

The Impact of Government's Financial Commitments Burden on Development Budget Deviation in Iran: Testing the Political Pressure Hypothesis within the Public Choice Theory Framework

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DOI: <https://doi.org/10.22096/esp.2026.2071673.1839>

Received Date: 14/09/2025 - Accepted Date: 16/02/2026

Abstract

This study investigates the impact of government financial commitments on capital budget deviation in Iran over the period 2001–2023. Utilizing the Autoregressive Distributed Lag (ARDL) framework, the empirical results demonstrate that an increase in financial obligations—including debt servicing and subsidy payments—exacerbates deviations in the capital budget in both the short run and the long run. Furthermore, reliance on oil revenues and growth in current expenditure significantly amplify such deviations, whereas higher tax revenues and economic growth serve to mitigate them. These findings suggest that budget deviations arise not merely from economic constraints but also from political pressures. Grounded in public choice theory, the analysis implies that policymakers facing resource scarcity tend to prioritize immediate commitments over long-term investments as a strategy to secure short-term political support. The insignificance of the election-year variable indicates that electoral competition predominantly centers on current spending rather than on infrastructure projects. Ultimately, the burden of financial commitments impedes the realization of budget targets. Accordingly, comprehensive reforms in subsidy policies, debt management, reduction of oil dependency, and strengthening of the tax base are essential to curbing budget deviations and enhancing fiscal efficiency.

Keywords: Government's financial commitments burden; Capital budget deviation; Oil revenues; Tax revenues; ARDL model.

JEL Classification: H62, H63, H72, D72.

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