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**The politics of economic restructuring  
in post-Khomeini Iran**

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by

**A. Ehteshami**  
University of Durham

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### **About the author**

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## The politics of economic restructuring in post-Khomeini Iran

A decade after the 1979 revolution, the economy of the Islamic Republic of Iran began undergoing major changes. The development and implementation of 'new' economic policies followed the death of Ayatollah Ruhollah Khomeini and the transferring of political power from the populist elements in the theocracy - the *Maktabis*, whose economic philosophy was based on Iran's economic independence from the West, active state intervention in the economy in favour of low-income and marginal groups in society and redistribution of national income away from the propertied classes and towards the 'mostazafin'.

Power flowed to those forces - the 'pragmatists' - whose blueprint for reconstruction and economic development of the country tended to rely heavily on a market-based rapid economic reform strategy and non-isolationist foreign policy, the main tenets of which included the full reintegration of Iran into Western-dominated international economic and diplomatic institutions and mending bridges with regional and Western adversaries.

Although economic reform (and support for liberalisation of certain economic activities) had been on the agenda of successive governments since the mid-1980s, it was not until

1989 that a fairly stable triangular structure of power emerged that was ready, willing and apparently able not only to examine the damage and take stock of years of war and neglect but also to formulate policies designed to improve the economy.<sup>1</sup>

This paper focuses on the political context of economic liberalisation policies in Iran.<sup>2</sup> In particular it tries to assess whether economic and political liberalisation are part of the same process, and how the political and the economic have blended to produce the unique Iranian case.

Needless to say, the implications of the development of the Iranian economy and its political system in its post-revolutionary phase for the Islamic revivalist movements elsewhere in the Middle East and in other Muslim countries generally are immense, perhaps as important in magnitude in the long-term as the evolution of the Soviet system was for the centrally-planned economies gathered around it, where developments in the 'source country' affected in a direct fashion the process of change and stability in the emulator states.

As we have seen, the pursuit, imposition, and the ultimate fall, of the Soviet models have had very serious consequences for the international arena. The direction of change in Iran

may have similarly significant consequences.

### **Competing paradigms of economic and political reform**

The spectacular collapse of the 'Soviet model' in Europe and Asia has helped to cloud the debate at the heart of the developmental models and economic options available to medium-sized Third World economies (defined in terms of those countries that might enjoy a set of nationally-dependent rather than externally-dependent variables) in the late twentieth century.

It is interesting that much of the recent attention has focused on the virtues of democratisation that analysts hope will follow the collapse of Soviet Marxism around the world. Indeed, some analysts, notably Samuel Huntington, have associated the end of Soviet Marxism with the emergence of a 'global democratic revolution'.<sup>3</sup> Little scholarly research though is being devoted to studying the implications of the failures of the Soviet model for future development models in Third World countries. Not enough is known, for example, of the national conditions and of the options open to states that had followed (or developed hybrids of) the command model. A consensus seems to have emerged that the only option open to these states is the market-led model. Adoption of the market model for the national economy, on the other hand, requires integration in the international system, which in turn demands of such 'transitional' economies to learn over night to swim in the

turbulent waters of the international capitalist system.

Until very recently, international agencies registered no more than a passing concern for the ability of these states to develop as fully-fledged capitalist economies that can survive, let alone compete and prosper, in this highly competitive system. Nor was there much attention given to the complex social impact of such reforms. The International Monetary Fund (IMF) now acknowledges, for instance, that 'an important lesson gleaned from the transition process [in Eastern Europe] is that social safety nets need to be an integral part of the reform' process if social upheaval is to be avoided.<sup>4</sup>

Furthermore, not much interest is being shown any longer in a study of the evolution of the post-1945 authoritarian capitalist regimes with a view to drawing lessons for the international environment of the twenty-first century. The triumph of Western capitalism over Soviet Marxism, far from helping to inform the debate on 'peripheral capitalism', has seemingly stunted the evolution of thinking on development and its derivatives and imperatives in the Third World. The 'end of history', it seems, also has brought to an end the debate regarding pathways to development. As European realities illustrate, however, the collapse of the so-called Second World has not magically transformed the fortunes of these countries, nor opened new opportunities for development of the Third World: how and why, therefore, are still relevant questions.

That twentieth-century capitalist development in the Third World has been accompanied by democratic rule is still very much an open question. Although strong evidence does suggest that in recent years 'democracy has been on the march',<sup>3</sup> it is as yet not quite conventional wisdom that 'capitalism and democracy are yin and yang'.<sup>4</sup> If anything, the post-1945 record indicates a pre-eminence of non-democratic developmental regimes across all cultures and historical experiences in the Third World. One needs to ask: is this a product of the introduction of the capitalist mode of production itself; or is it due to the almost universal absence, in a political sense, of (Western) democratic traditions? As Atul Kohli has observed: '[W]hen socio-economic change itself [in the Third World] needs to be generated by political means, who can tame the state?'.<sup>5</sup> It is appropriate, therefore, particularly in the absence of a 'developmental war' between capitalism and Soviet Marxism, to ask ourselves again at what point would democracy no longer be a luxury but a necessity for progress?

At the heart of the current economic development debate has been a relative lack of interest in the continually significant role of the Third World state - both empirically, in terms of its role in society, and theoretically in terms of the powers of the state in a given territory. Yet, development economists believe that an interventionist state has been instrumental to the success stories among East and South-East Asian and Latin American economies - the so-called newly-industrialising countries (NICs) - as well as to Germany and Japan.<sup>6</sup> Indeed, the NICs' experience is usually

referred to as the 'direct state-led industrialisation' model.<sup>7</sup> This is a model in which the 'process of accelerated economic growth...appears to be everywhere associated with the expansion of the public sector and the role of the state'.<sup>8</sup> Clearly, the jettisoning of the state, or of state-directed economic development, is not a policy pursued by all the large and medium-sized Third World countries.<sup>9</sup> Indeed the case of South Korea clearly indicates that the success of its economy and of its leading corporations is largely due to the proactive role of its developmental state and its adoption of a mercantilist attitude in its foreign trade strategy.<sup>10</sup> In world terms South Korea is now second in container shipbuilding, fifth in pharmaceuticals and textiles, sixth in electronics, and not far from becoming fifth in motor-car manufacture.

A corollary observation is that, contrary to popular belief, the decline of the state sector does not automatically lead to the democratisation of the existing political system and power structures. In South Korea and Taiwan, for instance, the democratisation process began long after the state-led economic development of these countries had started to bear fruit, and the power of the state remains virtually intact. Indeed, if one were looking for parallels, the above two examples tend to provide impressionistic support for the modernisation paradigm: political liberalisation has occurred only *after* a long period of economic growth and where relentless economic expansion and development had created a well-to-do and vocal middle class along with a mass consumer society.

