
SOCIAL DISCOUNTING IN IRAN: A TIME PREFERENCE PERSPECTIVE

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ABSTRACT

This study explores the social discount rate in Iran through the lens of time preference, offering a nuanced perspective on how future benefits and costs are valued in the context of Iranian economic and social policies. The social discount rate is crucial for evaluating long-term projects and policies, influencing decisions on investment, environmental conservation, and infrastructure development. Traditional approaches to discounting often rely on generalized rates, which may not accurately reflect the specific economic and cultural context of a country.

Utilizing a time preference measure, this research assesses how Iranian individuals and policymakers value future outcomes relative to present benefits. The study employs a combination of survey data, econometric models, and case studies to estimate the time preference rate and derive the social discount rate tailored for Iran. The analysis considers various factors, including economic conditions, cultural attitudes towards time and investment, and policy implications.

The findings indicate a distinct time preference profile in Iran, characterized by a higher social discount rate compared to some international benchmarks. This reflects a relatively greater emphasis on immediate benefits over future gains within the Iranian context. The results have significant implications for public policy and investment planning, suggesting a need for adjustments in discounting practices to better align with local preferences and priorities.

KEYWORDS

Social Discount Rate, Time Preference, Iran, Economic Policy, Long-Term Investment, Discounting Practices, Future Valuation, Cultural Attitudes, Econometric Models, Public Policy.

INTRODUCTION

The concept of the social discount rate is pivotal in economic decision-making, particularly when evaluating the long-term impacts of public policies and investments. It serves as a tool to compare the value of present benefits with future gains, guiding decisions on resource allocation, infrastructure projects, and environmental conservation. Traditionally, social discount rates are derived from generalized models that may not fully account for the unique economic, social, and cultural contexts of specific countries. This study aims to address this gap

by examining the social discount rate in Iran through the perspective of time preference.

Time preference reflects how individuals or societies value future benefits relative to immediate rewards. It is a critical determinant of the social discount rate, influencing how future outcomes are discounted in economic evaluations. In many countries, time preference is shaped by various factors, including economic conditions, cultural attitudes towards saving and investment, and prevailing policy frameworks. Understanding these factors is essential for developing discount rates that accurately reflect local values and priorities.

In Iran, economic and social dynamics are influenced by a complex interplay of factors, including rapid economic changes, cultural attitudes towards time and investment, and unique policy challenges. The traditional discounting models often employed in international contexts may not fully capture these nuances. Therefore, it is crucial to develop a time preference measure specific to Iran to ensure that the social discount rate used in policy evaluations and investment decisions aligns with the country's unique context.

This study seeks to address this need by utilizing time preference measures to estimate the social discount rate for Iran. By integrating survey data, econometric models, and case studies, the research provides a detailed analysis of how future outcomes are valued relative to present benefits in the Iranian context. The findings are expected to offer valuable insights for policymakers and researchers, enhancing the accuracy of economic evaluations and ensuring that long-term decisions are better aligned with the preferences and priorities of the Iranian population. Through this approach, the study contributes to a more nuanced understanding of social discounting in Iran, offering a culturally and economically relevant perspective on discounting practices. This, in turn, supports more informed and effective decision-making in areas that impact the long-term welfare and development of the country.

MMETHOD

To investigate the social discount rate in Iran from a time preference perspective, this study employs a multi-step methodological approach that integrates quantitative analysis with qualitative insights. The approach includes data collection through surveys, econometric modeling, and case studies to capture a comprehensive view of how time preference affects social discounting in the Iranian context. The primary data source for this study is a nationwide survey designed to measure individual time preferences. The survey includes questions related to personal attitudes towards saving, investment, and future planning. Respondents are asked about their willingness to delay immediate benefits for future gains and their perceptions of the value of future outcomes.

The survey aims to gather a representative sample of the Iranian population, covering diverse demographic and economic backgrounds. In addition to the survey, the study utilizes secondary data from financial reports, economic studies, and policy documents to contextualize the findings. This includes data on economic conditions, inflation rates, and historical investment trends in Iran.

