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978-0-521-50634-2 - Iran's Political Economy Since the Revolution

Suzanne Maloney

Excerpt

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Introduction

During the summer of 2012, the Islamic Republic of Iran was rocked by a crisis over chicken. As the world ratcheted up pressure on Iran in hopes of forcing its government to abandon its nuclear program, the fallout from the latest round of international sanctions rippled throughout the Iranian economy. The currency crashed, inflation spiked, and the primary engine of the country's wealth – its oil exports – plummeted by nearly 50 percent. Although sanctions, particularly those imposed by Washington, have been a prominent feature of the economic landscape here almost since the inception of the revolutionary state more than three decades earlier, no previous measures had delivered such an immediate, dramatic, or far-reaching blow.

In this charged environment, the skyrocketing price of chicken, which soared as high as three times its cost only a year earlier, emerged as a kind of shorthand for a newly urgent public debate over the economy, the government, and, by extension, the future of Iran. From the Friday prayers pulpit, the Iranian leadership's favored instrument of communication, clerics appealed to Iranians to abstain from chicken and eat more vegetables instead, while others denounced the price spike as an enemy plot.¹

¹ Grand Ayatollah Makarem Shirazi, one of Iran's most senior clerics, advised that "many people complain about the high price of chicken; but it is not a very important problem if they do not eat chicken. Most doctors have said that meat is not good for health and should be taken in small amounts." *Iranian Students News Agency* (ISNA), July 21, 2012. The comments prompted sufficient backlash that Makarem Shirazi was forced to issue a statement 10 days later clarifying that he had not issued a religious injunction prohibiting the eating of chicken. In Shiraz, the Friday prayer leader Ayatollah Imani denounced the high price of chicken as part of the "enemy's psychological warfare" on July 27, 2012.

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The head of Iran's internal security forces took it upon himself to warn against broadcasting images of chicken on state-run television, for fear that the mere sight of *morgh polo* (chicken with rice, variations of which are a staple of the Iranian diet) would provoke class warfare. The issue inspired impassioned newspaper editorials, televised policy discussions, and, in classic Iranian fashion, endless jokes that circulated the country through routes both timeworn (word of mouth) and cutting-edge (Facebook and Twitter). The international media picked up the meme,² and as Iranians waited for hours in long lines for government-subsidized chicken, there was at least one case of a chicken-incited riot.³ In an echo of President Mahmoud Ahmadinejad's 2005 campaign slogan, a newspaper affiliated with one of his rivals jabbed that Iranians "are still waiting for oil money to come to their table in order to purchase chicken!"⁴

The uproar seemed a suitably ironic denouement for a state whose founder, Ayatollah Ruhollah Khomeini, had explicitly touted the primacy of moral considerations over material ones. Even if "Iran's Islamic Revolution was not made over the price of melons," as Khomeini was reputed to have said, it briefly appeared that the revolution might be undone over the price of chickens. For some outside observers⁵ and Western policy makers, it was truly a case of chickens coming home to roost; the tragicomic implosion of the Iranian economy represented the potential vindication of the American strategy for thwarting Tehran's nuclear ambitions and offered long-awaited evidence that the Islamic Republic's manifold failings would ultimately prove the seeds of its own destruction.

² Najmeh Bozorgmehr, "Sanctions Threaten Weak Iranian Economy," *The Financial Times*, June 28, 2012; Marcus George and Yeganeh Torbati, "Iran's 'Chicken Crisis' Is Simmering Political Issue," *Reuters*, July 22, 2012, <http://www.reuters.com/article/2012/07/22/iran-economy-chicken-idUSL6E8IJFYV20120722>; Hossein Bastani and Ali Hamedani, "Growing Anger in Iran over Cost of Chicken as Sanctions Bite," *BBC Persian Service*, July 27, 2012, <http://www.bbc.co.uk/news/world-middle-east-18999395>; Meir Javedanfar, "Iran's Big Crisis: The Price of Chicken," *Bloomberg*, August 7, 2012, <http://www.bloomberg.com/news/2012-08-07/iran-s-big-crisis-the-price-of-chicken.html>

³ Saeed Kamali Dehghan, "Reports of Street Protests in Iran Due to Soaring Price of Chicken," *The Guardian*, <http://www.guardian.co.uk/world/iran-blog/2012/jul/23/street-protests-iran-chicken>.

⁴ "At an Ifar Banquet with the President a Criticism from University Students about the Government's Policies Was Raised," *Tehran-e Emrooz*, August 4, 2012.

