

Iran: Political Economy of an Islamic State

by
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INTRODUCTION

Political and economic developments in the post revolutionary Iran present a special dilemma to outside observers in general and to social scientists in particular as many developments do not seem to fit the usual political and economic categories with which the social scientists are normally familiar. As a result, most analysts of contemporary Iran, approaching the reality from the rigidly preconceived conceptual lenses, tend to grossly distort the actual picture. The contemporary situation in Iran is usually portrayed as one of utter chaos and turmoil with little or no hope for any progress in the future.¹ It is seen as ruled by "empty-headed", "conservative", "brutal," and "incompetent" mullahs who are bent upon destroying any signs of progress and civilization. Even the moderate analysts who seem to be less preoccupied with their biases and more cognizant of the new realities, appear to dismiss any long-term consequences of the current changes taking place in contemporary Iran.² My major objective in the following pages is to develop an alternative image of the same reality. I argue here that slowly and gradually, a new political and economic order is emerging in Iran, whose broad objectives and outlines are clear. A major distinguishing characteristic of this

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¹A commonly accepted image typically reads as follows: "Iran's economy is a shambles, its political system still wracked by divisiveness and violence. Civil war, territorial disintegration and Soviet penetration are constant possibilities." See Marvin Zonis, "Iran: A Theory of Revolution from Accounts of the Revolution." *World Politics*, p. 588. Also see Terence Smith, "Iran: Five Years of Fanaticism." *The New York Times Magazine*, February 12, 1984; and Shaul Bakhash, "Iran, Five Years Later, Divided and in Conflict." *The New York Times Magazine*, February 12, 1984.

²Theda Skocpol, "Rentier State and Sh'ia Islam in the Iranian Revolution." *Theory and Society* 11, #3 (May 1982).

order is its public welfarist orientation with special attention to the lower-middle and lower classes. And this order has the potential of so fundamentally transforming the political scene in Iran in the long run where the old issues and the old actors are most likely to be irrelevant to the new type of politics. Once successful, the political implications of this order will have a much wider effect on the Muslim world than commonly assumed.

This paper has four sections. The first section deals with the ideology of the Islamic republic. Examining the ideas of the leading revolutionary thinkers, we shall try to establish a criteria against which the regime's political and economic performance is to be assessed. The second section of the paper describes the nature of key political and economic institutions established in the aftermath of the revolution and their mode of functioning. The third part of the paper is concerned with the economic performance of the regime over the past five years. We shall assess its performance in two ways: (a) in light of the criteria established in the first part of the paper and (b) a brief comparison of the Islamic Republic's five year performance with the prerevolutionary Iran's last five-year plan (1973-1978). The final section of the paper summarizes the major conclusions of this study and also attempts to project a likely future scenario.

IDEOLOGY

Briefly surveying the thoughts of Imam Khomeini, Ayatullah Mahmood Taleqani, Imam Sadr, and Bani Sadr, we shall elucidate the criteria for assessing the performance of an Islamic Republic.

Khomeini

Imam Khomeini, in his book *Islamic Government*, provides a vision of an Islamic society. In his view, Islam is a complete code of life and "there is not a single topic in human life for which Islam has not provided instruction and established a norm"³ Islamic government may therefore, be defined as the "rule of divine law over men". Recognizing the ambiguity of the principle of *Vilayeti-faqih* (Governance of Jurisprudence) as is generally understood, he thinks that rule by the religious scholars is logically self-evident from the nature of detailed instructions given by Islam and the practice of the holy prophet, Muhammad (Peace be upon him). He asserts:⁴

. . . the true rulers are the *fuqaha* themselves, and rulership ought officially to be theirs, to apply to them, not to those who are obliged to follow the guidance of the *fuqaha* on account of their own ignorance of the law.

³Ayatullah Khomeini, *Islamic Government*. Translated by Hamid Algar.

⁴*Ibid.*, p. 34.

Khomeini's criticism of the Shah's monarchy often centers around the social injustice prevalent in Iran. He strongly decries the "unjust economic order" and the ever-growing gap between the "plundering overlords" and "hundreds of millions of Muslims... hungry and deprived of all forms of health care and education."⁵ He also strongly decries Iran's exploitation both by the Western and Communist powers. He notes:⁶

Huge amounts of capital are being swallowed up; our public funds are being embezzled; our oil is being plundered; and our country is being turned into a market for expensive, unnecessary goods by the representatives of foreign companies, which make it possible for foreign capitalists and their local agents to pocket the people's money.

Khomeini calls upon people to launch a "sacred *Jihad*" on this "usurpation" and to establish an Islamic society. The purpose of Islamic society is "the establishment of just Islamic order". A just society that will morally and spiritually nourish refined human beings.⁷ Khomeini deliberately does not discuss the specific details of his vision as he considers it unnecessary.

Taleqani

Ayatullah Mahmood Taleqani, another leading ideologue of the revolution considers Islamic economic system as a subcomponent of the Islamic social system with a core of Islamic beliefs as its foundation.⁸ In his view only God has absolute right to ownership and man has the right to utilization. He thinks that "man's right to ownership is limited for public welfare."⁹ He does not specify the actual limit, but he leaves it upon the Islamic state to determine the limits keeping in view the broader public interests. Discussing the limits on the agricultural land, he considers the private ownership "dependent on the duration of cultivation"¹⁰ though he allows for a flexible policy according to variations in the local conditions. He considers usury, monopoly and accumulation of wealth in few hands as illegal. He also thinks it necessary that in order to ensure proper distribution of wealth, it is the duty of the state to collect Islamic taxes — Zakat, Khoms, Kharaj and Jizya — and to distribute it among needy persons. Taleqani

⁵*Ibid.*, p. 40.

