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## Behind Iran’s Crackdown, an Economic Coup

FARIBORZ GHADAR

Iran’s election fraud last June, the civil unrest that followed, and the regime’s continuing crackdown against dissenters have their roots in the country’s poor economic condition. They are also rooted in efforts by President Mahmoud Ahmadinejad and his allies in the Islamic Revolutionary Guards Corps to grab control over large swaths of the economy. Although the government has subdued street demonstrations by brute force—including in violent clashes in Tehran and elsewhere in November—the underlying economic problems and factional rivalries remain, and the flames of discontent may well flare up again soon.

Iran’s economy is dominated by oil exports and the public sector. In 2008, oil accounted for 50 percent to 70 percent of government revenues and 80 percent of export earnings. The public sector (that is, activities directed or centrally controlled by the government) constitutes an estimated 60 percent of Iran’s economy. Historically, the private sector—dominated by the merchant class in the bazaar—has handled most supply chain–related matters in the economy. This includes warehousing, distribution, sales, financing, and the management of logistics related to both imports and local production. Many agricultural producers and light industries have also relied on the bazaar to handle their logistical and financial requirements.

In recent decades, however, elements in the government have increasingly undermined the role of the private sector and the bazaar. One major change since the 1979 Islamic Revolution has been the expanding role of religious foundations, or *bonyads*. Their combined budgets are said to equal half the government sector’s budget.

Much of the funding for the *bonyads* originates with the state, via assets and businesses that the *bonyads* have been authorized to manage, or in the form of direct government subsidies. The *bonyads* are actively involved in the transportation and distribution sectors; before the revolution, these logistical activities traditionally fell within the bazaar’s economic sphere.

More recently, the private sector and the bazaar have been further undermined by the imposition of stricter international sanctions in response to the Iranian government’s nuclear activities—and also by administrative and price controls, smuggling, contraband, and widespread corruption, along with other rigidities in the economy. Much of the smuggling and contraband are controlled by the Revolutionary Guards, and this is a trend that has accelerated since Ahmadinejad assumed the presidency in 2005.

In addition, the regime has awarded numerous large contracts—for example, for a major gas pipeline to the Pakistani border, for the South Pars natural gas field, and for an expansion of the Tehran metro transportation system—to members of the Revolutionary Guards and their companies. The Revolutionary Guards, of which Ahmadinejad was once a member, form a large branch of the Iranian military. They are believed to number as many as 120,000. They control a paramilitary militia, the Basij. And in recent years they have built a sprawling business empire.

In essence, a dramatic shift of economic power has taken place—away from traditional private sector groupings and toward select religious foundations and Revolutionary Guards entities. To be sure, the bazaar remains a major force in Iran’s economic landscape. This was plainly evident in October 2008, when the regime made too obvious an effort to reduce the role of the bazaar by imposing a value-added tax. The government’s action

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met with stiff resistance, violent protest, and the closing of markets, which brought the national economy to a standstill. Officials quickly rescinded the value-added tax. Still, the Ahmadinejad administration continues in other ways to shift economic power toward the Revolutionary Guards and other friends of the regime.

At the same time, the government has massively mismanaged the economy, thereby creating high inflation and unemployment. It is important to understand that the protests in the streets of Tehran and other Iranian cities in the summer and fall of 2009 had as much to do with economic mismanagement as with election improprieties.

### LOSING AT MONOPOLY

Petroleum is a key factor in assessing the Iranian economy. Oil production before the Islamic Revolution hovered around 5 million to 6 million barrels a day, of which 5 million were exported. Strikes, civil unrest, and a loss of technical and managerial experts (both domestic and foreign) reduced oil production to about 3.3 million barrels in 1979. Oil production in 1980 further declined—to less than 1.5 million barrels per day—because of continued technical difficulties and the beginning of the Iran-Iraq War. Production gradually increased to a level of 4 million barrels a day by 2008.

In the meantime, however, domestic consumption has risen rapidly, and crude exports have declined gradually to between 2 million and 2.5 million barrels a day. Thus, since the Islamic Revolution, the volume of oil exports has declined by more than 50 percent while the population has doubled. This year's street protests had no appreciable impact on oil production. However, given the reduced exports and increased local consumption, a protest strike aimed at the oil and gas sector would have a much more crippling effect on the economy than did strikes during the Islamic Revolution in 1979.

