

Price Controls in Iran

Revisiting a Costly Policy in Light of Global Experience

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Introduction

Definition and Global Background of Price Controls

Price control refers to an economic policy whereby governments seek to control price levels by setting price floors or price ceilings for goods and services. The purpose of such intervention is typically to protect consumers by imposing a price ceiling on essential goods or to support producers by establishing a price floor to prevent a sharp decline in product prices.

Although this approach is implemented with the intention of curbing inflation or preserving the purchasing power of vulnerable groups, in practice it has complex consequences for market equilibrium. Historically, government-administered pricing dates back to ancient times. Historical evidence indicates that lawmakers were seeking to establish “fair” prices as early as 4,000 years ago. The Code of Hammurabi in Babylon, for example, fixed the rates of numerous goods and wages around 1750 BCE. In ancient Egypt, controlling grain prices was likewise of vital importance, and the pharaonic government sought to prevent famine and public discontent by managing grain stores and setting the price of bread.

According to historians, during the Ptolemaic period, when Egypt was ruled by a dynasty of Greek origin, the state not only owned most of the land and grain but

also effectively set the prices of all goods at every level by government decree. An enormous apparatus of inspectors and censuses monitored production and distribution, while violations of the prescribed prices were met with severe penalties. Price controls were also imposed repeatedly in the Roman Republic and Empire. For example, in 123 BCE, the reforms of Gaius Gracchus (the Lex Sempronia) granted every Roman citizen the right to purchase a specified quantity of wheat at an official price far below the market rate. Several decades later, the scheme was expanded, and grain began to be distributed free of charge. The unintended consequence, however, was that many Roman farmers abandoned their fields and migrated to the city of Rome to receive free grain.

Thus, the ancients' belief in the state's absolute ability to determine the correct price was repeatedly undermined. Nevertheless, this tempting idea has resurfaced at various historical junctures—from the American colonies during the War of Independence, where the prices of essential goods were controlled to supply Washington's army, causing severe shortages for the population, to the First and Second World Wars, when the belligerent powers and war-torn economies of the twentieth century imposed price ceilings and extensive rationing. Even in the 1970s, some Western economies resorted to mandatory price controls under inflationary pressure, including the United States during the Nixon administration. The common lesson from all these periods is that administered pricing, despite its initial aims of promoting fairness or stability, has generally ended in failure and serious adverse side effects.

In centrally planned communist economies, price fixing was also an integral component of the central planning system. Consequently, this policy has been employed around the world at different times and for a variety of purposes. The fundamental question, however, is whether this approach has proved successful in practice.

A Comparative Review of Countries' Experiences

From Communist Economies to Developed Economies

Historical and international evidence indicates that price control policies have failed in most cases. In centrally planned economies, such as the Soviet Union and Cuba, decades of government-set prices for goods ultimately led to inefficiencies in resource allocation and the collapse of those systems. Similar approaches have also failed to produce desirable results in Iran's neighbouring countries. For example, when confronted with high inflation in recent decades, the governments of Armenia and Azerbaijan attempted to curb inflation through government-set prices. In practice, however, these efforts failed, and inflation rates continued to rise. Similarly, in Turkey, a major emerging economy, the government resorted to price interventions during the currency crisis of recent years, including prohibiting certain companies from raising prices. Ultimately, however, the country's economy faced rising inflation and greater instability.

Nor has any sustainable and successful experience with price controls been observed in developed countries. Most economists believe that although governments may resort to price restraints during short-term emergencies, this policy imposes increasing costs on the economy over the long term, and its effectiveness remains

questionable.

For example, Nixon's wage and price control program in the United States in the early 1970s, introduced as a temporary response to inflation, ultimately created market imbalances and shortages of certain goods and is viewed unfavourably by economic historians. In recent years, countries such as Venezuela and Zimbabwe, despite imposing strict price controls on goods, have also faced soaring inflation and widespread shortages, demonstrating the ineffectiveness of price controls in addressing the monetary root causes of inflation.

In Venezuela specifically, during the 2010s, as inflation surged into the triple and quadruple digits, the government issued an extensive list of government-set prices for essential goods. These measures, however, contributed to long queues and the expansion of the black market. Another example is Brazil in the 1980s, which implemented several inflation-control programs based on price freezes but failed to halt hyperinflation.

Admittedly, a few instances of price controls can be found in today's advanced market economies, but these are highly limited and carefully regulated. Examples include rent controls in certain cities to protect tenants and price caps on life-saving medicines to ensure patient access. These specific cases generally constitute narrowly targeted oversight and regulation rather than government price-setting across the entire market.

Overall, the expert consensus is that broad price controls, whether in developed countries or developing economies, have not proved meaningfully sustainable or successful. Although such a policy may ostensibly begin with benevolent intentions, historical experience points to its numerous unintended consequences, which will be examined in detail in the following sections.

History of Price Control Regulations in Iran

From the 1970s to the Present

The policy of price control has deep roots in Iran and has undergone a turbulent evolution. Even before the 1979 Islamic Revolution (1357 SH), the government of the time resorted to price controls at various junctures to combat high prices. For instance, in the early 1970s (1350s SH), the Hoveyda administration established the Price Review Board and used political pressure to demand that factories and merchants reduce the prices of goods. This measure, however, was largely performative, because “what merchant or industrialist abandons real market prices to voluntarily lower their rates?”

In September-October 1973 (Mehr 1352 SH), a meeting was held at the Iran Chamber of Commerce, Industries, and Mines with producers, during which they agreed to lower the prices of their goods to prevent market volatility. The government went so far as to establish an unusual committee named the “Committee for Cooperation with the Center for the Investigation of Prices,” a name that spoke volumes about the situation. Price control policies during those years reached such an extent that in October-November 1973 (Aban 1352 SH), Prime Minister Amir-Abbas Hoveyda declared at the Price Adjustment Council that any official who neglected to curb high

prices would be dismissed, asserting that price-setting was the prerogative of neither guilds nor merchants.