⁶*Ibid.*, p. 70.

⁷*Ibid.*, p. 75.

⁸Sayyed Mahmood Taleqani, *Islam and Ownership*. Translated by Ahmad Jabbari and Farhand Rajee. (Lexington, KY: Mazda Publishers, 1983).

⁹*Ibid.*, p. 89.

¹⁰*Ibid.*, p. 94.

distinguishes the Islamic economic system from both capitalism and communism. In developing a lengthy critique of the two systems in vogue, he notes:¹¹

The ideas of absolute, free ownership (capitalism) and its rival, the absolute negation of private ownership (collectivism and socialism), are the special products of the century of abrupt industrial development. . . Free ownership causes subjugation, emergence of privileged capitalists, and the deprivation of workers. The negation of private ownership limits individual freedom and, in turn requires the dictatorship of a special class.

Sadr and Bani Sadr

Both Imam Sadr and Bani Sadr develop similar arguments about private property, public ownership, production and distribution, trade and finance.¹² Both consider private ownership "limited" and "relative". They also believe in the "negation of personal ownership and private rights concerning and raw materials which are acquired [sic] without the use of labor".¹³ Both give the state wide power in owning, organizing and spending in the interest of the public welfare and also the right to nationalize. Sadr classifies the ownership into three categories: State ownership, public ownership and private ownership. The difference between state and public ownership is that "although from the social viewpoint they are similar, in one of them, i.e. public ownership, the owner is the people, and in the other, it is the authority and the apparatus which has been commissioned by God to take charge of the people's affairs."¹⁴ Both, on the basis of clear Quranic injunctions believe in the prohibition of *Riba* (interest) and hoarding. They also believe that Islamic taxes must be paid, charity is strongly recommended and *Sharia* laws of inheritance be strictly adhered to. There exists an ambiguity in both writers' books regarding the precise limits of private property and the nature of returns on the factors of production. Precise distinction between permissible and non-permissible methods of acquiring returns on the factors is not clear. However, wide powers are granted to the *faqih* in the name of public welfare.

¹¹*Ibid.*, p. 91.

¹²See a useful review of the works of Imam Sadr and Bani Sadr, Homa Katouzian, "Shiism and Islamic Economics: Sadr and Bani Sadr." Nikki R. Keddie, *Religion and Politics in Iran*. (New Haven: Yale University Press, 1983).

¹³*Ibid.*

¹⁴*Ibid.*

Criteria Defined

It is clear from the above survey of writings that Islamic thinkers of Iran have a different utopia, the one which consciously subordinates the materialistic ethos to the fundamental religious values. The overriding objective of the social system is to create an Islamic society, claimed to be more capable of promoting human fulfillment than materialist social and political orders. There must emerge a new dominant identity consciousness, in accordance with the Islamic values and the state structure, and practices should be reconstituted in order to sustain that consciousness. The performance of an Islamic republic cannot be assessed by merely looking at competing rates of growth in the production and consumption of use values, but principally by assessing the efforts of the regime geared towards the creation of this alternative utopia. Within this context one can ask three sub-questions: (a) Does the regime fulfill the criteria of social justice as prescribed by Islam? (b) Does the regime provide the fair equality of opportunity to everyone in terms of political and economic participation? and (c) What efforts are being made by the regime to make its economy independent and self-reliant? In fact, the Revolutionary Committee for Economic Policy announced a nine point program in September 1979 for the next 22 years, which may well serve as the criteria for assessing the performance of the regime.¹⁵ It includes *"a priority for godliness over prosperity, a minimum economic growth compatible with subsistence for all, equal claims on financial resources for all citizens, adjustment of development strategy to match spiritual needs, encouragement of economic and spiritual creativity, elimination of pollution, improved use of manpower and other resources, balance of physical and cultural development, involvement of (religious) education as a vital part of development. This program will be implemented within a framework of minimized oil production and emphasis on self-sufficiency in foodstuffs and industrial goods."*

STATE STRUCTURE OF ISLAMIC REPUBLIC

Political Institutions

The Islamic Republic is a system based on a parliamentary organization and follows the principle of the separation of the executive, judicial, and legislative powers for the administration of the country. Its distinguishing characteristics as noted by an official document is as follows:¹⁶

¹⁵*Economist Intelligence Unit* (4th Quarter 1979), p. 12.

¹⁶Masih Muhajeri, *Islamic Revolution: Future Path of the Nations*. (Tehran: 1982) A government publication.

This system operates within the Islamic legal framework, so in addition to being a popular system it is also a divine government. Consequently, the Islamic Republic is the sovereignty of God over the people and the people over themselves, whereas in a republic which is not Islamic, the people govern people and there is no such thing as Divine sovereignty over the people.

The deputies of the Islamic Consultative Assembly (Majlis) and the President are elected by the direct vote of the people. The Prime Minister and the Cabinet are chosen on the President's suggestion and with the Majlis' vote of approval. According to article 100 of Iran's constitution, representatives of councils of states, towns, cities, districts, villages, productive and industrial units are elected by the direct voting of the people. Besides this parliamentary structure based on the peoples' votes, there are three important institutions of central importance: *Vilayet-i-Faqih*, The Council of Guardians and the Supreme Judicial Council.