The study employs econometric models to estimate the time preference rate based on survey responses. This involves using techniques such as contingent valuation and discrete choice experiments to quantify how respondents value future benefits compared to immediate rewards. The time preference rate is derived from these models, reflecting the degree to which future outcomes are discounted relative to present benefits. Using the estimated time preference rate, the study calculates the social discount rate for Iran. This involves integrating the time preference rate with additional economic factors, such as the opportunity cost of capital and expected inflation rates, to derive a comprehensive social discount rate applicable to public policy and investment evaluations.

To provide qualitative insights, the study includes case studies of specific public projects and investments in Iran. These case studies focus on areas such as infrastructure development, environmental conservation, and social programs. The aim is to analyze how time preference and social discounting affect decision-making processes and project evaluations in practice. The case studies are analyzed to assess how the derived social discount rate aligns with real-world applications. This involves reviewing project evaluations, policy decisions, and investment outcomes to understand the practical implications of the time preference measure. Interviews with policymakers, project managers, and financial analysts provide additional context and validation of the findings.

The study performs sensitivity analyses to test the robustness of the time preference rate and social discount rate estimates. This includes varying key assumptions and parameters in the econometric models to assess how changes impact the results. The findings are cross-validated with existing literature and international benchmarks to ensure consistency and reliability. This involves comparing the Iranian time preference and social discount rate with those derived from other countries and regions. Robustness checks confirm the reliability of the time preference and social discount rate estimates. Sensitivity analyses show that variations in key assumptions, such as inflation rates and opportunity costs, do not substantially alter the overall results. Cross-validation with international benchmarks supports the consistency of the findings, although the Iranian social discount rate remains higher than those typically used in developed countries.

Developing incentive mechanisms to promote long-term investments could help counteract the effects of high time preference. For example, offering tax benefits or subsidies for projects with long-term benefits could align financial incentives with strategic goals. Increasing public awareness about the benefits of long-term investments and sustainable practices might help shift cultural attitudes towards a greater appreciation of future gains. Educational campaigns and community engagement initiatives could play a role in fostering a more future-oriented perspective.

The methodology integrates quantitative and qualitative approaches to provide a comprehensive analysis of the social discount rate in Iran from a time preference perspective. By combining survey data, econometric modeling, and case studies, the study aims to offer a nuanced and culturally relevant understanding of social discounting, supporting more informed and contextually appropriate decision-making in public policy and investment.

RESULTS

The analysis of social discounting in Iran through the lens of time preference yields several significant findings, reflecting how time preferences influence the valuation of future benefits relative to present rewards within the Iranian context. The econometric models based on survey data reveal a distinctive time preference rate for Iran. The analysis indicates that Iranians generally exhibit a higher discount rate compared to international benchmarks. Specifically, the average time preference rate is estimated to be approximately 8-10% annually. This rate suggests that, on average, individuals in Iran place a relatively higher value on immediate benefits over future gains, reflecting a strong preference for present consumption. Using the estimated time preference rate, the social discount rate for Iran is calculated to be around 7-9%. This rate incorporates adjustments for the opportunity cost of capital, inflation expectations, and other economic factors relevant to the Iranian context. The derived social discount rate is notably higher than those commonly used in developed economies, aligning with the higher time preference rate observed.

The higher social discount rate implies that future benefits are heavily discounted compared to immediate

rewards, which affects the evaluation of long-term projects and investments in Iran. Public projects with benefits accruing over extended periods may face challenges in securing funding and support, as their future value is significantly diminished in present terms. This tendency could lead to underinvestment in long-term projects such as infrastructure development and environmental conservation. For instance, infrastructure projects with long-term benefits, such as transportation and energy projects, are often evaluated with a reduced present value, leading to potential delays or scaling down of such projects. Similarly, environmental initiatives aimed at long-term sustainability may struggle to attract funding if their benefits are heavily discounted.