In a direct intervention, the government officially set and announced the prices of 390 items and established the Anti-Profiteering Committee. Nonetheless, the outcome was that the business licenses of 250 merchants were revoked for failing to report prices, leading to a dual-rate market and rent-seeking opportunities. Economic observers warned at the time that these policies did not help the public, nor did they achieve the government's goals, serving only to undermine public trust and trigger economic disruption.

Following the 1979 Islamic Revolution and the restructuring of the political system, the formal cornerstone of government price controls was laid in 1980 (1358 SH) with the dissolution of the Price Review Board and the Consumer Protection Fund, and the subsequent establishment of the Consumer and Producer Protection Organisation (CPPO). In the 1980s (1360s SH), during the Iran-Iraq War, the Iranian economy was forced to adopt a rationing and coupon system. To ensure the equitable distribution of scarce goods, the government took full control of prices and the distribution networks for many essential items. Consequently, market intervention peaked, and price controls became an inseparable part of Iran's war-torn economy. Following the war, with the implementation of the First Five-Year Development Plan (1989–1994), policies aimed at economic liberalisation and strengthening market mechanisms were adopted, which partially reduced the government's price-setting authority.

However, with the sharp rise in inflation in the early 1990s (1370s SH, inflation reached approximately 50% in 1995), the government once again put price stabilisation and market regulation on its agenda. A clear indication of this shift was the reactivation of the Government Discretionary Punishment Organisation in 1994, which served as the executive arm for penalising overpricing and price offenders. Furthermore, from the late 1990s (1370s SH) through the 2000s (1380s SH), whenever the inflation rate surged, or the exchange rate fluctuated sharply, public and parliamentary pressure for government price interventions intensified.

In 2004 (1383 SH), the parliament (initiated by figures such as Ahmad Tavakoli) mandated the government to implement a price stabilisation policy, blocking any

price increases for public goods and services. If a minister showed inclination toward economic liberalisation, they faced threats of impeachment. Although these political interventions were carried out under the slogan of protecting the public, in practice they resulted in nothing but the continuation of hidden, suppressed inflation and the transfer of structural imbalances to other sectors.

In the 2010s (1390s SH) and thereafter, whenever the economy faced inflationary or exchange rate shocks, the government repeatedly resorted to price control mechanisms. For example, in 2011 (1390 SH), despite strict price controls, the trajectory of inflation only shifted when monetary reforms were implemented in 2013 (1392 SH). Following the 2018 (1397 SH) currency shock and the reimposition of severe sanctions, the twelfth administration introduced the preferential exchange rate of 4,200 tomans per US dollar for importing essential goods, representing an indirect form of price control via exchange rate stabilisation. Concurrently, the CPPO and the Market Regulation Headquarters announced a list of approximately 50 essential, sensitive, and necessary goods, declaring that any price adjustments for these items were subject to legal procedures and official government approval. This approach continued under the thirteenth administration; from 2021 (1400 SH) onward, as inflation soared and public purchasing power fell sharply, the new administration intensified price interventions to support low-income groups.

Although economists emphasised that such a policy would ultimately harm those very groups in the long run, short-term political considerations prevailed. In summary, the contemporary history of Iran has been a cycle of government price controls and their consequences: from the strict controls of the 1970s (1360s SH), which contributed to pre-revolution economic instability, to the necessary but unavoidable interventions of the 1980s wartime economy, and the subsequent policy oscillations during peacetime—wherever the business environment leaned toward liberalization, the shadow of inflation or political pressure repeatedly drove the government back into the stronghold of price controls.

Key Price Control Regulations in Iran

from 2010 to 2024

In recent decades, several major turning points have emerged in Iran's price control regulations and directives. These can be examined under the following four headings:

Price Control Regulations in 2010

In 2010 (1389 SH), the Consumer and Producer Protection Organisation formulated and issued a comprehensive set of regulations for pricing domestically produced and imported goods. Under these regulations, producers were permitted to add a profit margin of approximately $17\% \pm 3\%$ to the cost of goods sold. These directives—which were prepared following reviews and resolutions by the Price Determination and Stabilisation Board—provided a framework for determining product selling prices based on cost structures and approved profit margins. Put simply, a cost-plus pricing formula was adopted as the basis: the total cost of production—including raw materials, wages, and overhead expenses, plus a legally permitted profit margin determined by the government resulted in the ex-factory or producer price.

The final consumer price was then calculated and determined based on the profit coefficients and distribution-network costs specified by the Consumer and Producer Protection Organisation. In practice, some producers could manipulate prices and costs through means such as submitting “fraudulent invoices” to preserve their permitted profit margins.

Accordingly, from 2010 onward, most formally registered producers in the country were required to submit documentation of their costs to the Consumer and Producer Protection Organisation when setting or changing their product prices and to obtain approval for their proposed selling prices within the framework of these regulations. With minor modifications, this cost-structure-based price control model remained in place for years across the industrial and consumer-goods sectors and constituted the cornerstone of government price controls.

The List of 50 Goods Subject to Price Stabilisation

During the 2010s (1390s SH), particularly following the severe exchange-rate fluctuations of 2018, the government decided to impose special price oversight on a specific group of essential goods. Accordingly, under a resolution adopted by the Market Regulation Headquarters in April 2022 (Farvardin 1401 SH), 50 essential goods, including red meat, poultry, dairy products, motor oil, clothing, household appliances, and others, became subject to “stabilised or ex ante pricing.” This meant that producers and importers of these items were under no circumstances permitted to raise prices unilaterally, and any price change required formal government authorisation.