The institution of *Vilayet-i-Faqih* may consist of a single person or a group of persons accepted as the *marajie*, and is responsible for the overall supervision of the government guaranteeing the conformity of its methods and functioning with Islamic precepts.

The Council of Guardians, composed of six *Faqih*s and six lawyers supervises the acts of the Majlis, interprets the constitution and also supervises the Majlis and Presidential elections. This council is, in fact, the highest authority that decides on acts and laws passed within the Islamic Republic of Iran.

The Supreme Judicial Council consists of five members, all of whom should be just *Mujtahids*. It is the highest judicial rank, responsible for the preparation of the judicial organizations according to Islamic precepts.

There are two other distinguishing characteristics of the new political system: First, a host of revolutionary organizations play a more significant role than the traditional state bodies. According to the official sources, there are twelve revolutionary organizations: (1) Pasdaran; (2) Reconstruction Jihad; (3) Revolutionary Courts; (4) Revolutionary Committees; (5) Imam Khomeini Relief Agency; (6) Martyrs Foundation; (7) Housing Foundation; (8) Foundation for Deprived; (9) War Veterans Foundation; (10) Islamic Propaganda Organization; (11) Literary Movement; and (12) Guilds Affairs Committee. Secondly, the different organs of the government and the revolutionary organizations enjoy a considerable degree of local autonomy, undreamt of during the Pehlavi monarchy.

Evolution of Political System

There have been three distinct stages in the evolution of the political system. The first stage was characterized by the "dual government", a

coalition government headed by Mehdi Bazargan who was apparently in power, but the real power was exercised by the Revolutionary Council dominated by the *ulemas*. The second stage followed after the resignation of the liberal government and the Revolutionary Council established its direct control through a network of revolutionary organizations. The third stage began after the impeachment of Bani Sadr from the Presidency and it was marked by a complete break from the liberals and leftists, establishing a total control of the Islamic Republican Party.

The Islamic Republican Party is not a monolithic party. It is severely divided on a number of issues. The major division is between the two factions, *Hujjatis* and *Maktabis*; the former is considered as conservative and the latter, radical. Conservatives generally favor hierarchy and centralization of authority, defend private property and oppose sweeping land reforms, while the radicals favor decentralization of power, emphasize the primacy of collective ownership with strict limits on private property, sweeping land reforms and some detachment from the international market. Another important issue on which sharp difference of opinion exists is the issue of succession to Khomeini. Radicals favor the succession of a single *Faqih* while the conservatives seem to be in favor of a committee of *Fuqaha* on the basis of the argument that no single person following Khomeini can hope to achieve his reputation and stature.

Over the past two years, the regime has tried to make unusual efforts to institutionalize the political system. Besides holding successive popular elections even under trying circumstances, it has been at pains to restore a normal situation. Khomeini himself led the campaign by issuing a *Fatwa* banning arbitrary arrests, criticising loose judicial process and exhorting government officials and party workers not to violate personal rights and property of individuals. The government has also launched several campaigns to bring back the technocrats who had left the country because of revolutionary turmoil. The detailed ground rules dealing with the succession of Ayatullah Khomeini have also been laid out.

Key Economic Institutions

Article 44 of the constitution of the Islamic Republic of Iran describes the economic system of Iran in the following terms:¹⁷

The economic system of the Islamic Republic of Iran is to consist of three sectors: state, cooperative, and private, and is to be based on orderly and correct planning.

The state sector is to include all large scale and major industries, foreign trade, major mineral resources, banking,

¹⁷*Constitution of the Islamic Republic of Iran*. (Berkeley: Mizan Press, 1980).

insurance, energy, dams and large-scale irrigation networks, radio and television, post, telegraphic and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the state.

The cooperative sector is to include cooperative companies and institutions concerned with production and distribution, established in both the cities and countryside, in accordance with Islamic criteria.

The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors.

All private banks, insurance companies and the private industry owned by 51 major industrialists were nationalized by the government in 1979. Some land reform was also done but the major land reform bill proposing that all lands in state hands, all lands sequestered by the revolutionary government and all lands held by large land owners should be taken over for redistribution, was blocked by the Council of Guardians on the ground of being "un-Islamic".¹⁸ The new Islamic Banking law has recently been approved by the Majlis, though its implementation has been delayed due to some "technical difficulties". Article 47 of the constitution recognizes "legitimately achieved" private property, though the limits on the private property as stipulated in article 44 — that such ownership does not go beyond the limits of Islamic law — leaves much ambiguity with regard to the precise limit of permissible private property and consequently, the precise scope of the private sector. The regime has yet to take clear legislative decisions with regard to the shape of the economy. Much of the current economic problems directly owe their origin from this confusion, delay, and ambiguity with regard to these basic decisions. The state sector has so far been given priority by the government, but recently there have been important voices in the official circles who are favoring the resurgence of private sector, with "overall control" resting with the government.¹⁹

Besides the usual government institutions, a host of revolutionary organizations have emerged in Iran, which are playing the most important role of carrying the message of the revolution to the countryside as well as undertaking the tasks of development. According to an analyst, ". . . these organizations have been the main channel of upward social mobility for clergy and lay people alike. Much of the

¹⁸Jim Paul, "Iran's Peasants and the Revolution: An Introduction." *MERIP Reports* (March-April 1982).

¹⁹*MEED* (25 November 1983).

course of the Iranian revolution and the social basis of the present regime can be discerned in the records of these new institutions."²⁰ Three of these organizations are particularly worth mentioning: *Jehad-i-Sazandegi* (Reconstruction Crusade); *Bonyadeh Mostuzafeen* (Foundation of the Oppressed); and *Bonyadeh Maskan* (Housing Foundation).

