Social Policy and State Capacity in Iran: Health and Education Policy from 1981-2009

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The fact that states operate under different structures and capacities in order to provide welfare and social justice for their citizens has been the subject of various studies. Since the capacity of states differs at various times and in different situations, their capabilities for welfare provision vary as well. The present paper draws upon the state-centered framework, applying quantitative methods and secondary data to study the relationship between state capacity and two aspects of social policy, education and health in Iran from 1981 to 2009. The findings reveal that there is no statistically significant relationship between state capacity and education policy with respect to social expenditure from 1981 to 2009. Yet, there is a statistically significant relationship between state capacity and health policy. Considering the structure of political economy in Iran, results of this research reveal that different aspects of social policy have not been evenly influenced by the capacity of the state.

Key words: *social policy; state capacity; health policy; education policy; social spending; extractive capacity*

Since the beginning of the twentieth century, the state has been expected to enhance living standards and create social equality not only through economic activities but also through ensuring people's access to certain basic commodities. The welfare activities of any kind, defined as non-political and personal affairs in the 19th century, began to be perceived as political issues to be addressed by the state. According to Amenta (2003):

Scholars tended to see social policy as lines of state action to reduce income insecurity and to provide minimum standards of income and services and thus to reduce

inequalities. State programs that worked in these ways were called "Social programs" or sometimes, more hopefully "welfare state programs," with the whole of these programs known as "Social policy." (p. 92)

Social policy (Walsh, Stephens, & Moore, 2000), through addressing social problems, aims to create a healthy and sustainable society. As Dean (2009) has highlighted, the strength of social policy lies in its critical analysis of social problems. So, social policy is considered one of the principal issues of modern policy, and according to Walsh et al. (2000), it is "essentially a political activity" (p. 12). Social policy has redefined state–society relations, or as Alcock, Daly and Griggs (2008) put it, "social policy is the study of the state in relation to the welfare of its citizens" (p. 3). Therefore, "politics as of power-politics is the process through which the production, distribution and use of scarce resources is determined in all areas of social existence" (Bambra, Fox, & Scott-Samuel, 2005, p. 190). The concept of developmental social policy, sometimes used interchangeably with the notion of the 'productivist' welfare state, has appeared in widely diverse policy contexts (Razavi & Hassim, 2006). According to Bangura and the United Nations Research Institute for Social Development (UNRISD) (2007), "social policy development has occurred in both authoritarian and democratic regimes" (p. 4). So the state, in addition to its supreme function of preserving national order, is given the task of solidifying economic development and realizing the minimum welfare, as an agency and a social institution (Evans, 2001). Fitzpatrick (2006) believes that fifty percent of what we vote for relates to social policy. Therefore, states strive to perpetuate their existence through implementing effective social policies, and they cannot survive while disregarding the needs of their people (Dani & deHaan, 2008; Habermas, 2001).

In the Middle East and North Africa, where most countries possess considerable oil reserves, social policy is only beginning to be understood and studied (Karshenas & Moghadam, 2006). In Iran, it is also the case that researchers have failed to pay adequate attention to policy as an important domain in social sciences (see Qarakhani, 2011a). The present study examines the role of the state in social policy, considering the

structure of the political economy of the state in Iran. While considering the state as one of the agents creating and perpetuating social problems, this study discusses the responsibility of the state, which, given the rentier and neo-patrimonial nature of the state in Iran, regards itself as the prime actor in the domain of social welfare. The budgets of rentier states like Iran are heavily dependent on the income from natural resources such as oil; thus, these countries do not have or require many other sources of revenue. The strategy of a rentier state is to distribute rent in society so that public welfare can be promoted. Because of the structure of the political economy in Iran, the state is heavily dependent on oil revenues and plays a pivotal role in the distribution of income. Also, according to the Iranian Constitution and the five-year Development Plans of Iran, the state is considered the main provider of social welfare.

Different states vary in terms of their ability to achieve their social and economic objectives. This ability, sometimes referred to as state capacity, varies in different situations and time periods. Thus, the ability of the state to promote social welfare, as a social objective, is not always the same. Hence, the present study aims to examine the relationship between state capacity and social policy with respect to education and health in the last three decades (1981-2009). Therefore, the research question is how did the state's capacities in Iran determine the changes in social policy from 1981 to 2009?

To answer the above question, this study first outlines the subject of social policy in Iran's context, then examines the role of the state in the development of social policy in Iran, and finally tests the theoretical hypotheses in relation to the empirical data.

The Theoretical Framework

The main problematic issue advanced by pluralists and Marxists in the 1960s and 1970s was the question of how society could exert control over the state. In such discussions, the state did not have a self-sustaining, or *sui generis*, status. In reaction to those authors who understated the role of the state, others attempted to "bring back the state" in the 1980s (Evans,

2001, p. 81; Skocpol & Amenta, 1986). "In recent years, the tendency of those approaches to emphasize the dominant, if not determinant, role of societal forces in shaping public policies has been challenged from many quarters" (Kim, 2004, p. 216).