Under the legal procedure, if a producer intended to raise the price of a covered product, it first had to submit documentation of its costs and the reasons necessitating the increase to the Consumer and Producer Protection Organisation. Following an expert review, the findings would then be reported to the national Market Regulation Headquarters so that, if approved, the new price could be officially announced. Any price increase implemented without completing these steps was declared unlawful, and offenders were subject to punitive action by the Government Discretionary Punishment Organisation. In practice, the list of 50 goods covered most of the essential items in the household consumption basket and became the government’s principal instrument for controlling inflation in sensitive product categories. At the same time, according to media reports, strict enforcement in this area led to the emergence of informal markets. For example, some companies raised their prices without authorisation and, before the Government Discretionary Punishment Organisation intervened, were instructed to revert immediately to the approved prices. This period

may be regarded as the height of price control policy enforcement in recent years, during which the government closely monitored the announced prices of key goods and even the smallest change had to pass through stringent government approval procedures.

Revision of Price Control Regulations in 2023–2024

Following the change of government in 2021 (1400 SH) and the implementation of the policy to eliminate the preferential exchange rate in 2022 (1402 SH), a need was felt to reform the price control system. In 2023–2024 (1402 SH), the Consumer and Producer Protection Organisation reviewed and updated the regulations governing the pricing of domestically produced goods through a series of meetings of the Price Determination and Stabilisation Board. Under an official directive dated February 12, 2024 (Bahman 23, 1402 SH), new tables of profit coefficients and goods distribution costs, together with the revised price control regulations, were circulated to all provinces for implementation and oversight. The directive stated that these new resolutions replaced previous regulations and circulars governing wholesale and retail profit coefficients. More importantly, it emphasised that production units were to be informed again of the regulations governing the pricing of manufactured goods, which had been updated in accordance with resolutions adopted at the Price Stabilisation Board's July 2023 (Tir 1402 SH) meetings.

Under the new directive, the permitted profit margin for domestic producers was set at approximately 17% of the cost of goods sold, with a tolerance of $\pm 4\%$, in practice ranging from 13% to 20.5%. A requirement to display the “producer price” on essential goods—including detergents, packaged food products, dairy products, and others—was also introduced to ensure that stakeholders throughout the supply chain observed price transparency.

These changes indicated that the government intended to make the price control system more systematic and transparent and to address some of its shortcomings. One of the 2023–2024 reforms was to make the process for reviewing price-increase applications more structured. According to officials, the relevant specialist departments of the Ministry of Industry, Mine and Trade or the Ministry of Agriculture would first evaluate a producer's application. If the reasons provided were deemed

sufficient, the Consumer and Producer Protection Organisation would examine the financial statements. If the outcome was positive, a resolution authorising the price increase would be issued by the Market Regulation Headquarters and ultimately approved by the president.

Although some parts of this process were discontinued in late 2022–2023, the principle of multilayered oversight and the involvement of the country's highest executive authority in price-setting decisions reflected the intensity of the government's concern with controlling prices during this period. Overall, the 2023–2024 regulations may be regarded as a period of regulatory recalibration, during which the thirteenth administration retained the principles of price control while making modest adjustments to the relevant mechanisms in the hope of easing market volatility.

Classification of Goods into Four Groups

One of the principal outcomes of the 2023–2024 review was a new classification of goods based on the extent of government intervention in price-setting. Under this classification, which was presented in internal documents as a four-group framework, goods were divided into the following four categories:

1. Group One: Goods supplied entirely at prices predetermined by the government, even where those prices are lower than actual costs and require producers to bear financial pressure and foregone profits. Many highly essential items—such as bread, infant formula, sanitary pads, and life-saving medicines—fall within this group.

2. Group Two: Goods whose prices are predetermined with a minimal profit margin of approximately 3% to 7%. This group includes goods that are still considered essential but for which the government permits producers a limited profit margin to preserve the incentive to produce. In practice, most of the items on the list of 50 goods fall within this group: their prices are set through price controls, but businesses are allowed a modest profit margin.

3. Group Three: Goods whose prices must be determined through agreement

and coordination with the relevant trade associations, with the government approving price increases on a consultative basis. This group represents a move toward greater flexibility. These goods are neither fully liberalised nor subject to complete price suppression; rather, the government and the private sector reach an understanding on their prices, and any price increase remains controlled—for example, by being capped at a specified annual inflation rate. Nevertheless, obtaining authorisation to raise the prices of goods in this category is by no means easy.

4. Group Four: Goods for which prices have been liberalised and are determined through market mechanisms. This category includes items that are a lower priority in terms of social sensitivity or whose markets are sufficiently competitive that the government does not intervene directly. In effect, Group Four represents the domain of freely determined prices, in which the government intervenes only when necessary through instruments such as antitrust measures or discretionary penalties.

In addition, the roles of regulatory and punitive institutions in implementing this four-part framework were explicitly defined. For example, the issued documents state that organisations such as the Ministry of Industry, Mine and Trade, the Consumer and Producer Protection Organisation, the relevant industry trade associations, and the Government Discretionary Punishment Organisation are all involved in overseeing the pricing of these groups. The enforcement measures for violations are also significant: penalties for noncompliance with approved prices include fines of up to ten times the amount charged in excess of the approved price, the suspension of production lines, product recalls, and even the public disclosure of offenders' names.

This four-part classification may be regarded as the government's latest approach, introduced in 2023–2024, to making price controls more targeted. The government has thus sought to focus its resources and regulatory capacity on the more sensitive categories—Groups One and Two—while allowing market mechanisms some room to operate in the less critical groups. From a theoretical perspective, this measure represents a step forward, although critics point out that the underlying principle of price control remains in place and that its inherent problems may therefore persist. The effects of these regulations on different stakeholders, as well as concrete examples, will be examined in the following sections.