Jehad-i-Sazandegi (Reconstruction Crusade)

It is the most important of the new economic institutions of the regime. Established on May 17, 1979, its officially stated objectives are: (a) to unite the energetic volunteers especially university and high school students, and unemployed high school graduates without work; (b) to create lines of communication between the intelligentsia and the disinherited; (c) to assist rural economic development; (4) to increase literacy among peasants; and (e) to propagate Islamic culture and the Islamic revolution in rural areas. It maintains that the "peasants are the most oppressed section of society and that only when a real social base is secured among this large section of the nation will the revolution be safe and indestructible."²¹

Its range of economic activities include production work, participation in cultivation, construction of irrigation channels, schools and mosques, provision of medical services, and distribution of fertilizer and agricultural implements. Other activities include spreading the ideology of the regime as well as the mobilization of resources and volunteers for the war. In 1981, it had 14,800 full-time members and 4700 volunteer experts. Most of the full-time members belonged to the age group of 20-30. In its first two years, *Jehad* claimed building 8000 miles of roads, 1700 schools, 1600 public baths and 110 health centers, all in rural areas. Although precise information on recent membership and scope of this organization is not available, however, all indications are that its size and functions have been broadened considerably by the revolutionary regime making it the single largest organ of the government in the rural areas. According to the latest figures available, its achievements since 1979 include the construction of 21,000 km of gravel roads, completion of water pipe laying operations in 3750 villages, providing electricity for 2180 villages, drilling 3700 deep wells, extending loans worth \$182 million and direct cultivation of 178,500 hectares of land among other activities.²² Recently this organization has been restructured as a Ministry.

²⁰Emad Ferdows, "The Reconstruction Crusade and Class Conflict in Iran." *MERIP Reports* (March-April 1983).

²¹"Laying Down Economic Foundations." *Arabia* (London: July 1983), p. 28.

²²*Kayhan International* (February 12, 1984).

Bonyadeh Mostazafeen (Foundation of the Oppressed)

This institution was set up in the aftermath of the revolution to manage the expropriated or unattended properties of those who fled the country. According to official sources, it has assets of more than \$20,000 million including farmland (about 100,000 hectares), land in urban areas (3000 hectares), 850 companies and 50 agro-industrial complexes. Its main duty is to arrange the sale of its holdings to the public.

According to official figures, it has transferred one third of its land to the farmers. In the industrial field, many units under its control are running into losses, making it difficult to interest the private sector. Abdoullahi, the deputy director of the Foundation said in a recent interview that among the issues facing the organization, financing, debt, and labour problems in the units under its management are of major importance.²³

Bonyadeh Maskan (Housing Foundation)

It is mainly concerned with the allocation of long-term, small sized loans for the construction of residential units in the villages and small towns. In 1979, the Revolutionary Council allocated \$93 million to this organization for the construction of low-cost housing for the period 1979-1983. In addition, an equal amount was raised from the public by early 1983 through the Imam's Housing Fund for the Deprived. During the same period, about half this fund was allocated to housing loans in the villages. The rest was equally divided between loans for housing in the remote towns and loans for units producing construction material. Rahmataullah Khosravi, the head of the Foundation, said in an interview that the first stage of the organization's task consists of securing housing in the villages to prevent further migration to the cities; later on, migrants will be encouraged to return to the country. According to the claim of the Foundation head, it has built 250,000 homes since 1979.²⁴

PERFORMANCE OF REGIME

Having briefly presented an overall macro-picture of the Iranian economy over the past five years, we shall discuss the performance of the key sectors of the economy — oil, agriculture, and industry — in some detail and note the major problems facing the economy.

The economy did not perform very well until 1981. In fact, all the indicators show that it was in worse shape than before. Bani Sadr, then president, drew a bleak picture of an economy beset by acute recession,

²³*Arabia* (July 1983).

²⁴*MEED* (July 29, 1983).

falling production and an alarmingly high money supply.²⁵ Reviewing the past three years, Bani Sadr revealed that GNP had declined by nine percent in 1978, 13 percent in 1979 and 10 percent in 1980. Inflation rates in the same three years were 10, 12, and 27 percent, respectively. Agricultural output, which had risen about 6 percent in 1978, fell by 3.5 percent in 1979. Industry and mining showed similar stagnation. The reduction in production in 1978 and 1979 was 17 percent in each year. Foreign exchange reserves were at about \$4000 million compared to \$10,000 million in 1979. Although Bani Sadr's analysis was apparently motivated by his criticism of his opponents in the government, particularly blaming the Rajai government for incompetence, the government spokesman defending its position later admitted the truth of the statistics given above and blamed some other factors for the poor performance of the government.²⁶ The major reason for this poor performance, however, was political. Internal conflict, primarily the power struggle between liberals and fundamentalists, opposition from leftists and ethnic minorities, the hostage crisis and economic sanctions imposed by the Western powers and the war with Iraq were the major factors responsible for the dismal performance.

With the settlement of the hostage crisis, lifting of sanctions, the downfall of Bani Sadr and the consolidation of the Islamic Republican Party (IRP) government led by Prime Minister Hossain Moussavi, the economy has performed much better over the past two years. Foreign exchange reserves rose to \$12,000 million at the end of 1983. Industrial production rose by 14 percent in 1982. Agriculture also performed much better. Officials claim that the inflation rate has been brought down to 15 percent although independent observers are skeptical about this figure.²⁷ Although precise figures are not available, observers agree that the unemployment level is down from two million in 1982. Reflecting the government's self-confidence are five and ten-year development plans which will provide a general framework for official priorities and spendings.