With regard to economic development and political change, what needs to be more widely acknowledged is the authoritarian nature of the regimes of virtually all the successful Third World capitalist economies since 1945, whose experience provides clear evidence for the 'cruel choice' hypothesis.<sup>13</sup> In the 'Asian Tigers', for example, little democratic experience had taken root in South Korea or Taiwan until the mid-1980s, and the city-state of Singapore continues to be ruled by an authoritarian-type regime. The overwhelming power of the military and the control of the coercive machinery of the state by the security forces until very recently in both South Korea and Taiwan prompted one analyst to classify their regimes as 'hypermilitarist'.<sup>14</sup>

Another example is Indonesia, an oil-rich and OPEC member Muslim state that has been under quasi-military rule since the overthrow of President Sukarno in 1965. General Suharto's New Order government consolidated its hold on power during 1967 and 1968, and under the banner of its own 'national ideology' (known as *Pancasila*) proceeded to suspend all forms of political participation outside of the realms sanctioned by the regime. Suharto's authoritarian rule has managed in less than thirty years to transform the economy of Indonesia from its poor rural base to a relatively rich, semi-industrialised, modern, non-oil-led one, in which an increasingly confident bourgeoisie enjoys the fruits of its close association with the state.

In Latin America also democracy did not automatically follow capitalism. Argentina, Brazil and Chile,

for instance, enjoyed their most intensive periods of capitalist development while under military rule. Brazil was under military rule from 1964 until 1982; Chile remained under General Pinochet's uninterrupted control until the end of the 1980s, and Argentina has experienced intermittent military rule since 1955 (the latest spell lasting from 1976 to 1983 and coming to an end largely because of the failure of General Galtieri's Falklands/Malvinas adventure). Even today, with corporatism at an end and the soldiers back in the barracks, civilian *caudillos* are apparently still needed at the helm to guide Latin American economies.<sup>15</sup> Parliamentary democracy has not been the political face of Latin American capitalism.

Do these cases indicate that authoritarianism and firm government control of the economy serve as the *prerequisites* for economic development and future prosperity? An evil, but necessary, price to pay? Those living in the Western democracies would probably tend to respond to this query with an emphatic 'no'. However, the leaders in latecomer NICs may look enviously at the expansion of Brazil, South Korea and similar countries and conclude that, without strong government, such feats are not achievable.

This paper will focus on the case of Iran since its revolution in 1979 as a way of discussing two issues which formed the basis of the above discussion: the role of the state in the development of the late-industrialisers in the post-Cold War international system; and the relationship between economic liberalisation and political democracy in the late twentieth century.



## **The political foundations of policy changes in Iran**

In the context of formulation and implementation of new economic policies, the post-Khomeini power structure of the 'functional' Faqih (Ayatollah Ali Khamenei), the executive presidency (under Hojjatoleslam Ali Akbar Hashemi Rafsanjani), and a technocratic presidential administration, facilitated a fairly smooth passage of these policies through the less than convinced Third Majlis, which had been elected under the influence of Ayatollah Khomeini's neopopulist world view.

As much as 40 per cent of its members displayed open hostility to the economic reform strategy of the Rafsanjani administration. The latter's tenacity in dealing with the Majlis and other institutional and bureaucratic barriers to the new policies was matched by the popularity of the president's reforms, particularly amongst the lower-middle and modern (and outwardly secular) middle classes. Under such pressures, the Third Majlis had little option but to endorse the president's 1989 'cabinet of reconstruction'. In fact, many deputies welcomed the cabinet as a new chapter in the history of the Islamic Republic.

The Iranian experience is important to study because it follows the fortunes of a regime that emerged from a major revolutionary upheaval on a scale unprecedented in the contemporary Middle East. After more than a decade of rule, republican Islamic political forces and ideological factions have found it almost

impossible to speak with one voice about politico-economic and social-economic issues. In the absence of political party structures, these divisions have not only manifested themselves in factionalism amongst the élite but have also tended to reinforce the ruling faction's monopolising tendencies. These inconsistencies take their toll on formulation of policy and its implementation. Many of the economic liberals in the regime, for example, advocate a strict social policy that causes the alienation of the modern (skilled and capital-rich) middle classes - precisely the forces needed by the Iranian economy if it is to recover from over a decade of war and neglect and the very same forces that traditionally are characterised as underpinning democratic rule in most countries.

An examination of economic reforms in Iran could also reveal the underlying tensions that exist in this Muslim society, perhaps more so than in many other developing countries, over the social dimension of reforms and between the secular and religious in civil society. Finally, as the economic policies of President Rafsanjani are likely to have a direct bearing on the class structure of Iran and on the future composition of its ruling élite, it is necessary to examine the origins of the reforms, their direction and some of their future implications for Iran.

The differences amongst the two or three dominant schools of thought and political factions in the republic, together with the contradictions within each line, complicate the Iranian picture. On the one hand, the fluidity of lines has led to some

opportunism because individuals can move in and out of camps with impunity. On the other hand, over the years the 'inter-camping' has allowed a degree of cross-fertilisation of lines and the establishment of pragmatic economic, social or political blocs whenever the need has arisen. In this kind of environment, the Rafsanjani administration faced two paths for the advancement of its policies: through constructing its own all-powerful political coalition; or by projecting a more forceful political counterbloc against its opponents. As the next section demonstrates, the administration's adopted path had much to do with the nature of the economic policies it was planning to pursue.

### Iranian economic liberalisation strategy

The need for economic reform in Iran was raised as a serious issue in mid-1988 at the outset of the lengthy discussions regarding economic reconstruction in the post-Iran-Iraq war period. As already mentioned, although privatisation of the economy was being discussed by the government as early as 1985, it was not until three years later that Premier Mir-Hussein Moussavi, best known for his *étatisme*, had shown any willingness to accept an expanded role for the private sector. The reform plans, however, were not shaped into concrete policies until after Rafsanjani had won the July 1989 presidential elections. As coherent policy objectives, moreover, the reforms signified the post-Khomeini leadership's 'acknowledgement of the structural constraints which bind the Iranian economy and of the possible

consequences of maintaining the same [statist] economic course.<sup>16</sup>

The main components of the president's economic liberalisation strategy have included a wide range of policy initiatives aimed at restructuring and reorienting the Iranian economy.<sup>17</sup> Chief among the policy initiatives have been: privatisation of many industries and mines; the revival of the Tehran stock exchange; the abolition of the multiple exchange rates' mechanism and its replacement with a single 'free market' floating rate; a gradual reduction of consumer subsidies; establishment of a number of free trade zones; encouragement of direct foreign investment; easing of foreign investment regulations; some deregulation of the banking system; encouragement of non-oil exports; easing of international trade regulations for exporters and importers; and a general lowering of tariffs.<sup>18</sup>

The objective of these measures was to create the right conditions for economic recovery and to accelerate Iran on the path leading it to join the ranks of the NICs. The Rafsanjani administration aimed to follow a policy of total integration into the Western-dominated international capitalist system through encouragement of export-substitution industrialisation, production for the world market and unhindered imports of industrial inputs and consumer goods.<sup>19</sup> Naturally, the pursuit of economic reform cannot take place in isolation from the social and political forces that make up civil society. In the Islamic Republic such reforms have been founded firstly on a political strategy aimed at keeping the regime intact. Secondly, as will be discussed later, the reforms are having

a spill-over effect on the social structure of the country.

