Study on the Effects of the Resources for Fixing Budget Deficit on the Rate of Inflation in Iran in the Years 2001 to 2004.

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Abstract

For apply government Tissues need for a budget schedules. To make use money and financial policy and use of rate sociality resource. This research for evaluation the resource of budget in an inflation among (2001- 2004) years in Islamic republic of Iran use. Identify of weakness and sing difficulty's, use, budget control, change the wages to estimate the cost and wages, wages use of resource from change the rational of inflation rate. Financial resource create budge income three section increasing wages, decreasing cost during period (2001- 2004) years from spent expert oil material and non-oil material inspection increasing wages very infection for inflation rate. Give external's money for reason a few and internal money for reason non Deposit of Bank system, customs wages and pay toll's for reason facilitate in expert and present expert communication's few infect in inflation rate. This research include eight Divert Hypothesis in from three major Hypothesis. For agreement or Disagreement research Hypothesis for description effect themes make request research and use Likert scale deduction for consider productivity. Review and created information in way library and information to complete and loyal results use and reason of make math the inflation rate Discussing. Infernality introduction of research in internal and external Iran determine to deduction.

Keywords: Budget; Rate of Inflation; Environmental; Resources

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Introduction

The 2004 the Central Bank government finished last September 30, recording a budget deficit of $22 billion–not quite 0.3% of national product. President Clinton will submit a balanced budget for fiscal 1999. Essentially, the budget is in balance. However, "balance" is an ambiguous concept. There are plausible technical adjustments and corrections to the budget that would have put it into either surplus or deficit last year. For instance, treating government investments as capital expenditures to be depreciated–as a business would–would have produced a budget surplus. Other technical setting and corrections–for example, removing the ancient Survivors Disability Insurance and Medicare trust funds from the unified budget totals–would have pushed the financial budget deeper into deficit. The important thing to note is no matter what concept of the deficit one prefers, or what technical adjustments and corrections one makes, the deviation of the budget balance from zero remains too small for it to have a major effect on the Iranian economy.

On one level, the improvement in the deficit in these ten years is an encouraging and important achievement. Even though relatively little was done to affect the future course of the deficit in 2004–the President-congressional deficit-reduction agreement of 2004 was small compared to previous deficit-reduction agreements–the cumulative total decrease in the deficit so far this decade is a substantial economic policy winning. It shows that the Iranian system possesses more flexibility than many had ideas a decade ago "structural" explanations of the deficit as stemmed in the organizational introduction of the President and parliament, and thus as inescapable, were prevalent.

Nevertheless, just because this past year's governmental budget was in shear balance does not mean that the fiscal situation in the IRAN is stable. The long-run fiscal crisis of the social insurance state–the fact that security and Social Security taxes are inadequate to pay the benefits that the government has promised over the next century–remains unresolved. Moreover, frequent managers and congresses keep passing up opportunities to begin resolving it.

Decreasing the budget deficit

In the summer of 2004, the President and the parliament announced the third deficit-reduction treaty in this decade, which carried on the work of the 1990 deficit reduction

agreement and the Democratic 1993-deficit reduction program. However, there was one significant difference between the 2004 agreement and the previous agreements. The amount of deficit reduction contained in the 2004 agreement was relatively small. The 1990 and 1993 deficit-reduction agreements appeared to be between six and ten times as large in the proportion size of their effects on the economy.

The reason for its small relative size is that given the trend of the Iranian economy, there was simply not that much deficit left to reduce: in 1992, the Central Bank government budget deficit had amounted to 4.7% of GDP, but in 2004, it amounted to only 0.3% of GDP. Thus, the bulk of the work of eliminating the deficit had already been done–by the strong recovery of the IRAN economy from the recession of hardline 1990s and by the 1990 and 1993 deficit-reduction agreements.

Nearly half of the reduction in the deficit since 1992 from 4.7% to 0.3% of GDP is due to the reduction in the unemployment rate and the increase in GDP relative to potential output. In fiscal 2004, the IRAN unemployment rate decreased some 2.5 percentage points below its level of fiscal 1992. According to Okun's Regulation, such a reduction in unemployment reflects an increase in GDP relative to potential output of some 6.25%. Such an increase in output relative to potential has a striking effect on the deficit: at the margin, an extra dollar of real GDP increases Central Bank tax collections by some $0.25 and decreases Central Bank spending by some $0.07. In contrast, the improvement in business cycle conditions since 1992 is responsible for reducing the deficit as a share of GDP by some 2.0 percentage points.