Much of the government's plans for the future are contained in the first post-revolutionary five-year development plan announced in early 1983.²⁸ The \$167,000 million program is an ambitious undertaking, based on an annual growth rate to 1988 of 14.5 percent in industry, seven percent in agriculture, and nearly nine percent in gross domestic product. The latter is expected to grow from \$108,900 million in 1982 to \$166,900 million in 1988. The main objectives of the first five-year plan

²⁵Vehe Petrossian, "Bani Sadr Digs Up the Bad News." *MEED* (April 3, 1981), p. 10.

²⁶*MEED* (April 10, 1981).

²⁷Vehe Petrossian, "Khomeini's Iran Radiates Self Confidence." *MEED* (March 18, 1983).

²⁸*MEED* (July 22, 1983).

are to achieve the highest possible rate of growth, and at the same time, increase the degree of integration of different sectors of the economy and reduce technological dependence on industrialized countries.²⁹

Oil Sector

The earnings from oil constitute 80 percent of the government revenues and 90 percent of the foreign exchange reserves. The revolutionary regime's policy has oscillated from cutting down the exports — from 5.5 million barrels a day in 1978 to 1.2 million barrels in 1981 — to gradually increasing the exports to 3 million barrels a day in 1983. The revolutionary regime's oil policy markedly differs from the Shah's policy in many respects.

Before coming to power, the revolutionaries "believed that the Shah had been maintaining oil production at levels far beyond Iran's revenue requirements, that oil income was being squandered and the country's chief natural resource was being needlessly exhausted."³⁰ Ayatollah Khomeini routinely referred to the plunder of Iran's oil resources by the U.S. and the West. Bani Sadr believed that oil revenues were being used by Iran in such a way as to destroy the foundations of the economy. Bani Sadr wrote: "Instead of an economy, [oil] creates a sucking machine that increasingly and more extensively over time soaks up the oil, other resources and the fruits of the labor of the people, and export these to the industrial states. The gap between the owners of the resources and its real users grows regularly wider. What remains is a bitterness in whose flames are consumed the children and the capabilities of the oil producing nation."³¹

The new government, wary of the multinationals, unilaterally abrogated the agreement under which Iranian oil participants acted as the purchaser of the bulk of Iranian oil. Before the revolution, the major International oil companies were lifting 90 percent of Iran's crude exports, but after the revolution, the new marketing pattern was one of a wide variety of customers buying small quantities on short-term contracts. The government also occasionally preferred to sell directly on the spot market. The government also started cutting down the exports. In April 1980, output was nearly 1.5 million barrels a day. Bani Sadr considered it as "a great change" and "one of the achievements of the revolution."³² However, with the fast erosion of its foreign exchange reserves, the government at the end of 1981, pragmatically decided that while ending dependence on oil must remain a long-term goal, in the

²⁹"Planning: Better, But Still Far From Perfect." *Arabia* (July 1983).

³⁰Shaul Bakhash, *Politics of Oil and Revolution in Iran*. (Washington: Brookings, 1982), p. 2.

³¹cited in *Ibid*.

³²*MEED* (April 3, 1981).

short run, oil revenues would have to finance the reconstruction of the economy and the confrontation with domestic and foreign enemies.

The government also actively pursued aggressive pricing policy adding premium on top of official prices and pursued hawkish policies inside OPEC, emphasizing production limitation in order to sustain prices. But the government was forced to cut down prices facing a glut in the world oil market and its need for foreign exchange reserves.

The government also eliminated foreign involvement in the oil industry. In the summer of 1980, it took over the operations of the NIOC's four foreign-operated joint ventures and placed them under the control of the newly-formed and wholly-owned entity, the Continental Shelf Oil company. Oil Minister, Gharazi, claimed recently: ". . . our producers, explorers, exploiters, excavators, refiners and all other elements active in oil production, are citizens of the Islamic Republic. There is no dependence on other countries."³³ Experts also consider the Iranian claim that following the elimination of all foreign expertise, Iranian oil is being produced at a cost 10 percent below the OPEC average, largely true.³⁴

In the long run, the government remains committed to reducing the dependence on oil. According to the first five year plan, dependence on oil is to be reduced from the 20 percent share of GNP it held in 1981/82 to below 10 percent by the turn of the century.

Agriculture

Since 1979, the improvement of the agricultural sector has been the main priority of the government. The major objectives of government policy are: (a) to stop the "alarming drift" of the rural population to the urban areas and (b) to achieve self-sufficiency in food production.

The magnitude of the problem of migration from the rural areas to the urban areas can be assessed from the fact that the population of Tehran has risen from 4.5 million in 1979 to 6-7 million in 1983. And similar trends are visible in other major cities as well.³⁵ The government has made it clear that the rural areas will be improved at the expense of cities. In response to the charges of electricity shortages and other problems in Tehran, Prime Minister Moussavi declared in the Majlis: "I must say in all humility that life in Tehran will continue to be difficult in the future, whereas life in small provinces and villages will be better than that in big cities in the future. . . Deprived regions have committed no crime."³⁶

³³*Kayhan International* (January 1, 1984).

³⁴*MEED* (July 15, 1983).