⁵ Avi Issacharoff, "Amid Sanctions, the Greatest Threat to Iran's Nuclear Program May Be the Price of Chicken," August 9, 2012, *Haaretz*, <http://www.haaretz.com/blogs/east-side-story/amid-sanctions-the-greatest-threat-to-iran-s-nuclear-program-may-be-the-price-of-chicken.premium-1.457241>; Joshua Foust, "The Annals of Chicken Politics, Iran Edition," *The Atlantic*.com, July 31, 2012, <http://www.theatlantic.com/international/archive/2012/07/the-annals-of-chicken-politics-iran-edition/260526/>

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However, behind the headlines, the reality of revolutionary Iran proved more multifaceted than the cursory media coverage might have suggested. Not for the first time, the country's course deviated from the presumptive script. In fact, the much-hyped "chicken revolution" did not transpire. A closer examination of the episode reveals a more complex array of causes, including but hardly limited to sanctions, and the regime's crisis management suggests something other than the inevitable demise of the Islamic Republic. First, the regime mounted a robust response to public hardship. Senior Iranian officials participated in crisis summitry to devise and implement damage control, and Iran's embattled institutions of civil society and representative rule – its newspapers and bloggers, its pork-barrel parliament – moved into high gear to press for improvements and highlight related problems. Despite the restrictions on its international trade and financial access, Tehran managed to procure imported chicken from allies, including Turkey and Brazil, and quickly sought to distribute it at a subsidized price. As they waited in the sort of ration lines that had not existed since the 1980–88 war with Iraq, Iranians continued to vent their outrage at the indignity of rising prices and low supplies. However, for the most part they remained unwilling to risk their lives or their livelihoods to translate their dissatisfaction into a direct challenge to the ruling system. Moreover, the chicken controversy did not have an immediately salutary effect on Iran's readiness to resolve the nuclear standoff.

To the disappointment of many, both inside Iran and beyond, the great Iranian chicken crisis of 2012 unfolded somewhat differently from initial expectations. Mitigation, improvisation, and the surprising capacity of Iran's postrevolutionary institutions enabled the Islamic Republic to survive yet another test of its endurance. This outcome does not contradict a core underlying reality of contemporary Iran: Sanctions have exacted a tremendous toll on a state whose political and economic development is already distorted by the epic turmoil and mismanagement of the postrevolutionary era. Even the most orthodox defenders of the Islamic Republic have been forced to alter their traditional blustering denial and acknowledge that the measures targeting Iran's access to the international financial system and its oil sector hit home. Sanctions have bound the horizons of the Islamic Republic, and for the foreseeable future, they will determine the opportunities of the Iranian people.

However, these sanctions have not played out in predictable fashion, and Iran's aborted chicken upheaval offers a reminder that the world has once again failed to anticipate the trajectory of the Islamic Republic's

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internal agonies. And it underscores the utility of developing a more nuanced understanding of Iran's political economy. As this episode demonstrates, the economy lies at the heart of the challenge facing Iranians as they survey their future, and for the world in seeking to influence the decisions of Iran's leaders. However, the formula for inducing moderation remains elusive, and the relationship between economic challenges and political change in Iran has proven more complicated than the crude logic of external economic pressure.

Despite Khomeini's dismissive rhetoric on the economy, which has been oversimplified and misconstrued in its frequent repetition,⁶ the leaders of the Islamic Republic have always recognized the relevance of the price of melons. In the mobilization against the shah and its aftermath, Iran's revolutionaries deployed religious themes and institutions to seize the fulcrum of a disparate coalition that shared little other than their antipathy toward the shah. And yet, having waged a revolution in the name of religious righteousness and under the guise of theocratic imperatives, the postrevolutionary leadership has sought to govern largely through an appeal to the mundane and the distribution of the spoils. During the revolution's initial decade, the tensions within the relevant body of decision makers over the regime's economic approach produced epic battles among the leadership and nearly fractured the state. Over time, however, historical circumstances – in particular, the war with Iraq – compelled an uneasy consensus around economic liberalization and market forces. The evolution was also facilitated by the persistence of political competition, the exigencies of Iran's oil-based economy, and the legacy of popular demands for government accountability that dated back at least a century.

As the Islamic Republic has buttressed its ideological claims with economic ones, Tehran has subtly shifted the basis for its own legitimacy. The Islamic state's persistent reliance on populist promises was intended to buy off popular frustration, in the hopes that subsidies on consumer goods could supplant demands for greater political participation and social freedoms. This strategy backfired; instead, the regime has inadvertently cultivated a set of public expectations surrounding government performance, and its accountability to the people, that were never intended by its founders. The politics of populism and the rhetoric of redistribution have been far more powerful in shaping the popular

⁶ Khomeini's reference to the significance of the price of melons is addressed in greater depth in Chapter 3.