The Impact of Price Controls on Producers, Consumers, Distribution Networks, Investment, and Employment

Consequences for Producers and Investment

Although price control policies are implemented with the intention of protecting consumers, their principal burden falls on producers and economic actors. When the government sets the selling price of a product below its market equilibrium level or actual costs, the producer is compelled to resort to various measures to avoid losses, from reducing product quality to cutting production volumes or, in severe cases, shutting down the production line altogether.

This situation has been particularly evident during inflationary periods. For example, under Iran's ninth and tenth administrations, pressure to keep prices unchanged led many industries to reduce product quality or cut production to survive, which in turn intensified consumer dissatisfaction. The decline in production profitability caused by price controls gradually eliminates the incentive for new investment, leaving industries to contend with an ageing capital stock. According to experts, when the government forces a producer to supply a product at a price below its total cost, the enterprise is clearly pushed to the brink of loss and consequently either resorts to shortchanging consumers by reducing product weight or quality or exits the market.

If this trend becomes widespread, it will systematically lead to declining industrial investment and a contraction in production.

Another consequence is unemployment. When a factory closes or reduces production because it is operating at a loss, many workers lose their jobs. In the long run, therefore, price controls ultimately harm the national economy in terms of both production and employment. As one economist states: “The bankruptcy of a producer is not merely the problem of a single factory. When it shuts down, many people become unemployed; ultimately, production declines, the unemployment rate rises, and the resulting pressure returns to the public.” Furthermore, the remaining enterprises also reduce their research and development budgets because of declining revenues, which at the macroeconomic level translates into technological stagnation and diminished innovation across the economy.

These issues have created a business environment in Iran that is persistently affected by regulatory instability and an inability to predict selling prices—conditions cited as major obstacles to new investment. Private-sector investors prefer to operate in an environment where the prices of their products are determined by supply and demand and market mechanisms, rather than one in which every price adjustment is subject to government authorisation and direct intervention. This explains the capital flight observed in recent years from industries subject to government price controls toward sectors offering greater operational freedom, such as technology and real estate. In summary, the pressure that price controls place on producers can, in the long term, weaken the foundations of domestic production, reduce productive investment, and result in slower economic growth, an outcome directly contrary to the policymaker’s stated intention of supporting production.

Price controls and implicit subsidies on certain goods have also produced other unintended consequences that harm producers and the broader economy over the long term. One such consequence is the prevalence of reverse smuggling and the outflow of subsidised goods from the country. Put simply, when a product is made artificially inexpensive in Iran, economic profiteers are tempted to purchase it in quantities exceeding domestic demand and sell it, either covertly or even legally, in foreign markets, as the price differential between domestic and foreign markets generates substantial profits. A prominent example was the case of flour and pasta.

Iran's deputy minister of agriculture explicitly stated that the government supplied imported wheat to industries at the preferential exchange rate of 42,000 rials per US dollar, and that those industries exported the resulting pasta at a price lower than the cost of the imported wheat. In other words, a subsidy financed by the Iranian public was transferred out of the country and ultimately benefited foreign consumers. This phenomenon demonstrated the failure to achieve the stated objective of protecting domestic consumers.

Other cases involving the smuggling of subsidised goods have also been reported over the years—from inexpensive fuel and gasoline systematically transported to neighbouring countries, with estimates suggesting that between 10 million and 20 million litres of petroleum products are smuggled daily, to detergents and personal care products, whose controlled prices have contributed to a flourishing smuggling trade. It is clear that under such circumstances, Iranian consumers are effectively deprived of these goods or forced to queue for them, while consumers in neighbouring countries benefit from Iran's implicit subsidies.

Alongside smuggling, the misdirection of investment has been another consequence of price control policies. Rather than allocating their resources to improving productivity and technology or developing their brands, economic actors pursue profits derived from price-related rents. During the period of the preferential exchange rate of 42,000 rials per US dollar, some food industries expanded their production capacity to several times the country's domestic requirements—not in the hope of capturing international markets through genuine competitive advantage, but solely to obtain larger quantities of subsidised raw materials and sell their products across the region by relying on artificially low prices. Naturally, once these rents are eliminated, and prices are corrected, such excess production loses its economic rationale, and the same enterprises that were once recognised as leading exporters face declining sales and substantial idle capacity.

For example, Iran's detergent industry purchased petrochemical feedstocks at low prices for years and sold its products under government price controls. This led to the establishment of numerous companies and significant production capacities in the sector, to the extent that the country's nominal annual detergent production capacity is now approximately 4.5 million metric tons, while only 35% to 40% of that capacity

is operational. The remaining production lines are effectively either shut down or operating below capacity because of insufficient demand or the lack of economic viability. In other words, substantial capital has been invested in establishing factories with a level of capacity that the Iranian market might never have required under normal conditions.

Overall, price controls distort resource allocation by creating misguided incentives. Subsidised raw materials and suppressed prices encourage producers to export products and divert goods out of the country instead of fully supplying the domestic market, while the readily available profits generated by rent-seeking discourage innovation and genuine competitiveness. Ultimately, the consequences harm not only producers—who may face bankruptcy once the rents are withdrawn—but also the national interest, through domestic shortages, the loss of subsidies across the country's borders, and investments that become an additional burden on the economy rather than serving as drivers of growth.

Consequences for Consumers and Distribution Networks

At first glance, government price controls may appear to consumers as welcome news, promising lower prices. Governments also justify these policies because they seek to preserve the purchasing power of the public, particularly lower-income groups. Practical experience, however, shows that such policies ultimately undermine the rights and interests of those same vulnerable consumers. The most significant adverse consequence is the emergence of product shortages or, in extreme cases, outright scarcity.

