supply in contrast to revenues driven by taxes. All of the respondents (100 percent) to the in depth interview were of the opinion that inflation tax would leave an unfavorable effect on the taxation system. Farshad Momeni from the group of institutionalist economists provided statistics upon which he argued that inflation tax also proves detrimental to the entity of the government. "In the Iranian economy, the government both stands as the largest consumer and investor. For the same reason, initially it was thought that the policy of inflation tax might be of help for the government however studies late in the 90s in the Ministry of Economy showed that with an inflationary policy in place, an increase by one unit in income would lead to an increase by 1.4 units in the consuming costs and 1.4 unit increase in investment costs. That is to conclude that the government was more harming both its entity and the society than serving."

#### **g. Bureaucracy and upsurge of exchange costs**

Katouziyan (2004: 289) blames the rentier featured government in Iran for an inefficient growth of state bureaucracy. "The World Bank assesses the index of administrative bureaucracy in every country based on a seven fold set of indicators, namely how long it takes to issue a legal license for a company, how many administrative procedures are in place for issuing such licenses, how many procedures are in place for the finalization of a contract, how many days it takes to register a title deed, how many administrative procedures are in place for registration of a title deed, and finally, how much it takes for a company to file for bankruptcy. According to an official report, Iran in 2005 has maintained the most complex administrative bureaucracy among the Middle Eastern countries following Egypt, the Palestinian Authority, Syria, and Iraq" (Mehr News Agency, November 2, 2005). In a similar vein, the national taxation system too has picked up some of the disadvantages related to the colossal administrative bureaucracy. In the tax collection apparatus, bureaucracy is usually identified by legal delays. For

example, at best conditions, a direct tax file which has completed all legal procedures including the delivery of tax exhibit (let's say) for the year 2001 would take until the end of 2003 to be dealt with by legal authorities, given the file shall not be required to be tabled by the boards of taxation dispute settlement (such condition will prove that the holder of the tax file strictly abides by the law). Such a large delay coupled with an annual inflation clearly shows that bureaucracy has dealt a heavy blow to the efficiency of the taxation apparatus. All the respondents to the in depth interview were approved of the idea that bureaucracy and costs of exchange lingered as a problem in the Iranian economy. For instance, Alki Akbar Arab Mazar, the [then] chairman of the National Taxation Affairs Organization from the group of taxation policy makers admitted that complex bureaucracy had led to an increase in the cost of compliance and subsequently, the cost of tax collection. "Bureaucracy would leave a large negative effect (on tax collection). The cost of compliance of a tax payer would rise due to bureaucracy and the disadvantage in return pushes up levels of tax evasion and corruption. The cost of compliance is a cost which is relevant to the tax player's accounts. It is also detrimental to the taxation system and causes the costs of tax collection to rise."

#### **h. Institutional and thematic exemptions and preferences**

Until the end of the second development plan, an incentive for investment was to grant tax exemption or tax deduction to investors and the laws and regulations in place were rife with such exemptions or deductions. Nevertheless, a desired result was never achieved from such tax exemptions or deductions, let alone the cases where such tax incentives turned into a ground for expansion of corruption or promotion of brokering market instead of further production. Concurrent with the implementation of an economic reform plan in 1998 by Sayyed Muhammad Khatami's Administration, the country's taxation apparatus modified its approach towards tax exemptions so that instead of a focus on tax incentives, the decision makers began to revise the operational procedures of tax collection with a view to rendering the rate of concentrated tax collection more logical. The approach was signed into a binding law during the third development plan. The article 58 of the law on the third development plan removed any previous tax exemptions except for those exemptions which were allocated to cultural sector or imports of paper rolls for the supply of school text books as well any tax exemptions enshrined in international conventions on trade. The first note of the said law requires that any exertion of the article for institutional exemptions which are legalized by virtue of directives either issued by the late founder of Islamic Republic, Imam Khomeini, may his soul rest in peace or his successor, Hazrat Ayatollah Khamenei shall be subject to their approval. Similarly, a second note under the article exempted any defensive gears imported by the Ministry of Defense and Logistics of the Armed Forces from the provisions of the law.