³⁵*Ibid.*

³⁶*Ibid.*

The government has embarked upon a wide range of policies in order to achieve its objectives. The bulk of government development expenditure in all five budgets presented so far has gone to improving and building roads in the rural areas, extending electricity, telephone services and other utilities to the villages. Easy government credits have been provided to the farmers. According to the latest figures (August 1983) the Agricultural Bank has lent farmers \$6520 million since 1979 compared with \$4640 million in the preceding 47 years.³⁷ The government has increased farm price subsidy up to 50 percent. It has opened up new lands for cultivation by redistributing state land and confiscated land soon after the revolution. The first five-year plan also gives priority to agriculture. A total investment of \$25,000 million has been forecast for the five years of the plan (1983-88) of which \$8720 million is expected to come from the private sector.

As a result of these policies, agriculture has performed particularly well during the last two years. Increased production of many crops has been reported in the year ending March 1983. The agriculture share of GNP grew by 15 percent in 1983 compared with 13.9 percent in 1982.

There are three major problems which continue to plague Iranian agriculture: (a) uncertainty over land ownership; (b) conflict between old and new institutions; and (c) excessive centralization of bureaucratic-administrative apparatus.

The first problem is directly related to the debate on the issue of land reform. According to the land reform bill of 1980, not only the land confiscated from the old regime but all the land whose owners refuse or are unable to cultivate it are to be redistributed amongst the poor and landless peasantry. The excess land of all the holdings above three times the size necessary for the upkeep of a peasant family is also to be redistributed. In the face of opposition by some senior *ulemas* who claimed that it was "un-Islamic", the bill was amended in 1981 in the following respects: (a) the ceiling of legitimate land holding has been raised from three to four times the area necessary for the upkeep of a normal peasant family; (b) land redistribution will only take place if the possibility of renting or sharecropping arrangements for the excess land is ruled out; (c) the children of the owner will have priority in acquiring the excess land; and (d) orchard and waqf lands are exempted.³⁸ The implementation of this bill is delayed due to the continued opposition of being un-Islamic. This legislative paralysis has generated a lot of uncertainty.

The second problem is the conflict between the new revolutionary institutions and old state organizations. Jihad-i-Sazandagi, which is heavily involved in building roads and distributing agricultural

³⁷MEED (August 5, 1983).

³⁸"Striving Towards a More Efficient Agriculture." *Arabia* (July 1983).

implements including credits, often clashes with the usual agricultural ministry whose functions overlap with it. With the restructuring of Jihad as a separate ministry, there has been an attempt to define its functions, but attitudinal differences between the two different types of institutions continue to exist.

Finally, the excessively centralized bureaucratic structure, a legacy of the Shah's regime, continues to be inefficient and less responsive to the real problems of agriculture.

Industry

The revolutionary regime inherited a dependent industrial infrastructure, a legacy of the Shah's regime. Since 1979, its performance has fluctuated considerably due to the shortage of raw materials, spare parts, lack of skilled manpower, financial and labor difficulties. Government policy is directed towards the long-term goal of achieving independence. Prominent religious leaders look towards China as their model.

The government does not intend to sell heavy industries to the private sector. Efforts are being made to convert present industrial units into manufacturing units and the government plans that 75 percent of industries will be self-sufficient in the next five years. The private sector is being encouraged by the government to invest in manufacturing plants with a new infrastructure. Agreements covering the production of various types of machinery including combine harvestors, road-making equipment, oil and gas fired engines, metallurgical sets, units for making crankshaft pistons, and piston rings have already been signed with the private sector.³⁹ The government also plans to set up 40-50 industrial zones countrywide in order to decentralize industrial growth in line with its policy of creating equitable conditions of development for different regions of the country.⁴⁰

Because of the general policy of the government and the conditions created by war, observers have noted a strong trend and desire on the part of Iranians to build a self-reliant industrial base. An analyst notes: ". . . Iranian engineers and technicians are learning that they can repair, adapt and make items which before they would simply have imported. the new skills and self-confidence acquired are bound to affect the nature of future industrial growth."⁴¹ It has also been reported that state-owned weapons and related industries are producing increasingly sophisticated spare parts for firearms, electronic equipment, and aircraft.⁴²

³⁹*MEED* (December 9, 1983).

⁴⁰*MEED* (March 9, 1984).

⁴¹"Khomeini's Iran Radiates Self Confidence." *MEED* (March 18, 1983).

⁴²*MEED* (October 7, 1983)

The three major problems which are common to both industry and agriculture are the following: lack of skilled manpower; uncertainty over the ownership of capital; and growth of gigantic bureaucracy.

Because of the revolutionary turmoil, huge numbers of skilled manpower have left the country. As a result, problems of mismanagement, incompetence and technical inability abound. According to Plan and Budget Organization chief Mohammad Taqi Banki, "Iran's biggest problem in achieving its economic goals is the shortage of skilled workers."⁴³ The first five-year plan envisages a need for 7,000 agricultural enginers, 30,000 engineers in other areas, 83,000 technicians, 7,500 general practitioners and 1,000 specialist doctors. According to government estimates, only half of these numbers could be trained. The government has launched special campaigns to bring the skilled labor back, but its efforts appear to have limited success so far.

The regime has yet to establish a comprehensive legal, administrative and financial structure. Keeping in view the radical promises of the regime and the ambiguity of ideological principles, there exists a widespread uncertainty in the private sector, which militates against increasing investment. A prominent religious leader Ayatollah Ahmad Jannati recently called on the government and Majlis to "take prompt decisions in regard to the question of ownership of capital and land", adding that "no development can be expected before these problems are settled."⁴⁴

The growth of bureaucracy and problems of waste and inefficiency also came to preoccupy the attention of the government. Montazeri complained recently that the Islamic revolution is suffering from the absence of "a certain moral courage and administrative audacity. Many governments are still beset by the self-same affairs of the past and we are still unsuccessful in our administrative revolution. . . . Satanical influences such as bureaucracy [continue] together with excessive protocol and futile expenditure."⁴⁵ Even the pronationalization leaders are becoming convinced of giving the private sector a greater role, keeping in view the difficulties of managing the huge public sector.