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imagination than the regime's appeals to anti-Americanism or the deployment of Shi'a ideology and institutions. By creating expectations of economic windfalls, greater egalitarianism, and an improvement in the plight of *mostazafan* (the oppressed), Iranian leaders effectively undercut the theocratic basis of their authority and bolstered a competing rationale – one that is based upon its citizens' expectations of a government that will deliver a better life.

In theory, at least, the shift in the basis of the Iranian regime, as articulated in both the rhetoric and the policies of its government, should entail a commensurate moderation of revolutionary radicalism, and even generate greater traction for international diplomacy toward Tehran. After all, a government whose legitimacy is increasingly contingent upon satisfying popular expectations of development is correspondingly more vulnerable to economic pressures and faces more immediate incentives to maintain durable, constructive relationships with the international community as part of a viable framework for trade and growth. And yet precisely the opposite has transpired in Iran's Islamic Republic. Even as the economy assumed a higher priority for the leadership and even as they found accord on areas of economic policy that had previously caused contention, the regime retained its predilection for provocation, continuing to subsidize terror abroad and investing in a nuclear infrastructure that unnerved the world. Here, too, the explanation for the puzzle of Iran's persistent obstructionism, despite the manifest costs to its growth and development, lies in a closer examination of its political economy – specifically, the empowerment of bifurcated authority, reliance on oil revenues, deeply rooted mistrust of foreign interest in Iranian resources, and the epic changes in world trade and economic growth that have occurred independently of Iran's own development.

THE CONTEXT: IRAN'S POSTREVOLUTIONARY POLITICAL ECONOMY

Three decades of rule by a revolutionary Islamic regime has generated outcomes that do not conform to the ideological imperatives of its founders – or, for the matter, the too-often cartoonish depiction of the Western imagination. Contemporary Iran is neither sequestered from the relentless forces of economic and cultural globalization, nor mired in the traditionalism that represents the ideal of some of its founders and the image relentlessly projected by the media. It is neither the glorious triumph of Islamic governance and economic management trumpeted by

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its leadership, nor fully the basket case, perpetually on the brink of collapse as a result of leadership fissures and fiscal strains, that American politicians repeatedly invoke.

Much of the difficulty in interpreting Iran's economic exigencies stems from the inherent ambiguities. First, Iran is both *rich and poor*: It is a tremendously wealthy country, a fact that often is downplayed in the policy debates around Iran's internal dramas and external pressures. Iran is a latent economic powerhouse and, with responsible governance, could play an important role in generating growth and prosperity in the Middle East. The country's most obvious advantages are its natural resources: Iran boasts the second largest reserves of gas and the third largest reserves of conventional oil in the world, earning \$70 billion from oil exports in 2010 even as international sanctions began to constrain its energy exports. Beyond the petroleum sector, however, its temperate climate and strategic location along the crossroads of Asia and Europe have created a diverse economic base that predates the oil boom and remains a valuable juncture for transcontinental trade. Its human resources are equally impressive, with a well-educated labor force. Iran's long history as an integrated nation-state entails a familiarity with central government and stable borders long before most of its neighboring fellow oil producers. Even today, despite decades of sanctions, conflict, and internal mismanagement, Tehran credibly claims at least \$100 billion in foreign reserves – a hefty war chest for enduring the epic international pressure that the regime faces today.

Still, in the face of these powerful advantages and a recent period of record high oil prices, Iran's position in the international economy has absolutely declined over the course of the past three decades. As Figure 1.1 suggests, Iran's national income shrank by half in the first decade of the revolution and rebounded during the reform era only to begin a descent anew with the global economic slowdown and the intensification of international pressure since 2010. High oil prices have boosted Iran's GDP, but growth remains erratic and anemic, even in the wake of the heftiest influx of oil revenues since the revolution during the past decade. Iran's relative position in the world economy has plunged as other developing economies – particularly those in Asia – have taken off.⁷ This reflects the impact of several powerful, detrimental trends, particularly the post-revolutionary predilection for a dominant role for the state in the economy

⁷ Hadi Salehi Esfahani and M. Hashem Pesaran, "The Iranian Economy in the Twentieth Century: A Global Perspective," *Iranian Studies* 42:2 (April 2009), p. 196.