Article 58 of the law on the third development plan opened a new chapter in the Iranian taxation system after removing exemptions, deductions, and expansive legal preferences granted to the revolutionary and non-state, public institutions, putting an end to protracted disputes and debates concerning the shortfalls and disadvantages in the field Report on Third Development Plan Implementation, 2004: 33). The approach was also adopted under the fourth development plan and the taxation apparatus in 2004 released a report in which it announced that total 14,315 rls in taxes would be collected until the end of 2004 in case the tax exemptions granted to certain commodities are abrogated. In the in depth interviews conducted under the present article, 57 percent of the respondents held that it was not in the interest of the national taxation system to keep the exemptions in place. For instance, Akram Muhamadi from the group of tax collection authorities noted that the exemption process was highly complicated. "Tax exemptions linger as a complex issue. There are so many executive procedures in place to this end that entitled individuals find it impossible to apply them. Concerning the institutional exemptions, I hold that under principles of tax collection, institutions shall not be exempted. They have been exempted by virtue of the government's policy but the issue is not interest of the taxation system. In the course of my years of service, I never came to see such tax exemptions in the interest of tax payers. Government would rather extend its assistance through a way rather than tax exemptions."

**i. Government's dependence on importation and foreign loans**

Importation and foreign loans constitute two major and substantial part of foreign trade in any country. It is thought that the specifications of domestic economy of a country would direct the country's policy on importation and foreign trade. As regards such policy, a rentier government tends to provide its people with a minimum table of basic needs at any cost so that it decides on such an undertaking without paying any attention to future of economy as well as composition of the country's resources. Katouziyan (2003: 295) holds that as the state run economy of Iran entered the 50s in the solar calendar (or 1970s in the Gregorian calendar) which was accompanied by a larger position for oil revenues in the annual budgets, imports saw a crazy rise and foreign debts of the country skyrocketed which in turn proved erosive for economy, destructive for society and source of mental instability for the nation. 50 percent of the respondents held that the current procedures of foreign imports and loans are detrimental to rate of saving and instead promotes consumerism in the society. As a follow up, direct taxes generated by gross domestic product would shrink in the long term. For instance, Behrouz Mahdlou, from the group of tax collection authorities told the interview when asked about the performance of import system "a policy of imports which tends to run in the same way as we import Chinese goods and proves fatal for domestic production would also prove detrimental to taxation system. Imports must not be conducted in such a way as to ruin small scale productive economies." In the same vein, Farshad Momeni from the group of institutionalist economists underlines that the foreign loan application policies are detrimental to the country, adding "application for foreign loans wil brought the symptoms of Dutch disease for our country and would lead to a fall in the tax collection capacity."

**j. Significance of tax researches**

Tax collection study is an inter-disciplinary domain of study incorporating insights from such disciplines as economics, politics, sociology, study of systems and accounting. So far however the least of attention has been paid in Iran to taxation studies among the mentioned disciplines which in turn brought about a shortfall in taxation researches. So far, academies where accounting is taught have paid most attention to taxation affairs. This is partly because of a course in accounting with specialization in taxation on offer in the Faculty of Economics as well as establishment of Iran's Association of Certified Accountants. Nonetheless, the cases discussed above have more dealt with operational procedures of taxation to the extent that there are few researches about the fundamentals of taxation in Iran. Even a series of on job trainings offered to the white color workers and their managers in the taxation collection administrative apparatus have more dealt with accounting methods of tax collection and the organization of taxation affairs have paid little attention to fundamental taxation issues. It shall be noted however that a positive trend is in the making in this regard following the establishment of the National Tax Organization in the country. Be that as it may, academies and scientific circles which deal with other disciplines, notably in social sciences, politics, history and analysis of economic and social systems, have been in a historic negligence as regards this crucial element of national development. It is expected that the shortfall is removed through a full implementation of a master plan on taxation information which consists of different domains of knowledge. Respondents to the in depth interviews provided different answers concerning the tax research shortfall so that the authors could not designate poor taxation research as a shortfall of rentier government. However, all respondents were of the opinion that the executive apparatus has failed to apply and use such researches effectively. Alki Akbar Arab Mazar from the group of policy makers admitted that little heed had been paid to software researches. "There are research centers which assist the taxation system however research alone is not enough and the far more important thing is to incorporate the findings of such researches into the structure of executive apparatus. Apparatuses in our country pay little heed to software studies including taxation, management and policy making. You see we have many news programs on a daily basis out there covering the latest research findings on medicine or healthcare. However, they fail to follow the suit on software findings."