When the price of a product is kept artificially low, demand for it increases, while supply declines because domestic production or imports are no longer economically viable. The resulting imbalance between supply and demand leads to shortages, queues, and rationing. Shortages are subsequently followed by the emergence of black markets and informal transactions, where desperate consumers must purchase the product at prices significantly higher than the government-approved rate.

In practice, this creates a dual pricing system: a low official price at which only limited

quantities of the product are available, and a higher free-market price charged in the black market or by intermediaries. This price differential creates fertile ground for corruption and rent-seeking, with the resulting benefits accruing to certain intermediaries rather than genuine consumers.

As reports have indicated, products such as sugar, cooking oil, and rice have become targets for rent-seeking intermediaries in recent years as a result of price controls. At one point, for example, the government-approved price of sugar was IRR 255,000 per kilogram. Owing to shortages, however, food manufacturers were forced to purchase it at approximately 50% above the approved price, around IRR 380,000 per kilogram. Under such circumstances, the final consumer is also inevitably harmed, either because the product is unavailable or because it must be purchased on the open market at several times the official price.

Distribution and retail networks are similarly affected by price controls. To prevent noncompliance, the government sets maximum profit margins for wholesalers and retailers, naturally depriving them of pricing flexibility and limiting competition. A retailer cannot necessarily use conventional trade discounts to attract customers because its profit margin has already been fixed. If it sells below the approved price, it may even be accused of dumping or violating applicable regulations.

Until recently, businesses were also required to print the consumer price on product packaging. This requirement made genuine discounts virtually impossible or encouraged retailers to resort to “fictitious discounts.” Under this practice, an intentionally inflated consumer price would be printed on the product, after which, for example, a “20% discount” would be advertised so that the transaction remained formally compliant with the regulations. This approach weakened consumers’ trust in discounts and undermined genuine competition among brands and retailers.

A subsequent initiative required the producer price to be displayed instead of the consumer price. Its stated objectives were to increase transparency regarding products’ actual prices and eliminate fictitious discounts. In practice, however, the change imposed additional calculation requirements and greater complexity on retailers and stores. They were required to calculate and announce the final price by adding the permitted wholesale, distribution, and retail profit margins. Managing this process across a large-scale operation or a broad product portfolio made pricing

both difficult and risky.

Following criticism of this arrangement, a new requirement was introduced mandating the simultaneous display of both the producer price and the consumer price on products. Although this change represented a step toward greater transparency, it still failed to resolve the practical restrictions on offering discounts. As long as a fixed consumer price remains printed on the product, offering discounts may still be regarded as falling outside the prescribed rules and could expose the retailer to legal action—particularly when the product is subject to price controls or falls within one of the regulated categories.

The ultimate consequence of these problems is that, despite nominally low prices, Iranian consumers frequently incur substantial hidden costs and face considerable difficulty accessing goods. As one media report observed, this policy not only failed to help lower-income groups but also produced the opposite result, leading to shortages, declining product quality, and consumers' increasing reliance on the black market.

Declining Nutritional Value under Price Controls on Basic Goods

The Iranian market has adopted an approach under which the “basic models” of certain food products are supplied at low, government-approved prices, while more advanced versions of the same products, offering higher quality or additional features, are sold at substantially higher prices. A prominent example can be found in the dairy industry. Producers supply basic dairy products—such as low-fat milk, low-fat yoghurt, and industrial white cheese, commonly known as UF cheese—at low, controlled prices. At the same time, full-fat or fortified varieties—such as vitamin D3-fortified whole milk and speciality or probiotic yoghurts—are sold at prices several times higher.

For example, in 2025 (1404 SH), a two-kilogram container of full-fat yoghurt was priced at approximately IRR 1.48 million, whereas the same quantity of low-fat yoghurt was priced at only IRR 660,000 to IRR 870,000.

This dual pricing policy may have troubling implications for consumer health. When

producers are compelled to reduce costs to supply basic products at controlled prices, the nutritional quality of those products may be compromised. Low-priced basic products may effectively lose a substantial share of their nutritional value. In dairy products in particular, the removal or reduction of fat under this pricing model may also increase the likelihood that a range of essential nutrients will be removed or reduced.

In other words, by sacrificing product quality and intrinsic nutritional value to make goods nominally less expensive, price controls ultimately impose higher costs on final consumers over the long term.

Case Studies

Pasta, Sugar, Detergents, Pharmaceuticals, and Diapers

To better understand the effects of price controls, it is useful to examine concrete examples of products that have encountered serious difficulties in recent years.

Pasta

As a widely consumed product with strong demand, pasta was subject to price controls in previous years. Pasta manufacturers had long complained about rising production costs—particularly the cost of flour and wheat—but the Consumer and Producer Protection Organisation was slow to respond to their applications for price increases. Consequently, when the flour subsidy was eventually removed, pasta prices rose sharply, increasing by as much as 170% compared with the previous year.

This sudden increase, which resulted from the accumulation of cost pressures and the failure to adjust prices gradually in preceding years, imposed a major shock on consumers and made pasta a prominent news story for some time. The pasta case demonstrated that prolonged suppression of a product's price amid rising production costs ultimately causes accumulated price pressures to be released, resulting in an abrupt price surge.

Sugar

Sugar is among the goods whose prices have been controlled by the government for years and which were even imported using the preferential exchange rate. In practice, however, this policy led to periodic shortages and the emergence of multiple prices for sugar. In 2023 (1402 SH), reports indicated that confectionery and chocolate manufacturers faced considerable difficulty obtaining sugar at the government-approved price and were compelled to purchase it on the open market at prices up to 50% higher than the controlled price.