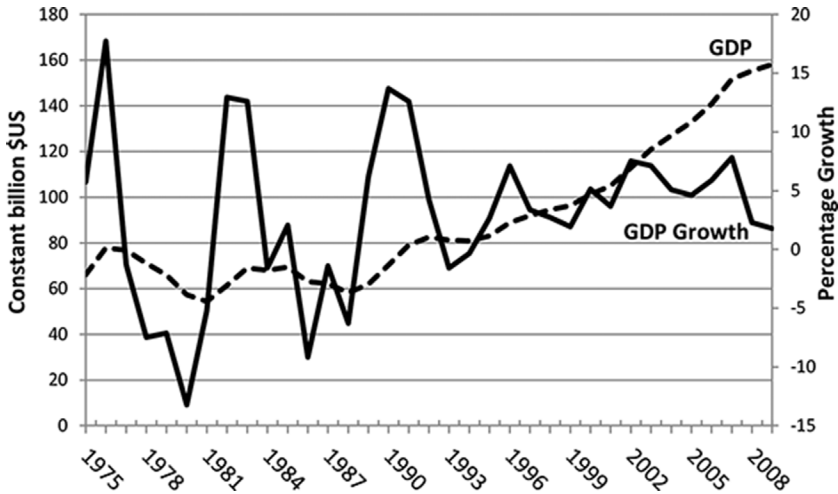


FIGURE 1.1 Iran's Erratic GDP Growth since the Revolution

and the decades of disruptions in Iran's trade relations and foreign investment wrought by economic sanctions, ideological imperatives, the inherent volatility of reliance on resource revenues, and the persistence of internal and regional conflicts.

Second, the Islamic Republic has proven both *developmental and predatory* in its stewardship of the national economy. Even the rosiest depiction of its socioeconomic benefits underscores how little of the original intentions of the revolution's participants was achieved by the state that emerged in its aftermath. Long-term trends suggest that the Islamic Republic has not manifestly altered the profoundly unequal patterns of wealth distribution that prevailed prior to the revolution.⁸ Iran's repressive political climate and poor governance have negated much of the benefit of its infrastructure investments, as wider dispersion of educational resources and markedly higher literacy rates have corresponded to a steady decline in productivity.⁹ The heavy hand of the state and parastatal firms has resulted in an enduring erosion of the manufacturing sector, with notable declines in productivity that have persisted

⁸ Djavad Salehi-Isfahani, "Poverty, Inequality, and Populist Politics in Iran," *The Journal of Economic Inequality* 15:1 (March 2009), pp. 18–23.

⁹ Mohammad Reza Farzanegan, "Education Spending and Productivity in Iran: Where Have All the Education Expenditures Gone?" Economic Research Forum 17th annual conference paper, March 20–22, 2011.

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long after the original dislocations of the revolution and war.¹⁰ States such as South Korea and Turkey, whose economies and growth trajectories were roughly similar to that of Iran prior to the oil boom and the revolution, have left the Islamic Republic in their dust on nearly any meaningful comparisons of growth, productivity, and per capita income. Socially, the legal framework erected during the Pahlavi period that facilitated female participation in the economy and advanced women's rights to divorce and child custody were jettisoned after the revolution despite persistent opposition by the world.

However, focusing solely on the problematic elements of the Islamic Republic's economic policies would foster an incomplete and skewed portrayal of the past thirty-five years. Despite its demonstrable failings with respect to economic management, its proclivity for alienating potential investors and trade relationships – and despite the dramatic declines in per capita GDP during the first fifteen years of the revolutionary regime – poverty in Iran today has become less widespread than it was before the revolution.¹¹ Infrastructure for the support of health, education, and social welfare has permeated the country on a dramatically wider basis, and the positive impacts on Iranian society are incontestable. Literacy rates among young Iranians are nearly universal, and overall female literacy had risen from 24 percent in 1976 to 77 percent by 2006.¹² Infant mortality has dropped by more than 75 percent, from 107 deaths out of every 1,000 live births in 1975 to 25.9/1,000 in 2009, and average life expectancy expanded from fifty-seven years to seventy-two years in the same time frame.¹³

Higher education has increased by more than tenfold (223 institutions at the time of the revolution to 2,471 in 2012).¹⁴ Women represent a majority in both undergraduate and graduate university programs. Their representation in most areas of social and economic life reveals a broader societal transformation in gender roles, in spite of – and in some cases, because of – postrevolutionary setbacks for women's legal rights and social status. Moreover, this phenomenon is

¹⁰ Farshid Mojaver, "Sources of Economic Growth and Stagnation in Iran," *The Journal of International Trade & Economic Development* 18:2 (June 2009), p. 292.

¹¹ For the most persuasive analysis of the trends that contributed to this shift, see Djavad Salehi-Isfahani, "Poverty, Inequality, and Populist Politics in Iran," *Journal of Economic Inequality* 7:1 (March 2009), pp. 5–28.