Assessment of Performance

Here we shall attempt to make a comparison of the Islamic republic's five year performance in two ways: first, by comparing it with the Pehlavi regime's economic performance during the last two decades; and secondly, by comparing it according to the criteria determined by the revolutionary leadership itself as outlined in the first part of this

⁴³*MEED* (April 22, 1983).

⁴⁴"Iran's Maglis Gets an Early Start on Deficit Budget." *MEED* (December 2, 1983).

⁴⁵*MEED* (December 23, 1983).

paper. Our comparison will be confined to focusing on the major trends only.

Contrast with the Pahlavi Regime

On the surface, the fifteen years from 1963-64 to 1977-78 covering the third, fourth, and fifth Five-Year-Development Plans represent an unprecedented sustained growth in terms of macro figures. The country's Gross Domestic Product grew in real terms by an average annual rate of around 9.3 percent, making Iran "one of the fastest growing developing countries in the world."⁴⁶ Per capita income rose from \$176 to \$2,160. However, a closer look at the economy during the same period shows that the socio-economic conditions which ultimately swept away the monarchy and brought revolution were precisely the consequences of this rapidly growing economy.

Agriculture continuously stagnated during this period. The share of the agricultural sector in the total GDP declined from about 28 percent in 1962-63 to 9.3 percent in 1977-78.⁴⁷ The consequences of land reforms were a new pattern of ownership, but without much benefit to the smaller farmers and landless laborers.⁴⁸ The Shah's agrarian policies favored the large agribusiness in terms of infrastructural investment, irrigation systems, tax credits, subsidies and extensive low-interest credit. For example, during the period of 1971-77, the Agricultural Development Bank granted \$1.4 billion low interest loans and grants to 2,800 large units with an average of \$500,000 per loan. These giant units still play an insignificant part in agriculture in terms of productivity. Furthermore, the massive import of agricultural products and persistent decline in the relative prices of traditional crops led to a shift of financial resources away from agriculture and the massive migration from rural areas to the urban areas.

In contrast to the Pahlavi regime's policies, the revolutionary regime has given a top priority to agriculture as we have indicated in our previous section on performance. The government is massively spending on infrastructural development in the rural areas. According to the official sources the government in the last four years laid 9,200 kilometers of power lines increasing the number of villages with

⁴⁶M.H. Pesaran, "The System of Dependent Capitalism in Pre- and Post-Revolutionary Iran." *International Journal of Middle Eastern Studies* 14 (1982), pp. 501-522.

⁴⁷Monoucher Parvin and Amir N. Zamani, "Political Economy of Growth and Destruction: A Statistical Interpretation of the Iranian Case." *Iranian Studies* XII, #1-2 (Winter-Spring 1979).

⁴⁸See two very useful articles: Eric Hooglund, "Rural Participation in the Revolution." *MERIP Reports*, #87 (May 1980) and Parvin Ghorayshi, "Capitalism in Rural Iran." *MERIP Reports* (July-August 1981).

electricity from 4,317 to 11,719 and the government plans to provide electricity to a further 7,000 villages by 1988. The government has invested \$454 million in road construction in the past four years. It also plans to connect between 600-700 villages a year to the national telephone system during the first development plan. Agricultural credits have specially been provided to the small farmers at \$2,500 per loan. The channeling of real resources to the agricultural sector has received a spectacular boost. According to the managing director of the Farm Machinery Development Corporation (FMDC), his organization has managed to surpass its performance during the Shah's regime in the sale of subsidized tractors to the agricultural sector.⁴⁹ While the peak of FMDC's tractor sales during the Shah's time was 10,000 (1977), in the post revolutionary period the figure has increased to 13,000 in 1979, 14,000 in 1980, 20,000 in 1981 and is expected to be more than 30,000 in 1982. Similarly, the distribution of fertilizer rose from 700,000 tons in 1977 to 1.1m in 1980, 1.3m in 1981, and 1.5m in 1982. The government also plans to spend a total of \$1,310 million on 963 agricultural schemes in the next five years. As a result of the government's strong emphasis on agriculture, agriculture's share of GNP grew by 15 percent in 1983 compared with 13.9 percent in 1982.

The growth rate in the industry was apparently spectacular during the Pahlavi regime. However, the following trends were particularly noticeable: (a) The industrial structure was heavily oriented toward production of consumer goods; (b) the technological link between the industrial sectors and other sectors over the years was becoming weaker; (c) the reliance of the sector on foreign sources of capital and intermediate goods has increased sharply; (d) the export performance of the sector was declining; and (e) the strategy of development was geared towards capital-intensive projects with an adverse impact on employment opportunities and income distribution.

The revolutionary government's policy towards industry is strongly geared toward achieving self-sufficiency. It has also scrapped many ambitious capital-intensive projects which the Shah was pursuing. In the first five-year plan, there has been a conscious attempt to integrate various sectors of the economy. The government is also against the multinationals' involvement as it regards them as "exploitative agents."