### The Islamic Republic examines its options

Iranian leaders had much to worry about in 1988. The end of the Iran-Iraq war meant demobilisation on a massive scale (approximately 500,000 working-age males would enter an already sluggish labour market). The cease-fire also raised people's expectations that the era of sacrifice would give way to an era of economic security and prosperity. Economic and social problems and the absence of political rights could no longer be blamed easily on the war. Many of the pragmatists among the ruling élite compared the Iranian situation with that of the Soviet Union. They argued that the Cold War had devastated the Soviet Union, which was being reconstructed under Mikhail Gorbachev's leadership. The extension of some political freedoms in the Soviet Union had gone hand-in-hand with the policy of economic reform without necessarily undermining the regime itself or the supremacy of the party.

The attraction of the Gorbachev experiment to the Iranians in 1988-9 was the Soviet government's ability to combine major economic reform and foreign policy successes with minor tinkering with the political system. The argument that economic reform and economic liberalisation expanded the popular base of the regime and thus reduced the extent of opposition, also seemed attractive to the Iranian political élite.

From the Iranian leadership's perspective, however, it became apparent by the end of 1989 that the Gorbachev experiment had failed, particularly as the reforms apparently had helped to weaken the authority of the regime, as well as that of Gorbachev himself - the very force behind the reforms. Thus, at the critical juncture when future policies were being debated and formulated in the Islamic Republic (1988-90), the Gorbachev model held very little promise. Yet, for a number of reasons, the need for economic reform in Iran was inescapable. Although President Rafsanjani had no intention of following Gorbachev into oblivion, he nonetheless had been impressed by the process of change that *perestroika* had put in motion in the Soviet Union when he visited the country in the summer of 1989. President Gorbachev's subsequent failures merely accelerated Tehran's search for a relatively risk-free large-scale economic reform formula. For what the regime regarded as a viable alternative, however, it had to look eastwards and focus on the experience of a close military Asian partner: China.

It is a telling feature of the contemporary international system that even a country like Iran, which prides itself on being Islamic-nationalist and officially 'neither East nor West' in external orientation, could not isolate itself from the winds of change. In the end Tehran formulated its national policies on the Western capitalist economic principles and its political strategy of reaching its economic targets on the Chinese model. Ironically, Iran had to rely on both the East and the West for its socio-economic development and projected future prosperity.

The People's Republic of China had embarked on a comprehensive economic reform programme (that included economic liberalisation and encouraged capitalist penetration of China by foreign capital) in 1976, under the strict guidance of the post-Mao party leader, Deng Xiaoping. Insofar as Iran's own revolution had to confront similar problems to those faced by China's post-Mao leadership, it was perhaps fitting that the Islamic Republic's post-Khomeini leadership should also take a leaf out of the Chinese book and, ultimately, opt for the Chinese model of economic reform without political liberalisation. Put in context, the similarities are striking when one compares Deng Xiaoping's political line in China with that of the Rafsanjani-Khomeini alliance in Iran (see Table 1).

The Chinese strategy has not been without its pitfalls. At its zenith, the 'pro-democracy' movement in

China had the potential to undermine the very basis of national political life sketched by the post-Mao leadership. The confrontation between the 'conservative' party leaders and the political reformers had become inevitable. The regime deemed the massive show and use of force in 1989 to be a necessary price not only for keeping the party in power, but also for the purpose of continuing with the 'four modernisations' and further liberalisation of the economy. That economic reform was not to be dispensed with even if the price was continuing political repression can be seen in the policy statements of the Chinese leadership. The economic reform and economic liberalisation strategy was unequivocally endorsed again in March 1992, at the meeting of the Chinese party leadership. The *People's Daily* reflected the outcome of the Chinese Communist Party's (CCP's) Politburo meeting when it said that the government should: 'Grasp the

**Table 1: Political regimes of Iran and China**

Post-Mao China	Post-Khomeini Iran
<ul style="list-style-type: none"> <li>- Leading role of the party</li> <li>- Retaining the basic structure of the state</li> <li>- Maintaining the official commitment to (Maoist) Marxism</li> <li>- Honouring the socialist orientation in development strategy</li> </ul>	<ul style="list-style-type: none"> <li>- Leading role of the clergy</li> <li>- Retaining the basic structure of the state</li> <li>- Maintaining the official commitment to (Khomeinist Islamism)</li> <li>- Honouring the Islamic development strategy</li> </ul>
<p>Note: the four Chinese features are based on Deng Xiaoping's 'basic principles' announced in Spring 1979.</p>	

chance to speed up reforms and opening up [to the West] so as to improve the economy'.<sup>20</sup>

As already noted, China's ability to demarcate between economic and political liberalisation proved attractive to Tehran. Iranian reading of the Chinese situation is summed up best in the statements of the Minister of Mines and Metals in two successive Rafsanjani administrations, Mohammad Hussein Mahloji, to journalists:

I was in China during the [Tiananmen square] demonstrations. The Chinese had only two options available to them: either they could surrender to the [intellectual and student] forces and thus commit the same mistakes that Gorbachev had, that is to accept an open political atmosphere with a liberalised economic system, in which case they definitely would not have achieved their [economic reform] objectives because at the time the situation [in China] was chaotic and would have been practically impossible to contain if open political atmosphere had prevailed, or else [the authorities] had to confront the [intellectual and student] forces head on. Because of the dangers [hidden in the prevailing situation], the [authorities] opted for an open economic atmosphere but refused to be pushed into accepting the accompanying free political atmosphere, and developments since [the Tiananmen incident] indicate that the authorities' decision was a correct one.<sup>21</sup>

Iranian decisionmakers also scrutinised China's economic reform strategy, and the verdict generally was positive. Mahloji's comments on the nature, essence and success rate of the Chinese economic reform model

reflect the attitude of the Iranian establishment:

Have you witnessed what the Chinese have done? China has chosen a different model (compared to countries like Japan or Malaysia) and I can tell you with some certainty that in 20 or 30 years time it will be one of the major global powers. It has never been under American tutelage and yet takes full advantage of the existing international opportunities and circumstances. It is a completely independent (autonomous actor) country. Now (this same independent) China has decided to convert all of its ports into free trade/industrial zones, and it has done this in order to alleviate social inequalities [*bi-edalati*]. When the responsible authorities realised that their own national resources were inadequate [to meet the country's needs] they decided to use foreign capital.<sup>22</sup>

For Iran's pragmatists then, China, as a model to emulate, represents:

- 1) a strong and independent (in international and foreign policy terms) state that can, and indeed must, use all the international means at its disposal to improve the economy;
- 2) a state in which the pursuit of policies does not compromise sovereignty;
- 3) a state where the political risks of economic reform can be minimised only when the élite can deliver economic prosperity and when it is willing to use force to remove popular obstacles in the path of the reform process.