¹² UNESCO. ¹³ World Development Indicators, World Bank.

¹⁴ Ahmadinejad address, broadcast on state television, July 26, 2012, as recorded and translated by BBC Monitoring Middle East, July 28, 2012.

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not limited to statistical estimates of income and affordability; most measures of social development attest to the dramatic expansion in the dispersion of infrastructure and in educational attainments. The vast majority of Iranians today have access to health care and education, at standards that are highly imperfect but that nonetheless represent a marked improvement upon the circumstances that existed prior to the revolution.

Finally, Iran is *integrated but isolated*. Manifold obstacles have impeded Iran's interactions with the international community: its leaders' early autarkic predilections, its clashes with its neighbors, inhospitable conditions for investment and tourism, and of course the increasing reach of international economic sanctions. Iranian leaders publicly reveled in the relative insulation of their economy as the contraction of U.S. credit markets helped spark a global recession in 2008.¹⁵ Iran's exclusion extends well beyond its economy to its political and cultural connections to the world. As U.S. policy makers boast with veracity, Tehran today has few friends on the international stage; the Islamic regime is routinely condemned in nearly universal fashion in international organizations. Its singular regional ally, Syria, is enmeshed in a civil war and has been shunned by the rest of the Arab world. The revolution's tentative international opening during the 1990s, which saw its reformist president feted throughout Europe, within the decade reverted to reliance on fraternity of pariahs, such as Cuba, Venezuela, and Byelorussia. Iran's loneliness extends to its population, who face steep hurdles in traveling internationally thanks to financial sanctions and visa restrictions. At home, clerical leaders continue to inveigh against the evils of globalization, and the regime has waged an effective, if ultimately futile, battle to restrict the nation's access to information by banning satellite dishes, jamming foreign broadcasting, and heavily restricting Internet access.

Still, even today under the most robust external economic pressure that has ever been aligned against Tehran, the country remains inextricably intertwined in the international economy. Moreover, Iran today remains very much subject to a variety of global forces with respect to its culture, politics, and economy. Despite the sanctions' specificity

¹⁵ "The Governor of the Central Bank: Do Not Worry about the Impact of Global Financial Crisis on Iran's Economy," *Hezbollah*, October 31, 2008, p. 4; "US Economic Crisis Can Be Opportunity for Iran, MP," *IRNA*, October 12, 2008; Ahmad Reza Pursane, "Calm of Iran's Economy amid Global Crisis," *Javan*, October 15, 2008; "Presidential Aide: Iran Less Affected by Global Crisis," Fars News Agency, November 5, 2008.

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in targeting individual Iranian officials and institutions for their roles in proliferation, terrorism, and human rights abuses, Tehran has managed to maintain at least the pretense of continuing engagement with the world. In August 2012, the Islamic Republic hosted the summit of the Non-Aligned Movement and succeeded in luring several world leaders to participate in the pageantry, including the newly elected Egyptian president, the Indian prime minister, and the secretary-general of the United Nations. Iranian leaders reliably participate in similar diplomatic symbolism, jetting to conclaves of the Organization of the Islamic Conference and the Shanghai Conference Organization and seizing the podium at the United Nations. The purpose of these ceremonies is clear – to assert Iran's historic aspiration to a leading role in the regional and broader international arenas.

This interconnection to the world beyond Iran extends throughout the population. A well-educated, high-income diaspora that has expanded since the revolution and continues to travel to and from Iran has lent much of the population a direct window on the worlds of Los Angeles, Toronto, and Melbourne. Moreover, the restrictions imposed by their own government as well as by the international sanctions have proven frequently porous, enabling Iranians to gain access to nearly any product of the international marketplace via the indefatigable black market. Most important to the association of ordinary Iranians to the wider world has been the information revolution. Iranians' access to the Internet has increased steadily – even, at least as far as official statistics show, after the 2009 crackdown – to more than 27 million,¹⁶ and the Student Basij Organization has asserted that at least 17 million Iranians are registered users of Facebook.¹⁷ Seventy-two percent of all Iranians have a cell phone.¹⁸ The broad trends are clear – the more that political dynamics have conspired to isolate the Iranian regime, the more that its leadership and its population have become inextricably tied to an increasingly globalized world.

AIMS OF THE BOOK

Rich and poor, developmental and predatory, integrated and isolated – these are the paradoxes of Iran's political economy. And, by extension,

¹⁶ World Development Indicators, World Bank.

¹⁷ "Some 17 million Iranians are members of Facebook," *Ete'mad*, October 5, 2011, p. 1.

¹⁸ World Development Indicators, World Bank.