**k. Effect of civil institutions, business guilds and political parties**

Civil institutions, business guilds and political parties altogether constitute the third tier of society and shall perform efficiently and properly so as to materialize their role in providing solutions to different social welfare affairs. Nowadays, civil institutions have turned into an audit in favor of the public setting up scrutinizes into the performance of state bodies in handling of social affairs. To do the undertaking,

such institutions have to deal with fundamental social issues and for the same reason "taxation" proves a significant element when the civil institutions come to adopt their attitudes into the relevant affairs. "Non-governmental organizations in Iran are active in six different domains, namely welfare, development, support – promotion, education, network building and research with welfare related NGOs making 29.2 percent, development related NGOs making 6.8 percent, supportive NGOs making 33.9 percent, educational NGOs 25 percent, network building NGOs making 2.1 percent and research NGOs making 3.1 percent of the total number of NGOs" (Saeedi, 2003: 125). On the flip side however even though nearly 35 percent of the Iranian civil institutions are active in welfare and development affairs, few reports or ideas have been produced by them concerning the crucial element of taxation. In a similar vein, active student groups across the Iranian academies and universities which are engaged in significant social issues including political and economic rights and issue their statements one way or another at any occasion or pretext from the International Labor Day to defense of political activists, have taken few actions with regard to the crucial element of rights of nation and government (taxation). The authors hold that such fundamental concerns as taxation do not happen to the Iranian civil institutions because these institutions are not engaged in independent enrollment of activists and fail to observe such modern procedures as collection of membership fees as they rely on the government in funding their services.

Like the case of civil institutions, business guilds too can play a major role in the formation of taxation system. Since the business guilds bear a duty to support their fellow guild members, their function as regards taxation has been limited to application for tax deductions or haggling affairs so that they have found few opportunities for making any claims for establishment of due taxation policies or revision of the policies in place. The records of the guilds however show they are growingly enhancing their attitude and practice. Several appreciable analyses have already been conducted and published in the Gazette of Guilds, the official journal of the National Assembly of Guilds Affairs. Nonetheless, the mainstream guild members are still unfamiliar with the goals and functions of taxation. The shortfall shall be largely blamed on the faulty tax collection procedures which were in place during the past years. Political parties for their own part have a major position and role in promoting the taxation system. The argument is that political parties have the authority and power to form or establish a government and therefore they shall take a robust and applicable attitude towards taxation affairs. The process has become regular in all elections worldwide to the extent it has become a major parameter for voting a government into office. On the basis of the argument, Anthony Downs presents his median voter theorem in the public sector economics. "According to the theorem, in decisions which are taken based on a vote majority, an economic policy would be chosen which is more preferable in the eyes of the media voter" (Dadgar, 2001: 223). Be that as it may, no Iranian political party has presented any specific attitude for taxation affairs in its partisan manifest. Respondents to the in depth interviews put civil institutions and business guilds into a single group while tackling the case of political parties separately.

According to the collected views, a majority of the respondents consider the performance and role of the civil institutions, business guilds and political parties as progressive in Iran. For the same reason, the index of weak civil institutions and business guilds is not confirmed as a feature of rentier government. However, 43 percent of the respondents were of the same views as the authors' in this regard. For instance, Ali Asqar Saeedi of the group of scholars in social sciences said "Civil and guild institutions have more encouraged tax evasion and produced a negative image of taxation. We are in need of a civil environment where consensus rules. Put it another word, a political parties, civil institutions and guilds should come into harmony with one another so as to fund the national expenses from the place of collected taxes otherwise no problem would be resolved by mere presence in taxation rate commissions or dispute settlement ones." Farshad Moomeni from the group of institutionalist economists for his part called it positive for civil society to engage in taxation affairs, saying "A debut practice in the taxation system following the revolution was to involve the guilds on an extensive basis in the taxation rate determination. They would become more effective once they help block ways of tax evasion."