## The political dimensions of economic reform

Tehran appears to be pursuing a similar strategy to that of China: keeping the threat of (or actual) use of force as its tactical advantage over the *Maktabis* as well as over the direct victims of the reforms. The adoption of the Chinese model has been possible partly because the Islamic regime has shown little inhibition in the past over the use of coercion as a method of control. Secondly, as in China (or Indonesia), political participation in Iran exists only within the strict parameters defined by the state.<sup>23</sup> Broadly speaking, limitations are imposed on the form and content of political expression, as well as on the right to independent political organisation, with the result that the regime has (more or less successfully) managed to separate economic restructuring from the political counterpart of this process.

The danger for the government has been that as the reforms began to bite and as, for instance, state subsidies for essential goods and services and basic foodstuffs were reduced, the masses became alienated from both the policy and the political system. Unable to find legitimate channels to register their protest against government economic policies (or simply to affect policy-making), they can demonstrate their frustration and alienation only through direct protest, both on the street and in the workplace. Such demonstrations can be sparked off by apparently unrelated events or issues but reflect a greater unhappiness with the unrepresentative nature of a system which is apparently ill-

serving their immediate economic needs.<sup>24</sup>

The street protests in May and June 1992, and again in August 1994 in Qazvin, and in Islamshahr and Akbar Abad (near Tehran) in April 1995, following earlier public protests in Tehran and strikes in key industrial centres, which soon developed into large-scale riots in many Iranian towns and cities, are indicative of the problem facing the administration. The industrial city of Arak, the holy city of Mashhad (Iran's second largest city), as well as Bookan, Haft Ghel, Izeh, Shiraz, Qazvin, and Shushtar, have been the scenes of major riots.

Although the demonstrations and riots have followed similar patterns in most towns and cities and have perhaps shared many common objectives, it can be said that practically all of them were triggered by local events. In Qazvin, the riots broke out ostensibly over the *Majlis*' refusal to declare this largely Persian-populated industrial and agricultural city (in the largely Azeri-populated province of Zanjan) an autonomous province, which would have qualified it for more central government funding. In Arak, the riots were sparked off by a lorry running over a child; in Mashhad, the three days of rioting followed the security forces' attempt to demolish illegally built makeshift (shanty town) houses of the poor; in Shiraz, the disturbances started when the security forces intervened to stop a disabled war veterans' rally from taking place; in Islamshahr and Akbar Abad the protests were about price rises and endemic poverty; in Shushtar, Masjed Sulaiman and other towns in Khuzestan, people took to the

streets after the results of the second round of the elections for the Fourth Majlis were announced.<sup>25</sup>

The reported casualties (deaths as well as injuries) in each instance were relatively high. In Arak, 16 people were killed, 375 others injured and 200 arrested; in Mashhad, the toll was 20 dead, over 100 injured and 800 arrested; in Shushtar, at least one person was reported dead, 200 injured and some 780 people arrested; in Qazvin dozens are said to have died and hundreds were injured in clashes with the security forces; and in Islamshahr and Akbar Abad at least 10 people were killed and many more were arrested.<sup>26</sup>

In most cases the rioters attacked such targets as banks, government and local municipality and administrative buildings, Islamic symbols (such as Islamic Propaganda Organisation buildings) and the security forces' offices. Eyewitness accounts indicate that the incidence of shop looting and setting fire to public property (such as buses) has also been frequent.

The regime's response to these disturbances has been immediate and forceful. On each occasion, the security forces were authorised to use maximum force to contain the riots. The hundreds of arrests and many reported executions which followed are indicative of the regime's strategy. The post-mortem on the 1992 riots blamed 'hooligan and foreign-supported counter-revolutionary elements', and many religious figures used public platforms to demand maximum punishment for those found guilty of rioting and looting. In

Qazvin, 'outside' agitators were accused of fomenting violence, and maximum punishment for such 'anti-social' elements was demanded by the establishment.

Generally speaking, the reaction of the conservative and Maktabi factions to the protests has been to inject a stronger dosage of Islamic orthodoxy into civil society; elements within the Islamic orthodoxy had become alarmed by the visible symbols of cultural liberalisation since 1989. Since June and July 1992, Ayatollah Khamenei has made many public statements warning the administration against 'Westernisation' of the economy and urging the security forces to implement the principle of *amr al ma'ruf, nahy az monkar* (follow the correct and righteous path and avoid the forbidden) in society in an attempt to eradicate 'corrupt Western culture and attitudes'.<sup>27</sup>

In the Majlis and elsewhere, however, others were more keen to place on the government's agenda the issue of the social problems which had led to the crisis. Shortly after the 1992 disturbances, the recognition by many of the republic's leaders that the demonstrations and the ensuing riots had deeper social roots and were caused by legitimate grievances and public dissatisfaction with the content and conduct of government policy surfaced into the public domain. In a verbal report to a gathering of the country's jurists, for instance, Hojjatoleslam Mostafa Mohaqqueq-damad, head of the country's National Inspectorate, categorically stated that general 'discontent' with the government and the entire bureaucracy was the real

backdrop to the riots.<sup>28</sup> The point was reinforced by other commentators:

[In Mashhad] 100 hooded men, armed with sophisticated weapons designed for urban warfare, turned the demonstrators into a mob which attacked specially chosen targets. They controlled and directed the furious mob to destroy banks, attack buildings, set fire to buses, rob and loot shops and commercial centres. They did their best to transform the justified anger of the poor, who are sick and tired of the government's broken promises and endless bureaucracy, into a horrifying revolt.<sup>29</sup>

Believing the survival of the administration to be conditional upon the successful fulfilment of the economic reforms, the reformer clerical politicians like Ayatollah Mohammad Yazdi (head of the judicial branch) have advocated a more effective use of force as a way of confronting the protesters. Much as happened with the Chinese communist party leadership in 1989, it was the 'economic liberals' in the theocracy who expressed most support for the use of force against civilians. These included the president himself. In both countries concern had to do with the success of the reforms, but in China the leadership used force ostensibly to save the economic reform programme; in Iran the use of force aimed to subdue the population which was revolting against the pains of the economic reforms, thus preventing the reforms' derailment. Paradoxical though it may seem, in the early stages of the adjustment process it was the economic reformers who displayed most appetite for the use of force against the urban poor and the 'mostazafin'.

However, the Maktabi faction in the political élite (whose institutional power-base was much weakened as a result of their poor showing in the April/May 1992 elections for the Fourth Majlis)<sup>30</sup> was not able to capitalise on the urban unrest to advance its own cause, largely because of its own institutional impotence and ideological straitjacket. The latter issue has three important dimensions. Firstly, the Maktabi faction's economic strategy for Iran has tended to rely on the policies of the 1980s and a fairly rigid interpretation of Ayatollah Khomeini's ideas on national affairs and foreign policy - both shunned by ordinary Iranians since the end of the Iran-Iraq war. Secondly, it has failed to function as an effective political opposition caucus, largely because of its defeat in the Majlis elections, which cost it its mandate to mobilise the people against the economic reforms. Thirdly, the Maktabis are fully aware of the fact that the wholesale failure of the Rafsanjani reforms could well threaten the entire system; because of this they cannot raise a serious challenge to the president's policies, and certainly not as long as the Leader (Faqih) supports the president's policies, without questioning the very basis of the entire system that keeps the clergy in power. They are, in a word, caught in a 'catch-22' situation.