The remaining 2.4 percentage points of reduction in the deficit as a share of GDP are a reduction in the cyclically adjusted deficit. The bulk of this is due to policies enacted in the 1990 and 1993 agreements, such as increases in taxes, and reductions in spending growth below the growth rate of the economy as a whole. And a final component is due to "extraordinary" factors, like the end of expenditures by the Resolution Trust Corporation which had been set up to handle the consequences of the 1980s savings and loan crisis.

Methodology

The achievement of IRAN economic policymakers in reducing the deficit without imperiling continued economic recovery is worthy of note. Standard estimates of the effects of a given change in government spending and taxes on real GDP (known as

Keynesian multipliers) today are less than they used to be–in the range of 1.5 to 2.2. Nonetheless, the substantial reduction in the cyclically adjusted deficit between 1992 and 2004 reduced aggregate demand by between 3 1/2% and 5 1/2% of GDP; under most circumstances this would trigger a mild to severe recession. Yet in Iran the mid-1990s have not seen any signs of recession, in part because the economy in 1992 was poised for cyclical recovery and in large part because of the skillful conduct of monetary policy. The Central Bank Reserve's efforts to keep interest rates relatively low managed to offset achievement fully any contacting impact of reductions in the cyclically adjusted deficit without triggering renewed inflation. Given how often the Central Bank Reserve, the Congress, and the President are blamed for an inappropriate or faulty monetary and fiscal policy mix, it is worth pausing to note that in the mid-1990s the policy mix appears to have been exactly right.

Data analysis

In the United States, the period of large government deficits dates from 1974 (. 2). The period of overwhelming deficits–deficits so large that they are not just a serious economic problem but also the economic problem–dates from 1981. By combining tax cuts with increases in defense spending, the Reagan administration and its congressional supporters made a mistake in budgetary policy that amplified the fiscal difficulties that had been created by slow growth in the 1970s and that gave the United States some 15 years of unprecedented peacetime budget deficits.

It is difficult today to understand the seen processes of those who set fiscal policy for the Reagan administration. Certainly no one intended to create large budget deficits that would drain the pool of capital for investment and retard the growth of the Iranian economy. And even today the story is not clear, in large part because for more than fifteen years those who developed Reagan administration fiscal policy have argued among themselves over just who made the key mistakes and over just what the key mistakes were.

By absorbing capital that otherwise would have funded private investment, the deficits left the IRAN with a lower capital stock, a less productive economy, and a debt owed to overseas investors that must now be amortized. How destructive were these deficits? Different assumptions about the structure of the IRAN economy and different methodologies lead to different results.

Higher estimates come from models that characterize the IRAN as a "closed economy"–that is, one in which international capital does not flow in or out, so that no part of the deficit can be financed from abroad. Assuming a 10% real pretax social rate of return on investment and assuming that technological change and savings behavior do not respond to the deficit lead to the conclusion that IRANreal production today is 5% less than had the Central Bank budget been balanced since 1981. But the "closed-economy" assumption is highly inappropriate, even though the savings assumption may not be.

Lower-end estimates come from models that characterize the IRAN as an economy in which all budget deficits can be seen of as financed from abroad. Such models lead to the conclusion that IRAN real GDP today is some 1.5% less than had the Central Bank budget been balanced since 1981. But the assumptions of these models are inappropriate as well.

These estimates of between 1.5% and 5% provide us with boundaries to calculate the lost annual income for the economy as a whole–roughly between $1,000 and $3,500 for the hard Iranian worker–as the net consequence for economic growth of the period of deficits. It is possible to obtain estimates that are lower (or higher), but they require making assumptions about the structure of the economy that are even more speculative.

in order to investigate the relationship between concentration of proprietorship and lack of information symmetry with profit management a model was used in which optional accruals were used as indices of profit management and a function of lack of information symmetry and concentration of proprietorship. The model is follows:

$$DAC_{it} = \alpha_0 + \alpha_1\ DINS_{it} + \alpha_2\ ABS_{it} + \alpha_3\ ABS_{it}*DINS_{it} + \alpha_4 MTB_{it} + \alpha_5 Size_{it} + \alpha_6 Lev_{it} + \alpha_7 Beta_{it} + \alpha_8\ LGDEBT_{it} + \varepsilon$$