Theories known as state-centered or institution-centered were transformed into structured policy and then into structural institutionalism. "Social theorists oriented to the realities of social change and politics on the European continent refused (even after industrialization was fully under way) to accept the de-emphasis of the state characteristic of those who centered their thinking on Britain" (Skocpol, 2002, p. 7). Now that comparative social scientists are again emphasizing the importance of states, it is perhaps not surprising that many researchers are relying anew—with various modifications and extensions, for sure—on the basic understanding of 'the state' passed down to contemporary scholarship through the widely known writings of such major German scholars as Max Weber and Otto Hintze (Skocpol, 2002).

In contrast to the society-centered theorists, the state- or institution-centered theorists view the significance of states and institutions as the main factors influencing welfare policies. Rather than viewing modern social policies as the product of industrialization, these theorists embark on identifying the cultural and historical diversities of societies which lend welfare policies different institutional settings (Skocpol & Amenta, 1986). These authors have pointed to the need for analytical approaches in situations where the state or government plays a more active and constitutive role in articulating political structures that shape the political behavior of societal actors, be they conceived of as interest groups or social classes (Cho, 2007; Kim, 2004). According to Amenta & Carruthers (1988), "state policies are shaped by the structure, character, and historical experiences of the state itself. State capacities, state autonomy and state centralization are often mentioned as three key characteristics" (p. 666).

Based on previous studies, Amenta & Carruthers (1988) identified different kinds of state capacity analysis, one of which is the fiscal strength of the state. "The fiscal strength of the state is often examined in the following fashion: the greater the fiscal capacities of the state, the sooner the passage of social legislation and the more generous the spending on social programs" (p. 666). Figure 1 shows the influence of state capacity on the

development of social policy.

Figure 1. Influence of State Capacity on the Development of Social Policy

Increase in the fiscal capacity of the state	→	Faster passage of social legislation + Allocation of a larger budget for social programs
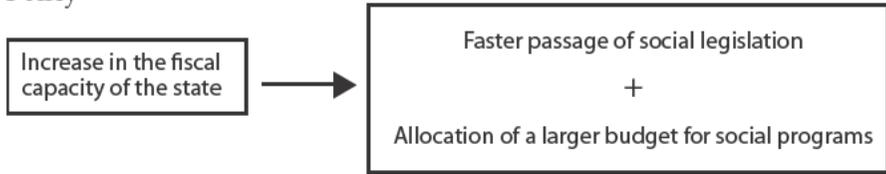
Considering the rentier nature of the state in Iran, and also in line with the state-centered theories that consider the study of social policy as the study of the role of the state, this study focuses on the role played by the state in the domestic affairs of the country. The rentier states in the countries that are dependent on the oil revenues and also in neo-patrimonial countries believe that the patriarchal state is the guardian of the society (Karshenas & Moghadam, 2006). The rentier state has access to huge economic resources, and is able to finance generous social policies for key segments of the population (Moghadam, 2006).

The rentier state influences all of the economic, political, and even cultural facets of the country through allocating oil revenues (Momeni, 2003). The general strategy of the dominant group in the rentier state is to distribute in society a fraction of the huge wealth generated through rent (Haji Yousefi, 1997). Some rentier states of the Middle East [including Iran] can provide social welfare and welfare services for their citizens when the oil market is booming (see Karshenas & Moghadam, 2006). This is carried out without generating much per capita tax revenue. The structure of the political economy of the state in Iran has rendered a situation where the state is recognized as the main actor or, according to Momeni (2007), "super determinant factor" (section II, para. 2). It can be argued that the state constitutes a significant unit of analysis in Iran that needs to be studied in relation to its structure, performance, and policies.

Based on the aforementioned logics of the state-centered approach, this research focuses on the role of the state in explaining social policy. The hypothesis of this study, with regard to the question and the objective of the research, is that

"as the capacity of the state changes, the social policy of Iran also changes. That is, any increase in the fiscal capacity of the state will result in an increase in education and health funding.

Defining the Concepts

Social Policy

This concept focuses on the welfare services and the satisfaction of welfare needs of the society (Walsh et al., 2000). It is defined in various ways by different scholars (deHaan, 2007). Walsh et al. (2000) define social policy as "the plans, strategies and approaches that governments adopt when deciding what to do about issues and problems that affect social welfare" (p. 7). This research focuses on specific aspects of social policy, e.g., education and health, because they are considered to be important infrastructural aspects of social policy.