Another aspect of the struggle amongst the various factions has, since 1989, been an intellectual one concerning the correct interpretation of Ayatollah Khomeini's ideas and, by extension, the 'authenticity' of the post-Khomeini policies in view of the revolution's ideals. Not too dissimilar to the Chinese experience after Mao's demise, the issue in Iran is no longer



about Ayatollah Khomeini's ideas *per se*, but rather about the competing interpretations of these ideas. This struggle is also affecting the balance of power between the various elite factions. Since the inception of the post-Khomeini leadership, it seems, many Iranians may have chosen to demonstrate their grave misgivings about the impact of President Rafsanjani's economic policies but have shown an unwillingness to swing their support behind the Maktabi forces. In this lies the president's ability to isolate the influence of the Maktabis and their claim to represent the true legacy of Ayatollah Khomeini. How successfully he can do this, however, in the face of mounting economic pressures since early 1993 and more frequent public protests, remains to be seen.

The impact of the economic upheavals which have accompanied the restructuring process on the balance of forces in the establishment and on the authority of the administration in the country at large cannot be overestimated.

With regard to the reform process in Iran and China, it is clear that the economic policies of the post-Mao CCP leadership have paved the way for economic prosperity which has in turn tended to blunt popular discontent over political repression; in Iran, while there was some degree of economic prosperity in the early 1990s, it seems that government economic policies since March 1993 - that is to say accelerated economic reform - have laid bare the structural problems of the Iranian economy and have aggravated what became an economic recession.

This unexpected development, caused partly by the debt crisis which followed the trade liberalisation of the 1991-2 period, partly by the collapse of the national currency (which lost approximately 70 per cent of its value against the dollar in 1994-5) and the relatively flat international oil prices, and partly by open US hostility to the regime, has made it difficult for the administration to argue that an improving economy will benefit everyone and, ultimately, to justify continuing political controls.

**Table 2: Iranian economic indicators, 1989-93**

	1989	1990	1991	1992	1993
GDP (\$bn)	54.30	56.90	53.20	59.70	43.60
GDP growth (%)	3.50	9.90	7.10	4.50	2.00
Exports (\$bn)	13.00	18.80	18.40	18.60	17.10
Imports (\$bn)	13.50	18.00	25.00	24.40	16.30
Current account (\$bn)	(0.50)	(0.80)	(6.60)	(5.80)	(0.80)
External debt (\$bn)	6.50	9.00	11.30	14.20	25.40

Source: Economist Intelligence Unit, Country Report Iran (London: EIU, various quarterly reports)

Note: Iran's external debt was reported to have reached \$35,000 million in the mid-1990s, with debt servicing amounting to about \$4,000 million a year for at least until the year 2000.

Additionally, in Iran's case, the state's dependence on revenue from hydrocarbons exports (which traditionally have provided the state with an external source of income, ensuring less reliance on domestic sources of income, such as taxes) is a unique factor that needs consideration in that this source until recently had provided considerable freedom for the state from domestic pressures. Since the oil crisis of 1986-87, however, the state's ability to raise significant revenues through hydrocarbons exports has been seriously reduced, which in turn has made the state more vulnerable to domestic pressures and has increased its reliance on domestic sources of income.<sup>31</sup> Moreover, unstable (and generally low) oil prices have made it increasingly difficult for the government to plan rational economic policies and also to weather sharp economic swings. In the case of China (and also to a degree in that of the Asian Tigers), by contrast, massive inward foreign investment and rapid growth in hard currency-generating industrial and manufactured exports provided economic prosperity which helped to cushion the blow of reforms and also reinforced the relative autonomy of the state by putting at its disposal substantial financial resources.

Furthermore, privatisation of major sectors of the economy, deregulation of economic activity and reductions in state subsidies since 1989 (said to be costing the government around \$6,000 million a year)<sup>32</sup> have sharpened the labour-capital conflict in Iran. Although the anger of the mostazafin rioters has - so far - tended to be directed at the symbols of the state (banks, government offices and politico-military agencies), with time

the Rafsanjani administration's policy of economic openness may well come to be regarded by ordinary citizens as further enriching only the upper classes of Iran at the expense of factory workers, state employees and the urban poor.

If this perception spreads, then a credibility gap of some magnitude could open between the theocracy and the population. It is not too difficult to conclude that the economic hardships, coupled with the perception that government policy is one-sided, could lead to further protests and riots which in turn may elicit a violent response from the regime, thus further alienating the ruling élite from the people and possibly resulting in further political and economic instability, not to mention international isolation. Any large-scale riots in major Iranian cities, or Iran's international isolation because of its violent responses to such an outcome, could prove detrimental both to the political fortunes of the pragmatist factions in the ruling élite and to the economic reform programme which they have championed since the end of the Iran-Iraq war.

Furthermore, at the leadership level also the economic reform programme has introduced certain dilemmas for the dominant faction of the ruling élite. As the process has spread it has resulted in interesting interactions within the ruling structures of the post-revolution 'consultative authoritarian' Iranian regime.<sup>33</sup>

One such interaction has been the way in which the economic reforms managed to move the political goalposts in Iran. The Maktabi factions, irrespective of the politico-legal

barriers put in their way by the pragmatists in the run-up to the 1992 Majlis elections, failed to gauge the mood of the people and managed to isolate themselves through continuing to preach support for what they perceived to be Ayatollah Khomeini's agenda, and by advocating state control of the economy and limited contact with the Western economies.

In spite of the institutional weakening of the Maktabi forces, pleading for social justice in government economic policies has become a central feature of the criticisms made against the executive branch within and outside the Fourth Majlis. Typically, deputies, such as Ahmad Pirzadeh (a first-time deputy from Dargez), have used the Majlis tribune to focus the minds of the legislature on the direction of government economic policy and its impact on society at large:

In the country's planning process, the main concern must be the negation of the West and deprivation, and the rescuing of the mostazaf and deprived classes and the barefooted from the ills of Shahi oppression and the traces of foreign influence (*biganegan*). All of the economic, productive and reconstruction plans [and policies aimed at] economic growth must have this goal in mind and it is only under these conditions that the plans can be regarded as correct and acceptable.<sup>34</sup>

Other influential figures also have used public platforms, such as the all-important Tehran Friday prayer gatherings during which many policy statements are transmitted to the public, to question the wisdom of government policy. For example, Ayatollah Ahmad Jannati, the temporary Friday prayer leader in the capital, a member

of the Expediency Council,<sup>35</sup> and of the Council of Guardians, known for his conservatism, used the Tehran Friday Prayer platform (regarded by the leadership and the people alike as perhaps the most effective forum for making statements pertaining to the life of the nation) in October 1992, to attack openly the government's economic strategy, saying that 'the return of the capitalists to the country means the disappearance of the values of the Islamic Revolution'. Ayatollah Jannati took a dim view of those economic policies that might threaten the cultural underpinnings of the republic. Pointedly, he expressed concern about the reported return to Iran of the pre-revolution *taqouti* singers and entertainers and the trend towards luxurious lifestyles (*tajamol garai*) and the impact of such events on the republic, viewing it as a step towards the steady dilution of the country's 'Islamic and revolutionary values': 'Hezbollah's patience has limits and if the Hezbollah finds that the officials are being negligent let them be assured that the Hezbollah will feel responsible [to act]'.<sup>36</sup> In other words, he was expressing a fear that economic liberalisation would necessarily reintroduce Western cultural values and consumption patterns.

