



Iraq cuts fuel subsidies

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Yesterday it was announced that Iraqi Prime Minister Ibrahim Jafari has cut subsidies for many types of fuel as part of a debt-forgiveness deal that was signed with the International Monetary Fund. Note that this doesn't only mean gasoline, but also kerosene and cooking gas. According to [this article in the LA Times](#), there was pressure for Iraq to stop subsidizing fuel and start using that money to improve infrastructure, health resources, and education.

So how much were Iraqis paying, and how much will they have to pay now?

Over the summer, gas was selling for about 5 cents a gallon. Now it's about 65 cents, and at the end of the price increases, gasoline will cost about the same in Iraq as it does in other countries in the Persian Gulf, about \$1 per gallon. The prices of kerosene, diesel and cooking gas have seen similar or steeper increases. Diesel costs about 38 cents per gallon.

Though that may seem cheap to Americans, wages in Iraq are far below those in the United States. Employees in government ministries, for example, earn about \$130 a month on average, putting them among the top earners in Iraq. Millions of other Iraqis live in poverty, relying on food handouts from the government. About a fourth of all Iraqi households subsist on less than \$1 a day.

The situation in Iraq raises some of the questions we've discussed with respect to the US before. We've gone back and forth about [whether a gas tax is regressive](#), or about [who would be most affected by rationing](#). In Iraq, an oil ministry official responds to a similar issue:

"Twenty dinars a liter is basically free," he said. "The only thing you're spending is your time waiting in line. The people who have automobiles presumably have more disposable income. Poor people are not necessarily using cars."

This seems a little disingenuous, since the removal of the subsidy affects **all** fuels, including those for heating and cooking. Furthermore, as one Iraqi at the end of the article notes, the biggest problem is that an increase in fuel prices will cause the price of all types of goods to rise.

And what has the Iraqi reaction been? Well, protests, anger, limited violence, for now. Obviously Iraq is in a tenuous social and economic situation for many reasons right now, and isn't exactly an appropriate model for how countries deal with very high priced energy supplies. Still, it might be

worth it for Western countries to keep an eye on this situation to see what the long-term reaction of the Iraqi people to the oil price hikes is.



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