### 1. Effect of promotion tax payment attitude

The term of "tax attitude" stands for a promotion in voluntary compliance of tax payers. It seems that the entity of government in Iran has somewhat inadvertently promoted tax evasion, leading to an ever weakening tax payment attitude among tax payers, poor tax policy making within the entity of government and indifference on the part of reference authorities. In a word, segments of the Iranian taxation apparatus lack a proper taxation attitude. Different discriminations, lack of respect to private ownership, unstable economic regulations, lack of a specific strategy in the distribution of welfare commodities and other similar shortfalls have combined to render the national taxation system vulnerable and block the growth of tax payment attitude. Taxes constitute a source of legitimacy for a government as the nation shall be entitled by virtue of tax payment and the government shall be required to be responsible. Given that any of these components fails to live up to its duties and at the same time, the intellectuals or civil institutions fail to elucidate the significance of the economic process in the eyes of people and government, the country would suffer a setback. Accordingly, the tenth index of rentier government embodies all other assumptions about the features of such a government. 86 percent of the respondents to the interviews held that taxation attitude in Iran face a crisis. A cognate example can be seen in how business guilds lately treated the government decision to levy value added tax. Ali Asqar Saeedi from the group of sociologists said "rights of citizens shall be protected with regard to taxation. Taxes have a property; they can make the government to serve the people. When an individual says "I am a tax payer" that is to say the state authorities shall be required to provide explanations on let's say why a specific development project has become so costly. We must exercise responsibility if we wish to experience a favorable taxation attitude."

Tax payers however are in large part blamed for such disadvantageous taxation attitude and thus efforts shall largely be made to encourage the people to engage in tax payment. Tax payment by a legal tax payer constitutes the last loop of a taxation chain. However, the significant process of voluntary delivery of tax exhibit and tax payment will come about when the components of the taxation system run efficiently and promote voluntary tax compliance. The respondents to the interviews were of the consensus that besides tax payers, the state taxation policy as well as social elites suffered poor attitude of tax payment. In sum, out of the ten indices of a rentier government, eight indices were confirmed by the respondents to the in depth interview. The two exceptions were civil institutions and taxation researches. It follows that the features of a rentier government shall be blamed for inefficiency of the entity of government in its duties concerning distribution of income.

### Discussion and Conclusion

The findings of the research indicate that on the basis of the estimation of the mathematical model, any one percent increase in the total tax revenues would cause a 0.7 percent fall in the human index development. The reality shows that the Iranian taxation system has failed to be an effective factor in improving the records of distribution of income and reducing the levels of inequalities and at some occasions it has acted adversely. That is to say the tax revenues unlike economic theories which designate them as a tool for improvement of indicators of distribution of income, have failed to promote such significant social indicators as education, culture, healthcare and public buying power (components of the human development index). Whereas the government is expected to distribute any collected taxes between different classes of society on a quick pace so that public merit goods are supplied and different strata of society prepare themselves for involvement in a competitive system on the basis of the second theorem of welfare economics. Accordingly, the structure of budget and government expenses (tax incidence in view of Hicks and Musgrave) is so that it fails to promote social welfare. Another independent variable was total oil revenues which account for a vast part of the budget. The fit model indicates that any one percent increase in the independent variable of direct tax to gross domestic product would lead to 0.14 percent increase in the human development index, giving rise to the hope that in case due planning is in place as stipulated in the article 2 of the law on the fourth development plan (the government shall plan in a way that at the end of the fourth development plan, the current expenses of the budget can be funded from the place of non-oil revenues), dependence on oil grows less and the taxation system takes a boost, leading to more welfare for the society.



The in depth interviews conducted to examine the tenfold indices of rentier government in the second hypothesis indicate that eight of the ten indices are confirmed concerning the entity of government in Iran. These are independence to oil revenues, governmental bureaucracy; fail welfare promises, application of inflation taxation policy, inefficient bureaucracy, high exchange costs, excessive institutional and thematic tax exemptions and preferences, disproportionate imports and foreign loans and poor tax payment attitude. Due to these disadvantages, the entity of government fails to live up to its duties as regards distribution of income. On the basis of their studies and researches, the authors put forward the following proposals for promotion of taxation system in Iran.

- For the purpose of effective role of taxes in income distribution, pillars of taxation system shall be boosted and at the same time, undue exemptions shall be removed. For example, since the burden of tax is transferred from the place of taxes to companies, the rate of taxes on companies shall be reduced while the rate of tax on wealth shall be increased.
- Since the citizens earn their income largely from the place of workforce, the rate of taxes levied on workforce shall be balanced in keeping with annual line of poverty.
- The main shortfall facing a rentier government lies in their clientelist approaches. The shortfall surfaces in the taxation system in the form of expansive tax exemptions. To reduce the levels of clientelism, tax exemptions especially those granted to state institutions, shall be removed from the Iranian economy.
- A fitting model of governance shall be an independent government reliant on society. Accordingly, the entity of government shall limit its resources to taxes so that the grounds are prepared for its responsibility towards the nation.
- Oil is the largest source of rent in Iran's economy. The government shall follow the article 2 of the law on the fourth development plan and downsize the share of oil revenues in the budget on the basis of a timetable.

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