In contrast to such views, while the socially conservative Hojatieh society (an old and well-established anti-Bahai organisation committed to private enterprise) rejects the return of Western values, it has favoured the economic reform programme. The Society, which has a strong belief in the market mechanism and open door capitalism had fallen from grace by the mid-1980s for continuing to oppose the statism of the Moussavi

government. As Rafsanjani has reversed such statism in favour of the market, the Hojatieh has found itself in accord with the government on economic policy and has benefited from this in terms of its own (albeit indirect) political influence.

Problems have arisen, however, when the administration has shown an interest in limited liberalisation of social policy. Such liberalisations have been viewed as a betrayal of Islam itself by social conservatives, regardless of their position on economic liberalisation. Friction between the government and these forces has already been in evidence over the treatment of Iranian expatriates. To the government these expatriate communities represent an untapped pool of expertise and capital; to the social conservatives the expatriates are vestiges of the *ancien régime* and are social undesirables.

Additionally, the conservatives (supported by traditionalists) have been quick to condemn the trend towards consumerism in society which they see as leading to its Westernisation (and ultimate corruption). The returning exiles are viewed as the fifth columnists, whose presence is likely to re-ignite and accelerate the Westernisation of Islamic Iran. For obvious reasons, therefore, while the Rafsanjani administration encourages the political support of the Hojatieh and its allies for its economic liberalisation programme, it is aware of the need to minimise their influence on public policy.

Other problems associated with the administration's economic restructuring strategy relate to the clerical

establishment itself. In the last analysis, the reforms will have a direct impact on the fortunes of the 'clergy capitalists' who are well-placed to take advantage of the economic liberalisation policies of the government to acquire more businesses or to set up new ones. At the same time, the clerical figures who entered the public sector as managers and administrators of foundations and conglomerates (which emerged out of the confiscated properties and assets of the Pahlavi régime's ruling class) could become net losers of the economic reform process if the privatisation programme were to be imposed on their sectors.<sup>37</sup> Almost none of the foundations are run along 'scientific management lines' and none have so far published any annual accounts of their income, expenditure and assets, even though constitutionally they are required to do so.

A number of such entities, such as the Deprived and Martyr Foundations and the Imam Committee, have gone on the offensive by proposing to 'offer to the people' (i.e. to privatise) some of their businesses while at the same time taking advantage of deregulation in the economy and of foreign trade and investment arrangements to expand their economic activities.<sup>38</sup> Some of these foundations, for instance, have shown interest in the state-owned oil industry and the airline business. Insofar as many of these foundations function as private businesses, they can capitalise on the economic reform programme and expand their respective quasi-private empires. In the long term, such a trend is likely to have an adverse effect on the economy: far from encouraging competition (one of the reasons put forward for privatisation),

economic liberalisation is likely to encourage the emergence of 'revolutionary' monopolies with their bosses and interlocutors closely integrated into the system. If the process of economic reform were to continue unabated, one could speculate that the ground was being prepared in Iran for the birth of Iranian-style *chaebols*<sup>39</sup> around the clergy-dominated 'revolutionary capitalist conglomerates' whose embryonic structures are to be found in many of the post-revolution foundations. Indeed, evidence is beginning to mount that, with economic deregulation, a business-oriented, new upper middle class, with strong establishment connections, is starting to emerge. This group will, one analyst says, 'need' the system. 'Their expectations are not political, but they expect efficiency in the state.'<sup>40</sup>

Whether economic liberalisation could enable such *chaebols*, in alliance with the government, to lead the economy towards rapid industrialisation is by no means certain. In addition, setting aside the imponderables associated with the balance of forces at home, ultimately it could well be the Western responses to, and transnational capital's reception of, Iran's overtures, that decides the fate of the Iranian economic reform process. Ironically, it is a recognition of this fact, coupled with Iran's vulnerability to American pressure, that provides the ammunition for the *Maktabis'* stance against Iran's rapid reintegration into the world economy on terms which are not of Tehran's choosing.

Whether the Rafsanjani administration is able, or indeed willing, to take on the 'organised capital' of the clerical and revolutionary institutions

is an open question, however. Certainly if a substantial segment of the two or three million exiles decides to return to Iran (and request the return of confiscated assets and properties now amalgamated in the various post-revolution foundations, as the administration has encouraged), then the government may be forced to mediate between those who have flourished in the lifetime of the Islamic Republic and those outsiders whose loyalty to the republic and Faqih system is at best questionable.

## Conclusion

It should be clear from the discussion above that President Rafsanjani's economic path for the republic is full of pitfalls. Given the current economic crisis in Iran, the outcome of his programme is at this stage impossible to predict. Certainly, the state is being rolled back (red tape is being reduced, ministries are being amalgamated, the civil service is slowly but surely shrinking, and the public sector industrial base is getting smaller), perhaps further than at any time for two generations, but this has not led to political liberalisation.

Indeed, if Iran's economic reform programme is closely shadowing the post-Mao Chinese model, then political pluralism, as characterised by the possibility of independent political organisation and unhindered contestation for public office,<sup>41</sup> is not a necessary correspondent and is unlikely to emerge independently of the economic reform process. However, if economic liberalisation in Iran were to lead to the emergence of an unhindered political space, the chances are

that society would accelerate, rather than decelerate, its orientation towards the West (largely because of Iran's many economic needs and because an educated middle class is likely to emerge to dominate an open political space), which would obviously damage further the position of the *étatists* in the regime.

The situation in Iran may be contrasted with that of South Korea, a country whose economy developed as rapidly as Iran's and one with similarly close ties with the US in the 1960s and 1970s. In the Korean case, further liberalisation of the state and society is likely to bring to power anti-American populist forces which would resist strongly those measures of economic opening that place the country's economy more firmly in the orbit of the US-dominated Pacific economic space.<sup>42</sup> In other words, thoroughgoing liberalisation (or democratisation) in South Korea 'would tend to result in illiberal (nationalistic) trading policies'.<sup>43</sup> In Iran, rather the reverse could be said to be the case: trends show that the lifting of political barriers, in conjunction with further economic liberalisation and trade openness, could lead to the slow emergence of a middle-class-based pro-Western ruling coalition that would regard as beneficial any acceleration in US-Iranian economic linkages.