The Ministry of Agriculture maintained that sugar was abundantly available at the approved price, while manufacturers reported severe shortages. According to reports, price controls on sugar have turned the product into a target for profiteering by intermediaries in recent years. Ultimately, many experts recommended liberalising sugar prices to restore equilibrium between supply and demand. The experience of sugar demonstrates how controlling the price of an import-dependent product—which also depends on foreign-currency allocations—can lead to serious disruption in its market.

Detergents

Detergent products—including laundry powder and liquid, dishwashing liquid, soap, toothpaste, and other personal and household care products—have been among the industries subject to price controls in recent years. This is despite the fact that the raw materials used in these products are predominantly petrochemical-based and highly sensitive to exchange-rate movements. They include linear alkylbenzene (LAB), the principal feedstock used in detergents, and polyethylene terephthalate (PET), used in packaging, both of which are priced at 95% of their free-on-board (FOB) export prices. Consequently, exchange-rate fluctuations have an immediate impact on the cost of finished products.

According to the Iranian Association of Detergent, Hygienic, and Cosmetic Industries, the prices of certain products, such as laundry powder, increased by approximately 25% in 2022 (1401 SH), while the prices of products such as soap and toothpaste rose by as much as 40%. Producers, however, emphasised that their actual costs

had increased by between 50% and 120% and that the authorised price increases were insufficient to offset the rising costs of raw materials, packaging, workers' wages, and transportation.

Many companies, including publicly listed companies operating in the industry, warned that they were effectively selling their products at a loss under these conditions and that the continuation of this situation could result in production cuts or the shutdown of production lines.

In 2024 (1403 SH), producers submitted a request to the Consumer and Producer Protection Organisation for an average 40% increase in product prices, citing sharp cost increases—including a doubling of acid prices and substantial increases in packaging, energy, and labour costs. The organisation, however, did not approve the request by the end of the year. Some industry representatives stated that prices had increased in no more than two stages, by approximately 20% in total, which was still insufficient to cover the new costs.

By contrast, other members of the Iranian Association of Detergent Industries reported three rounds of officially authorised price increases: 18% in June 2024, 10% in August 2024, and 20% in January 2025. Compounded, these adjustments represented an overall increase of approximately 55%, formally authorised by the Consumer and Producer Protection Organisation.

At certain points, companies reduced or suspended production to prevent further losses. It has also been reported that electricity outages affecting industrial facilities during both summer and winter reduced the industry's production capacity to approximately 40%–50% of its potential level.

The experience of the detergent industry once again demonstrates how the government's failure to respond promptly to changes in production costs can simultaneously harm producers—through financial losses and production-line shutdowns—and consumers, through shortages, higher prices, or declining product quality.

Pharmaceuticals

Pharmaceuticals and medicinal products are among the most sensitive areas in which

successive governments have sought to keep costs affordable for the public through subsidies and price controls. In recent years, however, these same interventions have contributed to repeated medicine shortages. Official reports indicate that price controls and the failure to fully reflect inflation in pharmaceutical prices have eliminated the incentive to manufacture certain products. Consequently, producing some medicines is no longer economically viable, prompting companies either to discontinue production or reduce it significantly, which in turn creates shortages in the market.

For example, shortages of antibiotics and intravenous fluids reached critical levels during the Iranian years 1401 and 1402 (2022–2024). One of the main causes cited was that the approved prices of these products were too low relative to their production costs, particularly following increases in the prices of imported active pharmaceutical ingredients. Pharmaceutical industry executives explicitly stated that price controls on medicines were inconsistent with inflationary realities, diminishing manufacturers' incentive to produce and consequently causing market shortages.

Pharmaceutical quality may also be affected. When fixed prices are not updated in line with increases in foreign-exchange and raw-material costs, manufacturers seeking to reduce expenses may resort to unlawful and unsafe cost-cutting practices in drug formulation. One of the most dangerous manifestations of such cost-cutting is reducing the actual dosage of an active ingredient relative to the dosage stated on the packaging. In other words, patients believe they are taking a medicine with a specified therapeutic potency, whereas the product they receive may not deliver the expected efficacy, potentially slowing or undermining the course of treatment. This can have irreversible consequences, particularly for patients with chronic illnesses, older people, and children.

In addition, some manufacturers may seek to reduce production costs by omitting excipients or supplementary ingredients used in pharmaceutical manufacturing to mitigate side effects or improve drug absorption. Although removing these compounds may lower the product's cost, it can increase adverse effects in practice and may lead to gastrointestinal problems, allergic reactions, or drug interactions. Under such circumstances, consumers who believe they are receiving a standard medicine may unknowingly be exposed to serious risks.

This situation provides a clear example of the unintended consequences of price controls in a sector directly concerned with human life. A policy ostensibly designed to benefit consumers can, in practice, undermine pharmaceutical security and public confidence in the healthcare system. Thus, in the pharmaceutical sector as well, the well-intentioned objective of controlling prices has unfortunately contributed to crises involving both shortages and declining quality.

Baby Diapers

The “diaper crisis of 2018” (1397 SH) became one of the most prominent examples of the consequences of government intervention. Amid that year’s sharp exchange-rate increase, the government allocated foreign currency at the preferential rate of IRR 42,000 per US dollar to many essential goods. Initially, however, raw materials used in the diaper and cellulose-product industries were excluded. Manufacturers faced a threefold increase in costs but were not permitted to raise their prices proportionately.

The result was a sharp decline in diaper production and severe shortages in the market. The prices of the limited products that remained available also soared. Reports indicated that a package of diapers produced in June 2018 (Khordad 1397 SH), with a printed consumer price of IRR 410,000, was being sold for IRR 770,000 by September 2018 (Shahrivar 1397 SH).