The main beneficiary of the Shah's industrial and agricultural policies was a very narrow layer of the society. Consumption expenditure data in both the urban and rural areas show the worsening trend in income distribution. The share of the wealthiest top 20 percent of urban household in total urban expenditure rose from 47 percent in 1972 to 57 percent in 1977, and in the rural areas it rose from 45 percent to 50 percent. During the same period the expenditure share of the bottom 40

⁴⁹*Arabia* (July 1983).

percent of households declined from 16 percent to about 11 percent in urban areas and from 18 percent to about 14 percent in the rural areas.⁵⁰

There are clear indications that this pattern is changing in the post revolutionary period. The most dramatic change has been in the distribution of income in the urban areas.⁵¹ The expenditure share of the wealthiest top 20 percent of the population fell by more than 15 percent in the first two years of revolution from 57 percent in 1979 down to 49 percent in 1981. The middle and particularly low income groups have improved their shares substantially during the post revolution period.

The planning style of the new regime also differs from the Pehlavi regime. One of the major and most essential improvements in the Islamic Republic's First Five-Year Plan compared to those of the old regime is that it situates the medium-term plan in the context of a long-term strategic plan, and views the five-year plans as organic parts of a 20-year plan period. In an oil-exporting country where the economy is highly dependent on an exhaustive resource, long-term planning is a matter of vital importance. In the first five-year plan, the revolutionary government has paid due attention to the necessity of substitution of other sources of revenue for oil.

Performance According to Regime's Criteria

How does the regime fare according to its own criteria? It appears that the progress according to this criteria has generally been modest. Despite poor economic performance in the first three years, the regime has continued to enjoy public support; it shows that the ideology of the regime has strict roots among the public. This is further reinforced by the enthusiastic turnout of the voters in the referendas, successive presidential and Majlis elections. The willingness of the public to suffer heavy material losses in the war against Iraq is another indication of their support to the goals and objectives of the Islamic regime.

The war with Iraq has been the main burden of the government. Besides incalculable economic loss, it is consuming one-third of the government's annual budget with all the signs pointing to further increase in commitment and expenditures. It has forced the planners at least in the short run to turn towards pragmatism rather than strictly following ideological objectives.

Progress towards complete Islamic order has been slow and in some ways frustrating to many revolutionaries. A feeling of legislative paralysis is most visible in the plans to Islamicize banking, nationalize foreign trade and land reform bill. The regime has yet to take clear

⁵⁰Persaran, *op.cit.*

⁵¹"Redistributing Wealth." *Arabia* (March 1984).

decisions on these and many other specific details where ideological imperatives are ambiguous. Conflict between the radicals and moderates within the regime is the root cause of this problem. Both groups interpret and justify their positions with reference to the ideology.

The regime has taken important steps and has established a number of institutions to rectify the social injustices prevalent during the old regime. But the regime has only been modestly successful in progressing towards its goal.

CONCLUSIONS AND FUTURE PROSPECTS

Although it is risky to make any definitive judgment about an on-going process because of the dearth of adequate information, it is possible to identify certain trends on the basis of this analysis and to sketch a possible scenario of the future.

A new political and economic order is slowly emerging in Iran based on the ideology of the religious leaders. A process of institutionalization of the revolution has started. New political and economic institutions are primarily directed to the welfare of lower middle and lower classes in the rural areas. Even the worst critics of the regime admit that life for the majority of Iranians is "undeniably better under Khomeini", and the growing gulf between the rich and poor, the hallmark of the Shah's regime, has in fact been reversed by conscious policies of the new regime. The successive holding of elections even under extremely adverse circumstances, special attention and channeling of real resources to agriculture, gradual efforts and a strong desire to transform the dependent industrial structure into a self-reliant one and an acute consciousness to change the oil-based economy to a normal functioning economy are the chief characteristics of the Iranian political economy. According to official figures foreign debts have dropped from \$10,000 million in 1979 to \$500 million in 1983.⁵²

Undeniably, problems exist. The war with Iraq continues to take heavy tolls both in material and human terms. The burden of refugees both from Afghanistan (1.5 million) and war-ravaged areas (1.8 million) continues to be heavy. Problems of mismanagement, incompetency and lack of skilled labor at almost every level abound. Conflicts over the correct interpretation of the ideology and hence the clear shape of the economy generate a lot of uncertainty. The regime often has been forced to adopt a pragmatic approach inviting charges from the radical elements that the revolutionary ideals are being betrayed. Despite these problems, I think that the support for the regime does not depend on the economic performance, at least in the short run. The regime draws its

⁵²MEED (July 15, 1983).

support from its ideological tenets and sharp contrast from the politico-economic order of the previous monarchical regime. Despite the poor economic performance in the first three years, the regime's survival and consolidation point to sufficient public support for the ideals of the regime.

If the regime continues to survive for five more years, I think that it will fundamentally transform the political scene of the country. A new type of politics will emerge in the country of which the signs are already appearing. Political and economic debates will center over the different interpretations of the ideology. The moderates and radicals who now struggle within the Islamic Republican Party are likely to split themselves into two parties after Khomeini's death, and will possibly form a two party system. The future shape of the economy would largely depend on the nature of these debates, however, what is certain is that it will not conform to any of the existing models of political economy. A close observer of the Iranian political scene has correctly noted:⁵³

The Islamic Republic has, for all its manifold problems, shown itself to be more resilient and enduring than many in the West expected, and it represents a novel phenomena whose scope and importance extend well beyond Iran.

⁵³Nikki R. Keddie, *Iranian Revolution and Islamic Republic*. (Woodrow Wilson Center: 1982), p. 13.