Whether the economic liberalisation programme will lead to the emergence of a new bourgeoisie in Iran is another point worth reflecting upon. At least three alternatives exist at this juncture: the return from exile of a large proportion of the exiled bourgeoisie, the emergence of a new bazaar/clergy-dominated bourgeois

class; or the evolution of a quasi-private monopolistic capitalist élite controlling the commanding heights of the economy (and even competing with the state for control of the most lucrative industries and lines of economic activity). As the state divests itself of assets, therefore, it is all the time creating the opportunities for the emergence of other monopolies in the economy. The political implications of this trend may not become apparent for some time to come, but the economic trends now in motion, providing that the executive stays the course, are invariably going to redraw the social map of Iran, so leaving big questions unanswered over the shape of the country's slowly evolving post-revolution social map and the international orientation of its ruling élite.

Another issue worth pondering over when examining the Iranian and Chinese cases is both states' clear desire to retain their cultural authenticity while operating in world capitalist markets and in dealing with the Western countries. On reflection, both Japan and South Korea seem to have managed to find the right balance, but whether Iran is likely to do so is largely conditional upon the successes of its spawning reform-reliant 'clergy capitalism'. If this social force fails to materialise then, judging by past experience, the triumph of Iran's Western-oriented bourgeoisie will bring with it rapid Westernisation as well.

In the meantime, President Rafsanjani has had little choice but to push ahead with the main components of his adjustment programme. In doing so, he has confronted and,

for the moment, successfully subdued the Maktabi forces in the ruling élite. Although the Rafsanjani-Khamenei 'alliance' may regard the demise of the Maktabis as a price worth paying, it is not at all clear that it will be able to control the multitude of forces that are being unleashed by the process of economic reform. Unless, of course, the alliance opts for liberalisation of the political system (and of the socio-cultural system) as a way of cultivating an economically-powerful bourgeois natural constituency for the regime, it is very difficult to see how the contending loci of power can be contained. The option of political liberalisation always exists but, bearing in mind the above discussion, the price for the loyalty and support of a democratically-minded middle class as a buffer of stability may well be beyond the ability of the Rafsanjani administration to pay, for this class has shown that it seeks not only changes to the country's social policy but also to the political structures of high society.

Returning to the original theme of this paper, we have seen that, up to a point, authoritarianism was the bitter pill that Third World countries

had to swallow on the path to economic development. In each case there will come a time when a ruling élite cannot build on its economic successes and demand loyalty without opening up the political system. A review of the 'East Asian miracle' economies and of their Latin American counterparts makes it difficult to avoid the conclusion that a 'developmental state' can only mean a 'strong' ruling regime (internally united, functionalist in approach, and technocratic in outlook) which has the power to devise unhindered a national economic development strategy and then be able to see it through to fruition. But, despite the need for strong central government, in contemporary Iran steady and long-term economic progress may not result if some measure of political liberalisation does not precede or accompany economic development policy. Those familiar with the recent history of Iran will recall that the fate of the late Shah in the second half of the 1970s also hinged on this very issue: whether economic progress could be achieved without political plurality. In the last analysis, he proved unable to pay the political price for economic prosperity, and the rest is history.

## Notes

<sup>1</sup> I am grateful to Raymond Hinnebusch, Eric Hooglund, Emma Murphy and Gerd Nonneman for their constructive criticisms of earlier drafts of this paper.

On the problems facing the Iranian economy see Jahangir Amuzegar, 'The Iranian economy before and after the revolution', the *Middle East Journal*, vol. 46, no. 3, summer 1992, pp. 413-25, and Hooshang Amirahmadi, 'Economic destruction and imbalances in post-revolutionary Iran', in Hooshang Amirahmadi and Nader Entessar (eds), *Reconstruction and Regional Diplomacy in the Persian Gulf* (London: Routledge, 1992), pp. 65-108.

<sup>2</sup> Iranian economic liberalisation policies have been examined in some detail in my *After Khomeini: The Iranian Second Republic* (London: Routledge, 1995).

<sup>3</sup> Samuel P. Huntington, 'How countries democratize', *Political Science Quarterly*, vol. 106, no. 4, 1991-92, p. 579.

<sup>4</sup> 'Securing reform in transition economies: social safety nets', *IMF Survey*, 17 April 1995, p. 126.

<sup>5</sup> A phrase borrowed from Constantine P. Danopoulos (ed.), *Civilian Rule in the Developing World: Democracy on the March?*, (Boulder, Colorado: Westview Press, 1992).

<sup>6</sup> See Robert L. Bartley, 'On keeping 'em down on the farm', *The Wall Street Journal Europe*, 3 February 1993.

<sup>7</sup> Atul Kohli, 'Democracy and development', in John P. Lewis and Valeriana Kallab (eds), *Development Strategies Reconsidered* (New Brunswick: Transaction Books, 1986), p. 168.

<sup>8</sup> As for the fate of the state in the light of the changing world economy, 'the globalisation of business' era, in the final quarter of the twentieth century see Susan Strange, 'Supranationals and the state', in John A. Hall (ed.), *States in History* (Oxford: Basil Blackwell, 1989), pp. 289-305; Peter B. Evans, 'Transnational linkages and the economic role of the state: an analysis of developing and industrialised nations in the post-World War II period', in Peter B. Evans et al., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), pp. 192-226.

<sup>9</sup> James H. Mittelman, *Out From Underdevelopment: Prospects for the Third World* (London: Macmillan, 1988), p. 168.

<sup>10</sup> Nigel Harris, *The End of the Third World: Newly Industrialising Countries and the Decline of an Ideology* (Harmondsworth: Penguin Books, 1987), p. 145.

<sup>11</sup> In another sense also the state remains absolutely central to the debate. To quote Susan Strange, 'as states become more involved in one way or another in their respective economies, and as their economies become more involved - 'integrated' - with one another through... the development of what is truly a global market for capital and credit, so the agenda for inter-governmental bargaining... continues to expand'. 'What about international relations?', in S. Strange (ed.), *Paths to International Political Economy* (London: Allen and Unwin, 1984), p. 186.

<sup>12</sup> Richard P. Appelbaum and Jeffrey Henderson (eds.), *States and Development in the Asian Pacific Rim* (New York: Sage, 1992); Gavin Boyd, *Pacific Trade: Investment and Politics* (London: Pinter, 1989).

<sup>13</sup> For an explanation of this hypothesis see Jagdish Bhagwati, *The Economics of Underdeveloped Countries* (New York: McGraw Hill, 1966).