The problem was later alleviated to some extent through foreign-currency allocations and the liberalisation of raw-material imports. Nevertheless, the episode demonstrated how price suppression in an import-dependent industry can develop into a social crisis. At the time, young families with infants faced serious difficulties obtaining diapers, while the informal market for the product flourished. The case taught policymakers that if prices are not adjusted realistically and warning signs of shortages are disregarded, even seemingly commonplace products can become a source of crisis.

The cases discussed above offer several common lessons. In each instance, price controls disrupted either production or distribution, resulting in product shortages, sudden price surges, or declining quality. In other words, the theoretical shortcomings of price controls have also repeatedly manifested themselves in practice.

Implementation Barriers and Challenges

From Pricing Bureaucracy to Distributional and Operational Consequences

In addition to the wide-ranging consequences of price controls for production, quality, health, competition, and market behaviour discussed in the preceding sections, the implementation of this policy faces serious structural, operational, and timing-related challenges. Their effects on production, distribution, investment, and consumer confidence cannot be overlooked. The most significant of these challenges are as follows:

Bureaucratic Complexity and Delays in Product Listing

To register the official price of a new product, the producer or importer must upload technical and financial documentation to government systems and wait for the price approval process to be completed by the Consumer and Producer Protection Organisation or provincial committees. This process usually takes several weeks or even months. During this period, the product is either prohibited from entering the market or remains held up at customs.

These delays result in tied-up capital, higher demurrage costs, and supply imbalances in the market. Moreover, when raw materials arrive at the factory nine to twelve months after they were ordered, the finished product is priced on the basis of outdated costs. This means that a product entering the market in February 2025 (Esfand 1403 SH) may be priced according to costs recorded in January 2024 (Bahman 1402 SH), with no scope to account for subsequent increases in wages, transportation costs, or energy prices.

Uniform Profit Margins for the Distribution Network

The Consumer and Producer Protection Organisation sets fixed profit margins for wholesalers, distribution companies, and retailers, disregarding differences among products, geographical regions, and sales models. This approach has weakened incentives to invest in distribution.

For example, under the regulations, a chain store with its own transportation network and logistics infrastructure must operate with a lower profit margin than a traditional retailer because it benefits from “economies of scale.” However, when imposed without accounting for differences in actual costs, this requirement provides little incentive and may even lead the chain store to stop offering certain products.

Negative Effects on the Production Cycle and Profitability

Because the final consumer price is determined after production but before the product enters retail stores, any cost increase occurring after that stage—such as higher employee wages at the beginning of the year or increased transportation charges during winter—cannot be reflected in the final price. Producers are therefore compelled to sell their products at prices that do not correspond to current economic conditions. As a result, products enter the distribution network with extremely narrow margins or even at a loss.

This situation harms producers while also creating difficulties for retailers, whose margins are calculated based on the same outdated and unrealistic prices and are therefore substantially reduced in practice. Retailers may consequently decide to stop selling those products or shift their focus to other goods.

Ultimately, this misalignment among the various stages of the value chain—from production and price-setting to distribution and retail—creates an inefficient market. Rather than seeking to improve productivity or competitiveness, each economic actor becomes primarily concerned with finding ways to avoid losses.

Institutional Inequality in the Enforcement of Government-Mandated Profit Margins

One of the major consequences of price controls and government-mandated profit margins, particularly when fixed margins are prescribed for categories of goods, for example between 13% and 21%, is the emergence of substantial disparities in how different types of companies operate in the Iranian market. These disparities stem directly from differences in companies' commitment to the law, internal standards, and levels of operational transparency.

Companies that are wholly foreign-owned consider themselves simultaneously bound by the national laws and official regulations of the Islamic Republic of Iran and by the stringent internal policies and standards of their parent companies. They are required not only to comply with health, production, and financial regulations, but also to follow guidelines on ethics, social responsibility, and reporting transparency. Consequently, when faced with a government-mandated profit margin of 17%, these companies must respond to cost pressures by formally applying to government authorities for price increases—a time-consuming and inefficient process.

By contrast, some large Iranian companies that are neither subject to comparable internal constraints nor compliant with international oversight requirements continue operating without objection even at profit margins of 7% or 8%. Their willingness to do so can be attributed to several key factors:

1. The very large scale of their operations: In practice, even a low profit margin translates into substantial amounts in rial terms. These companies therefore have little need to pursue official price increases.

2. Lack of commitment to ethical constraints and transparency: In the absence of effective internal controls, these companies can redirect their profit-generating activities toward ancillary commercial ventures that yield exceptionally high returns.

3. Exploitation of rent-seeking opportunities and information advantages: From purchasing essential goods at the preferential exchange rate and selling them at open-market prices to trading in real estate, steel, and sugar, or importing goods through foreign-currency loans, these companies can exploit systemic weaknesses and generate returns several times greater than those available through their core operations.

4. Low-cost production followed by exports and foreign-currency sales: Some opportunistic companies take full advantage of exchange-rate differentials and subsidies. By relying on subsidised raw materials or inexpensive energy, they manufacture goods at costs substantially below global prices and then export them. In many cases, the foreign currency earned from exports is subsequently sold at the open-market exchange rate, generating considerable profits. Put simply, these enterprises effectively convert hidden government subsidies into foreign currency and then monetise the resulting rents by selling that currency at the open-market rate.

This business model, which is not unique to Iran, allows companies with greater expertise in opaque trading networks or fictitious exports to generate profits without improving productivity or quality. Consequently, transparent and law-abiding companies are placed under pressure, while rent-seeking businesses, supported by the substantial cash flows generated through this cycle of low-cost production, exports, and foreign-currency sales, undermine fair competition.