This research studies the input aspect of social policy. Expenditure is a vital discussion in the measurement of social policy (Walsh et al., 2000). Current surveys indicate that "social spending by governments in the MENA [the Middle East & North Africa] region has played an important role in social development" (Karshenas & Moghadam, 2006, p. 7). In this research, education and health policy are operationalized based on education and health expenditure in terms of GDP.

State Capacity

State capacity is a multidimensional concept (Hendrix, 2009; Marsh, 2006). It has been defined by Besley and Persson (2009) as a "state's ability to implement a range of policies" (p. 2). State capacity as an independent variable in this research is based on the state's extractive capacity index as measured by three criteria: total revenue-to-GDP ratio, total tax-to-GDP ratio and relative political capacity (see Hendrix, 2009). Some researchers calculated relative political capacity as the ratio of actual tax revenue to expected tax revenue (see Feng, Kugler, & Zack, 2000). It is evident that Iran's economy is based largely on oil export. So, apart from the state's extractive capacity as a key indicator for measuring state's capacity, the ratio of oil revenues to state's total budget is used in this research to measure state capacity.

Table 1. Regression Results for Relation Between State Capacity and Social Policy

| Social Policy	Statistics	Before Auto-Correlation Control	After Auto-Correlation Control
Education Policy	R	0.386	0.245
	R^2	0.149	0.060
	Durbin-Watson	0.901	2.63
	B	0.668	0.245
	Sig	0.039	0.238
Health Policy	R	0.024	0.535
	R^2	0.001	0.286
	Durbin-Watson	1.314	2.078
	B	0.024	0.535
	Sig	0.901	0.006

Method

In this research, quantitative methods are used to analyze the secondary data gathered from Iran's Budget law, the Central Bank of Iran (CBI), and Management and Planning Organization of Iran (MPO). Linear regression is used to indicate the relationship between variables. Since the data of the present study is of the time-series kind, the Durbin-Watson test is employed to solve the problem of auto-correlation; to solve the accumulation effect, Cochrane-Orcutt is used. Before statistical tests, raw scores of each variable were standardized. Using factor analysis, independent variables changed into state capacity with a scale ranging from 0 – 20 (*0 = low score and 20 = high score*).

Results

Prior to testing the effect of state capacity on social policy, the data autocorrelation problem was controlled by Cochrane-Orcutt test. Table 1 shows the linear regression results before

and after the Cochrane-Orcutt test. Linear regression revealed a weakly positive relationship between state capacity and education policy (B = 0.245, t (29) = 1.211, p < .238). The accuracy of predicting scores for the dependent variable *social policy* will improve by 6% if the prediction is based on the scores for the independent variable *state capacity* (R² = 0.060). As a result, the hypothesis that change in education policy is the result of change in the state capacity from 1981 to 2009 was rejected. Figure 2 shows changes in the state capacity and education policy from 1981 to 2009.

Figure 2. Changes in the State Capacity and Education Policy from 1981 to 2009.
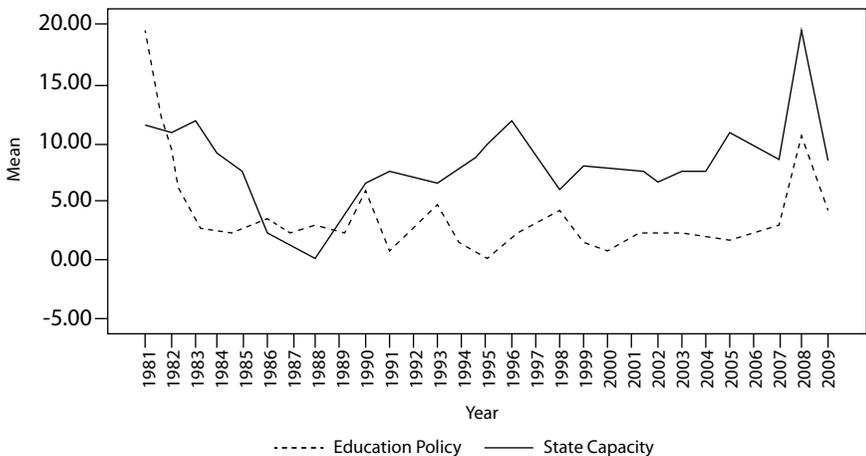
Linear regression revealed a strongly positive relationship between *state capacity* and *health policy* (B = 0.535, t (29) = 3.036, p < .006). The accuracy of predicting scores for the dependent variable *health policy* will improve by approximately 29% if the prediction is based on the scores for the independent variable *state capacity* (R² = 0.286). Figure 3 shows changes in the state capacity and health policy from 1981 to 2009.

Discussion

This study aimed to investigate the role of the state in social policies in Iran with respect to education and health by drawing upon state-centered theories. The state capacity was

then studied as one of the factors determining social policy. Based on the theoretical discussions in this study, any change in the state capacity through extending state abilities has some effect on changing the social policy. It is also expected that any increase in the financial capacity of the state, as a result of an increase in the oil income, will lead to an increase in the social expenditure on social policy. The empirical findings demonstrate that no real concordance exists between state capacity and education policy. However, such a concordance exists between state capacity and health policy.

