Persian Gulf public amenable to energy subsidy reforms

August 16 2016

Traditional subsidized energy prices may be unnecessary for large numbers of residents of the Persian Gulf monarchies like Saudi Arabia, according to a new article from Rice University's Baker Institute for Public Policy.

Although the Persian Gulf population has long been accustomed to some of the lowest energy prices in the world, subsidized energy prices have exacerbated domestic consumption and threaten to undermine oil and gas exports. Many people living in the six Persian Gulf monarchies are willing, under some circumstances, to pay more for energy when they are told that higher prices are in the national interest, relinquishing a benefit portrayed as a "right" by some observers, Jim Krane, the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute, found.

Krane is author of "The Political Economy of Subsidy Reform in the Persian Gulf Monarchies," an article that appears in the new book "The Economics and Political Economy of Energy Subsidies," which was edited by Jon Strand and published by the MIT Press.

In the six Persian Gulf monarchies—Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar and Bahrain—where subsidy-fueled energy consumption threatens the region's oil exports, this finding has important implications, Krane said. A public survey of 730 Gulf nationals Krane conducted in 2011 reveals that only a minority of citizens expresses "entitlement" to subsidized electricity. Academic theory suggests that most citizens consider subsidized energy a "right of citizenship."

When told that it was in the national interest that they pay more - so that energy could be preserved for export rather than consumed at home - nearly half (49 percent) of citizen respondents did not oppose higher prices, a significantly higher level than the third (32 percent) who did signal opposition to higher prices.

"The data reveal a disparity which suggests that commonly held assumptions—and academic theory—are wide of the mark," Krane wrote. "A substantial portion of the public appears more amenable to increases in subsidized electricity prices, especially when changes are portrayed as being in the national interest."

Many Gulf residents were also amenable to paying the full cost of their electricity when offered an alternate benefit, Krane found. Fifty-one percent of respondents did not oppose this hypothetical exchange of benefits. This finding suggests that a subsidy reform that exchanges energy benefits for cash payments might succeed in the Gulf monarchies. A similar reform in Iran has been lauded by the International Monetary Fund for reducing wasteful use of energy.

A separate survey Krane conducted with 76 Gulf energy experts in 2011 produced results more consistent with theory, in which citizens were expected to exhibit more "entitled" views of energy and more opposition to subsidy reform. Ninety-two percent of the expert respondents portrayed citizens as opposed to higher electricity prices, with just 5 percent portraying them as not opposed.

"This disjuncture between views of citizens and those of scholars and elites is consistent with the 'dictator's dilemma' problem, in which policymaking in autocracies is insufficiently informed by public opinion," Krane wrote. "Elites, policymakers among them, develop understandings and make policy under certain assumptions and conditions. Given their imperfect information on public opinion, those assumptions may be misguided."

Overall, Krane's findings suggest that large segments of the Gulf public may be more amenable to necessary reforms of damaging subsidies than the caution in regional policymaking implies.

More information: "The Economics and Political Economy of Energy Subsidies": mitpress.mit.edu/books/economi … omy-energy-subsidies

Provided by Rice University