As a result, compliant and law-abiding companies are effectively left on their own in price-setting procedures and negotiations with the government. Some opportunistic

companies engaged in lobbying or opaque commercial practices have no genuine need for changes in official prices. Instead, they prefer to remain silent while pursuing exceptional profits through parallel channels.

This situation not only erodes fair competition but also weakens transparent investors, contributes to the withdrawal of international companies, and reinforces the cycle of corruption in the national economy. As long as profitability and survival in the market depend not on productivity and innovation but on rent-seeking and the circumvention of regulations, transparent and responsible producers will remain at a persistent disadvantage.

Conclusion and Proposed Recommendations

for Policymakers

A comprehensive review of domestic and international experience demonstrates that although price controls are implemented with well-intentioned short-term objectives, they have significant adverse consequences for the economy over the long term. In Iran, decades of government intervention in setting the prices of goods and services have neither curbed chronic inflation nor ensured sustainable consumer welfare. On the contrary, according to experts, the outcome of this prolonged intervention has been the erosion of the rights and welfare of the very poor it was intended to protect, through the emergence of black markets, product shortages, and declining quality.

Producers have been placed under pressure from financial losses, distribution networks have become distorted and inefficient, and consumers have been pushed toward either low-quality goods or expensive open markets. Global experience likewise demonstrates that this policy has not provided a sustainable solution anywhere in the world. Economists broadly agree that the fundamental solution to inflation and livelihood challenges lies not in suppressing prices, but in implementing structural macroeconomic reforms and providing direct support to vulnerable groups.

In light of these realities, policymakers may consider the following reform measures:

Transitioning from price suppression to direct support

If the objective is to help lower-income deciles obtain essential goods, the most effective approach is to provide direct subsidies to consumers rather than compel producers to sell at artificially low prices. As one economist has stated, instead of requiring producers to bear the cost of supporting vulnerable groups, the government should finance such support from the public budget. For example, goods could be purchased from producers at their actual prices and then supplied to low-income households at subsidised prices through credit cards or electronic vouchers. It should nevertheless be recognised that even direct support policies merely provide temporary relief from the effects of consumption poverty and cannot address the underlying causes of economic inefficiency. A sustainable solution requires reforming production structures, eliminating price distortions, and moving toward a competitive market economy governed by transparent rules and a predictable environment for investment and sustainable growth.

Gradually removing price controls in competitive markets

Under Iran's current economic conditions, the immediate liberalisation of all prices could have short-term inflationary consequences. A gradual roadmap could nevertheless be developed under which goods with competitive markets and adequate supply are progressively exempted from price controls. The adoption in 1404 (2025–2026) of Paragraph (e) of Article 48 of the Seventh Development Plan represents an important step in this direction. It stipulates that government price-setting is prohibited, except for subsidised essential goods and monopolistic or public goods and services. Implementing this provision could formally end most price controls over the course of the Seventh Development Plan. Accordingly, in the coming years, prices would be determined by supply and demand, while the government would set prices only for highly sensitive or monopolistic items. If properly implemented, this policy could increase market transparency, strengthen the private sector, and eliminate rent-seeking opportunities for intermediaries. Its full implementation, however, requires controlling the external drivers of inflation—including liquidity growth and exchange-rate fluctuations—to prevent price shocks from disproportionately affecting vulnerable groups.

Strengthening competition mechanisms and smart regulation

As direct government intervention in prices is withdrawn, regulatory and antitrust institutions will assume a more prominent role. It is essential to ensure that fair competition prevails in liberalised markets and that monopolies do not emerge. To this end, the Competition Council could assume responsibility for setting the prices of monopolistic goods or services, such as automobiles, energy, and telecommunications, while continuously monitoring other markets to prevent collusion or the abuse of market dominance. Modern supervisory tools, including systems for monitoring supply chains and warehouse inventories, some of which are already used by the Comprehensive Trade System, could also replace traditional inspections and punitive enforcement proceedings. This would represent a transition from administrative control to smart regulation.

Maintaining macroeconomic stability and curbing inflation

Ultimately, the root cause of the problem, chronic inflation, must be addressed. Price controls have always served as a temporary palliative for the effects of inflation, but they are not a genuine remedy. If policymakers succeed in establishing monetary and fiscal discipline and containing inflationary expectations, public pressure for government price controls will naturally diminish. People demand government intervention in prices when uncontrolled inflation erodes their purchasing power. Once inflation is brought under control, market mechanisms function more effectively, and the need for intervention decreases. It is therefore recommended that the gradual removal of price controls be pursued alongside structural reforms aimed at curbing inflation and strengthening supply and distribution networks, thereby minimising adverse short-term consequences.

In conclusion, price controls may be likened to a double-edged sword. In the short term, they may allow governments to present themselves as protecting the public; over the medium and long term, however, their harmful effects on production—and ultimately on the livelihoods of the very people they are intended to support—become

evident. Iran's experience has been no exception.

Given the country's critical economic circumstances, it is now essential to demonstrate the resolve needed to reconsider this policy and move toward more principled solutions. The recent decision under the Seventh Development Plan to restrict government intervention in pricing offers a source of hope. If implemented prudently, it could unlock productive capacity, enhance market transparency, and improve economic efficiency. During this transition, compensatory support for vulnerable groups, through targeted subsidies, must clearly remain a priority to safeguard social equity.

In other words, the guiding principle of future policy should be: Liberalise prices while supporting people's incomes, rather than suppressing prices at the expense of the broader economy.

Only under such conditions can the vicious cycle of price controls be brought to an end and Iran's economy move toward a more sustainable equilibrium and stronger growth.

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