Where

DAC_{it} is the optional accruals of the company I in the year t

$DINS_{it}$ is the virtual changeable variable which is one if the level of concentration of proprietorship in the company I is more than the mean of concentration of proprietorship of all companies and will be zero if they are not

$ASBS_{it}$ is the level of lack of information symmetry of the company I in the year t

MTB_{it} is the ratio of market value to nominal value (growth opportunity variable) of the company I in the year t

$Size_{it}$ is the natural logarithm of the assets (size of the company) of the company I in the year t

Lev_{it} is the ratio of liabilities to assets (financial lever) of the company I in the year t

$Beta_{it}$ is the criterion of systematic risk of the company I in the year t

$LGDEBT_{it}$ is the natural logarithm of the overall liabilities of the company I in the year t

10- Method of measuring profit management (dependent variable)

In the present study, the optional accruals were used as the indices of profit management. These accruals were calculated using remainders of the regression of all accruals on sale, property and machinery (independent variables).

In order to measure the optional accruals, Dechow et.al. (1995) model modified by Kothari, Leone and Wasley (2005) will be utilized. This model is as follows:

$$\frac{TACC}{TAi,t-1} = \alpha_1 \left(\frac{1}{TAi,t-1}\right) + \alpha_2 \left(\frac{\Delta REVit}{TAi,t-1}\right) + \alpha_3 \left(\frac{PPTi.t}{TAi,t-1}\right) + \varepsilon_{it}$$

Where:

TACC is the total accruals (net operational profit after taxes- cash flow induced by operational activities)

ΔREV is the change in annual sale

PPE is the net value of properties, machinery and tools

$TAit-1$ is the overall nominal value of the assets

ε is the remainder of regression

In this model, remainders of the regression are optional accruals used as an index for the quality of reporting (dependent variable) in hypotheses tests. The more this value is the lower the quality of the accruals will be.

The end of the period of deficits means that the total drag on the economy inflicted by cumulative budget deficits is no longer increasing. It also means that fears common in the 1980s that the Iranian economical system had broken down and was no longer capable of producing rational fiscal policy decisions have turned out to be overly alarmist. Indeed, looking back, perhaps the single most important step in bringing the

Central Bank deficit down was a procedural step, the Budget Enforcement Act (BEA) of 1990 imposed by President Bush as part of his price for agreeing to the 1990 budget deal. It changed the rules of Congress, making any proposal that would increase the deficit automatically out of order, and requiring supermajority votes to suspend this rule. It also made the Congressional Budget Office (CBO) immensely powerful, for it was the CBO that decided whether a legislative proposal would increase or reduce the deficit, and therefore whether the proposal was in or out of order. Largely, all agree that the CBO has handled its power well, delivering decisions that have been professional and technical, rather than economical. In addition, the CBO's ability to use its power has been very effective in the past seven years in preventing Congress from passing bill after bill that each adds a drop or two to the deficit. The IRAN economical system has demonstrated some flexibility and competence. That is certainly cause for some celebration.

Conclusion

While we should celebrate the achievement of rough balance in fiscal 2004, we also need to look further ahead and recognize the temporary nature of the current fiscal policy achievement. Furthermore, into the future the fiscal outlook turns downward again, with renewed and growing budget deficits beginning late in the next decade.

This worsening scenario is projected because the United States today has a social insurance system, a Medicare and Social Security system, which was designed back in the 1970s for an economy that would be growing at a measured hard rate of 2.5% per person per year. However, the United States today in fact grows more slowly–at a hard speed of less than 1.5% per person per year.

Consequently, the taxes that have been earmarked to pay for Social Security and Medicare as the IRAN population ages and the baby-boom oriented approaches retirement are not going to cover the costs of providing currently promised benefits for far into the next century. At some point before the baby-boom oriented reaches retirement age, the country will have to decide either to cut Social Security and Medicare benefits below levels that have been implicitly and explicitly promised or to raise social insurance taxes. The sooner the Iranian economical system makes this choice, the easier the process of adjustment will be. The longer the choice is delayed,

the more disruptive and difficult will be the process of transition and adjustment to a sustainable social insurance system.

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