Figure 3. Changes in the State Capacity and Health Policy from 1981 to 2009.
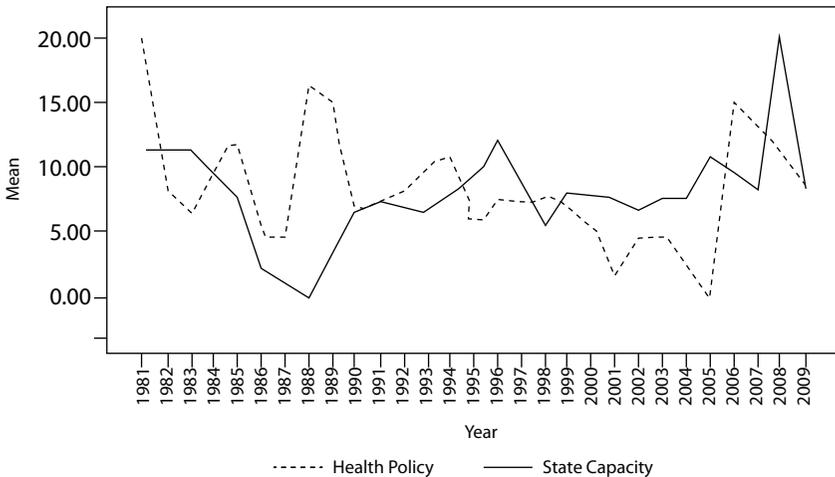
The results obtained about education policy are consistent with what has always been underlined about the problem of improper allocation of budget and its inappropriate distribution in the education system. As Sarraf and Bozorgian (2005) found, "the budget laws, as the main factors in the Development Plans, still lacked a functional dimension in budget and Development Plans" (p. 3). Lack of a comprehensive political plan and failure to allocate the required social budget to education can be considered as some of the important factors leading to uneven development and low standards in the quality of education in our educational system (Peyvandi, 2008). The state even attempted to attract private sector cooperation to calm the financial crisis in the educational system.

In analyzing the incongruent changes seen in the education budget and the state capacity, several state policies need to be thoroughly considered. One policy is to attract public cooperation in the general educational system, shown as a policy to develop non-state schools. Lack of students' expenditure per capita is another consideration. Certainly, it requires allocating more budget resources to education, which is considered as one of the main policies of the states; however, no real attempt has been made to implement it so far (see Qarakhani, 2011b). The presence of resource management problems in education, and also the policies defined by the state in the fifth Development Plan (2011-2015) aimed to develop the educational system, both in terms of quality and quantity, can be considered as obvious factors proving the abovementioned claim. Other reasons for this incongruent situation are oppositions against the educational system and also the state's preferences in social policy. For example, the average education outlay from the Gross Domestic Product (GDP) was estimated to be 3.9% in the 1980s, when there was less dependence on oil incomes. This rate decreased to 3.7% in 2006 when there was an increase in oil revenues. Researchers can consider each these factors in greater depth while analyzing the incongruities seen in the state capacity and education policy with respect to social expenditure.

Although there seemed to be some a correlation between the changes in health expenditure and state capacity, out-of-pocket pay has been one of the real challenges of the health system in Iran. In the fourth Development Plan (2005-2009), the state policy was to reduce this rate to 30%. This policy was re-planned in the fifth Development Plan (2011-2015), while this figure was reported be 70% in 2012. Such a repetitive policy in two five-year development plans may reveal consistent challenges in health care expenses, and consequently uneven distribution of health services. So, despite congruence of health expenditure and state capacity, the key question is how much should the actual cost of health care system in Iran be? Additionally, the output and outcome of health policy in Iran in relation to changes in health expenditure is another subject for future research.

The findings of the study suggest that neither education

nor health, as basic needs, were considered properly by the different Iranian states from 1981 to 2009. According to the development plans and constitutional laws, the main obligation of the state is to ensure public health and education; however, this study indicated that different states dealt with these two issues inadequately. While the social expenditure in education experienced little variation during the research years, such changes were not the results of state capacity. This result is also congruent with the analyses related to the education expenditure mentioned earlier. Finally, the study of social policy in both health and education is solely representing the input of social policy; therefore, evaluating the output and outcome of social policy in Iran demands further research.

Yet, some questions remain to be answered: if we accept that health policy is affected by the changes in the state capacity, what is the state's role in developing health factors in terms of quality and quantity? What is the effect of state capacity on educational efficiency? And what are the major effects on the distribution of facilities? While state capacity has no role in determining the education expenses, what are the factors which determine the development of some quantitative educational indexes?

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