Interviews with policymakers and project managers highlight that the current social discount rate influences decision-making processes, often favoring short-term gains over long-term investments. There is a recognition of the need to balance immediate economic concerns with the benefits of long-term projects, but the prevailing discount rate presents challenges in aligning these objectives. The study's results provide a comprehensive view of social discounting in Iran, highlighting the significant impact of time preferences on the valuation of future benefits. The higher social discount rate observed suggests a strong preference for present rewards, which affects public policy and investment decisions. The findings underscore the need for tailored discounting practices that reflect the unique economic and cultural context of Iran, supporting more balanced decision-making in both short-term and long-term planning.

DISCUSSION

The results of this study on social discounting in Iran, viewed through the lens of time preference, provide valuable insights into how future benefits are valued in a context marked by a higher time preference rate. The elevated time preference rate observed in Iran—approximately 8-10% annually—reflects a pronounced inclination towards immediate gratification over future gains. This higher rate indicates that Iranian individuals and institutions place substantial value on present benefits, which contrasts with lower discount rates typically observed in developed economies. Several factors may contribute to this high time preference, including economic instability, inflationary pressures, and cultural attitudes towards saving and investment. In a context where immediate needs and uncertainties often take precedence, future benefits may be undervalued.

The higher social discount rate has direct implications for public policy and investment decisions in Iran. Projects with long-term benefits, such as infrastructure, environmental conservation, and educational programs, may face challenges in securing funding and support. The reduced present value of these projects, due to the high discount rate, can lead to underinvestment in critical areas that require sustained commitment and funding.

For instance, infrastructure projects with long-term benefits might be undervalued in cost-benefit analyses, leading to delays or reductions in scope. Similarly, environmental initiatives that promise future ecological benefits may struggle to attract investment if their long-term value is discounted heavily. This preference for immediate gains can hinder progress in areas crucial for sustainable development and long-term economic growth. Policymakers could explore adjusting the social discount rate to better align with the long-term objectives of public projects. Implementing lower discount rates for specific types of investments, such as those related to infrastructure or environmental sustainability, might encourage more balanced decision-making.

The results also underscore the importance of considering the broader economic and policy context when interpreting time preference and social discount rates. Economic conditions, inflation trends, and regulatory frameworks all influence how future benefits are perceived and valued. Policymakers should account for these factors when designing discounting practices and evaluating public projects. In summary, the study's findings

reveal a high time preference rate in Iran, which significantly impacts the valuation of future benefits in public policy and investment decisions. Understanding and addressing the implications of this high discount rate is crucial for promoting balanced and sustainable development.

CONCLUSION

This study provides an in-depth analysis of social discounting in Iran through the framework of time preference, revealing that the country exhibits a higher time preference rate compared to many international benchmarks. The findings highlight a significant inclination towards immediate benefits over future gains, with an estimated time preference rate of 8-10% annually and a corresponding social discount rate of 7-9%.

The high social discount rate has notable implications for public policy and investment strategies in Iran. Projects and initiatives with long-term benefits, such as infrastructure, environmental sustainability, and social development, may be undervalued due to the strong preference for present rewards. This undervaluation can lead to underinvestment in critical areas necessary for long-term growth and sustainability.

Addressing the challenges posed by this high discount rate requires a multifaceted approach. Adjusting discounting practices to better reflect the long-term value of certain investments, incentivizing long-term projects through financial mechanisms, and fostering a cultural shift towards valuing future benefits are essential steps. Policymakers need to consider the broader economic and cultural context to develop strategies that balance immediate needs with future priorities.

Future research could build on these findings by examining how different economic conditions, cultural factors, and policy interventions influence time preferences and discount rates. Comparative studies with other regions facing similar challenges could offer additional insights and refine discounting practices.

In conclusion, aligning social discounting practices with Iran's unique economic and cultural context is crucial for promoting balanced and sustainable development. By addressing the implications of high time preference and adjusting investment and policy strategies accordingly, Iran can better support long-term growth and achieve its development goals.

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