- <sup>14</sup> Hagen Koo, 'The interplay of state, social class, and world system in East Asian development: the case of South Korea and Taiwan', in Frederic C. Deyo (ed.) *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1988), pp. 165-81.
- <sup>15</sup> 'Caudillos by consent', *The Economist*, 6 May 1995, p. 19.
- <sup>16</sup> John Calabrese, *Revolutionary Horizons: Regional Foreign Policy in Post-Khomeini Iran* (London: Macmillan, 1994), p. 29.
- <sup>17</sup> Massoud Karshenas and M. Hashem Pesaran, 'Economic reform and the reconstruction of the Iranian economy', *The Middle East Journal*, vol. 49, no. 1, Winter 1995, pp. 89-111.
- <sup>18</sup> See A. Ehteshami, *After Khomeini: The Iranian Second Republic* (London: Routledge, 1995); P. Alizade, 'Industrial development in Iran: recent changes and past experiences', in A. Ehteshami et al., *Iran's Economy After the Two Wars: Reconstruction and Development* (Tokyo: Institute of Developing Economies, 1992), pp. 169-227. For a broad analysis of the issues pertaining to economic privatisation strategies in the developing countries see John Prager, 'Is privatisation a panacea for LDCs? Market failure versus public sector failure', *The Journal of Developing Areas*, vol. 26, no. 3, April 1992, pp. 301-21. For material on economic liberalisation in the Middle East see Niblock and Murphy (eds.) *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993); Henri Barkey (ed.), *The Politics of Economic Reform in the Middle East* (New York: St. Martin's Press, 1992); Iliya Harik and Denis J. Sullivan (eds.), *Privatisation and Liberalisation in the Middle East* (Bloomington: Indiana University Press, 1992).
- <sup>19</sup> Azam Kamgooyan, 'Eqtesade Iran beh koja meravad?' ('Where is the Iranian economy going?'), *Iran Tribune*, 27 November 1992.
- <sup>20</sup> Quoted in *Financial Times*, 13 March 1992.
- <sup>21</sup> *Kayhan Havai*, 16 September 1992.
- <sup>22</sup> *Kayhan Havai*, 16 September 1992.
- <sup>23</sup> For an analysis of the functioning of the Iranian political system see Eric Hooglund, 'Iranian populism and political change in the Gulf', *Middle East Report*, January-February 1992, pp. 19-21.
- <sup>24</sup> It is worth noting in this context that partly in response to the riots in various cities and partly due to pressures by the *Maktabis* and the *Majlis*, the 1372 (March 1993-March 1994) budget retained substantial subsidies and other allocations at the 'official' \$1=IR70 (which was scheduled for phasing out from the 1372 Iranian financial year). The main outlays were for the following: energy (\$1.165 billion); food products (\$1.250 billion); the military sector (\$850 million); primary products, medicine and specialist medical needs (\$420 million); caring for the 'deprived' regions (\$80 million); and \$80 million for scholarships to students selected for further study abroad from three government ministries. In total some \$5.285 billion worth of expenditures were put aside at the official rate. See Economist Intelligence Unit, *Country Report Iran*, No.1, 1993 and 2nd quarter 1993. (London: EIU).
- <sup>25</sup> Safa Haeri, 'Iran: reminder of '79?', *Middle East International*, No. 428, 26 June 1992, pp. 11-12; *Nimrooz*, 29 May 1992; *The Echo of Iran*, August/September 1994; *APS Diplomat*, 1-8 April 1995.
- <sup>26</sup> Safa Haeri 'Iran: reminder of '79?', *Middle East International*, No. 428, 26 June 1992; 'Iran: the Mashad riots', *Middle East International*, No. 427, 12 June 1992; *Nimrooz*, 29 May 1992; *The Echo of Iran*, August/September 1994; *APS Diplomat*, 1-8 April 1995.
- <sup>27</sup> Safa Haeri, 'Iran: attack on Western influence', *Middle East International*, no. 430, 24 July 1992, pp. 13-14.

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- <sup>28</sup> See *Kayhan* (London) quoting Tehran-based government sources, 9 July 1992.
- <sup>29</sup> Quoted in Haeri, 'Iran: reminder of '79', *Middle East International*, no. 428, 26 June 1992, pp. 11-12.
- <sup>30</sup> Prominent *Maktabis* such as Ayatollah Sadeq Khalkhali, Hojjatoleslam Hussein Hadi-Ghaffari, Hojjatoleslam Ali Akbar Mohtashemi, Hojjatoleslam Mehdi Karrubi, Hojjatoleslam Mohammad Moussavi Khojini and Mr. Mohammad Asgharzadeh failed to enter the new *Majlis*, either because they were barred by the Council of Guardians from standing or due to their poor showing in the elections.
- <sup>31</sup> See my *After Khomeini: The Iranian Second Republic* (London: Routledge, 1995).
- <sup>32</sup> Ali Akbar Dareini, 'Iran's economic prospects for 1995', *Kayhan Havaei*, 11 January 1995.
- <sup>33</sup> A term aptly denoting the nature of the ruling Islamic regime, borrowed from H. Skilling, 'Group conflict and political change', in Chalmers Johnson (ed), *Change in Communist Systems* (Stanford: Stanford University Press, 1970), pp. 215-234.
- <sup>34</sup> Speech delivered to the *Majlis* on 8 September 1992. *Kayhan Havaei*, 16 September 1992.
- <sup>35</sup> Created in February 1988 to mediate between the *Majlis* and the Council of Guardians. #
- <sup>36</sup> *Kayhan Havaei*, 21 October 1992.
- <sup>37</sup> The problem for the administration is neatly illustrated in its efforts in 1995 to try and establish a modern and efficient distribution system. Through the founding of 1,000-strong *Refeh* chainstores nationwide, the cabinet has ended up confronting one of the main political pillars of the republic: The bazaar. Not only the powerful 'clergy-bazaar' alliance has mobilised to defend the market traders' grip on the national distribution network, but so too have those foundations which regard such discount stores a direct challenge to their own monopoly position. This episode illustrates how the government's perfectly rational policy has managed to invoke the wrath of some of the most influential institutions in the land, and thus weaken its own constituency.
- <sup>38</sup> See Peter Waldman, 'Clergy capitalism: mullahs keep control of Iranian economy with an iron hand', *The Wall Street Journal Europe*, 8 May 1992.
- <sup>39</sup> *Chaebol*, or *jaebol*, is the Korean term for conglomerates. The *chaebol* in Korea have benefited enormously from government policy since the early 1960s and today dominate the economy. Some 32 groups (increased to 43 in 1989, according to Song) account for the bulk of the Korean *chaebol*, the leading amongst whom are such household names as Samsung, Hyundai, Lucky Goldstar, Daewoo, Sunkyong, Saangyong and Hyosung, a handful of which were registering annual sales in excess of \$15.00 billion. Many others were boasting sales figures in excess of \$5,000 million by the late 1980s. For discussion of the *chaebol* phenomenon in the Republic of Korea see Dilip K. Das, *Korean Economic Dynamism* (London: Macmillan, 1992) and Byung-Nak Song, *The Rise of the Korean Economy* (Oxford: Oxford University Press, 1992).
- <sup>40</sup> Mahmoud Sareioghalam, quoted by Lamis Andoni, 'Second revolution brews in Iran', *The Christian Science Monitor*, 14-20 April 1995, p. 6.
- <sup>41</sup> These characteristics were adapted from C. Black and J. Burke, 'Organisation participation and public policy', *World Politics* 35, no. 3, April 1983.
- <sup>42</sup> Chung-in Moon, *Alliance Under Tension: the Evolution of South Korean-U.S. Relations* (Boulder, Co: Westview Press, 1988).
- <sup>43</sup> James Cotton, 'The limits of liberalisation in industrialising Asia: three views of the state', *Pacific Affairs*, vol. 64, no. 3, Fall 1991, p. 325.

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