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One Hundred Years of Oil Income and the Iranian Economy: A Curse or a Blessing?

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Abstract


This paper examines the impact of oil revenues on the Iranian economy over the past hundred years, spanning the period 1908-2010. It is shown that although oil has been produced in Iran over a very long period, its importance in the Iranian economy was relatively small up until the early 1960s. It is argued that oil income has been both a blessing and a curse. Oil revenues when managed appropriately are a blessing, but their volatility (which in Iran is much higher than oil price volatility) can have adverse effects on real output, through excessively high and persistent levels of inflation. Lack of appropriate institutions and policy mechanisms which act as shock absorbers in the face of high levels of oil revenue volatility have also become a drag on real output. In order to promote growth, policies should be devised to control inflation; to serve as shock absorbers negating the adverse effects of oil revenue volatility; to reduce rent seeking activities; and to prevent excessive dependence of government finances on oil income.

Keywords: oil price volatility, oil income, rent seeking, inflation, macroeconomic policy

JEL Classification: E020, N150, Q320

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