Iran's natural gas production has increased rapidly since 1979, but it primarily serves the domestic market. The country exports some natural gas to Turkey and it imports some from Turkmenistan. However, because the prices that Turkey pays are below the prices that Iran pays to Turkmenistan, the gas sector may in fact be a

foreign exchange drain on Iran's economy. Gas exports, because of sanctions and US policy, have not risen. The Nabucco gas pipeline, planned for construction through Turkey, has been delayed. An Iran-Pakistan-India pipeline is unlikely to be constructed in the near future. And Iran lacks the necessary technologies to embark on a significant liquefied natural gas operation, thus further limiting its export capacity.

Despite these difficulties, the growth rate for Iran's gross domestic product (GDP) has ranged between 4.5 percent and 7.8 percent in recent years. This has much to do with the rising price of crude oil. In fact, 2008 was a record year for revenue generated by oil exports. As oil prices hit a record \$147 per barrel, Iran managed to generate an estimated \$85 billion in oil exports.

And yet, in spite of this massive increase in oil revenue, GDP growth declined sharply to 4.5 percent in 2008 from 7.8 percent in 2007. This was Iran's lowest growth rate in the past few years, and it is directly related to the economic mismanagement that has spawned rising subsidies and the monopolistic nature of much of the industrial economy (increasingly under the control of the Revolutionary Guards and preferred bonyads).

The result has been rising inflation. Housing prices in Tehran, for instance, quadrupled from 2004 to 2008. Last year the inflation rate soared to 26 percent, according to central bank figures. The rate this year may have dropped to 15 percent because of a decline in oil prices and a downturn in the global economy, but that number is still very high.

Meanwhile, the government's excessive subsidies and handouts have made Iran dependent on agricultural imports. Wheat imports rose from near zero years ago to more than 6 million tons in 2008. The growth rate in manufacturing and agricultural value-added has also declined from 2002 levels. And low levels of investment by the private sector, along with a surge in the number of young people, have brought about high unemployment.

### ARMIES OF THE JOBLESS

Iran's official jobless rate is in the teens, but given the very large portion of the population that is in the 15- to 30-year-old range, it is very likely that true unemployment hovers at about twice the offi-

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*Iran could evolve into a dictatorship  
of paramilitary thugs and oligarchs  
controlling a corrupt and  
monopolistic system.*

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cial rate. I estimate it to be above 30 percent. (There are 25 million Iranians employed, of whom a third are women. The working-age population is estimated at 45 to 50 million. Therefore, even assuming that all women who want jobs are employed, the unemployment rate is about 30 percent.)

The government's current statement of economic policy—the Fourth Development Plan—calls for the creation of 700,000 jobs per year. This goal is unlikely to be achieved. In any case, given Iran's population growth, an estimated 1 million jobs must be created each year to prevent unemployment from rising.

Some of us will remember the “misery index”—the sum of the unemployment and inflation rates—which was widely discussed during the Carter/Reagan era in the United States. The US misery index of that time, at its worst, was around 25 percent; today the number is about 13 percent. Those numbers pale against Iran's misery index, which ranges between 40 percent and 50 percent.

Thus we should not be surprised that, despite threats, intimidation, and beatings, many citizens have been willing to demonstrate in the streets of Iran's cities. The general public has seen its purchasing power decline even as members of the Basij and Revolutionary Guards benefit from subsidies and government-awarded business opportunities.

## DEFENDING THE REVOLUTION

Indeed, this may help explain why the Revolutionary Guards and Basij were so ruthless in handling the demonstrations that followed the June presidential election—in which widespread fraud helped secure Ahmadinejad's reelection—and the protests that broke out in early November. The Revolutionary Guards and the militiamen on motorcycles were not just protecting the Islamic revolution. They were protecting their incomes and economic position, as Ahmadinejad's tenure in office has seen rapid growth in the economic power of the paramilitary groups (both the Revolutionary Guards and the Basij).

Major General Muhammad Ali Jafari, the commander of the elite military branch of the Revolutionary Guards, has suggested that his group's suppression of the protests gives it a new, more central role in the country: “Because the Revolutionary Guards were assigned the task of controlling the situation, [they] took the initiative to quell a spiraling unrest. This event pushed [the Guards] into a new phase of the revolution and

political struggles and we have to understand all its dimensions.”

Iran's other hard-line forces have also been emboldened. Ahmadinejad's spiritual guide, Ayatollah Mohammad Yazdi, has said that “elected institutions are anathema to a religious government and should be no more than window dressing.” However, in the face of lower oil revenues, if the Ahmadinejad administration, the Basij, and the Revolutionary Guards continue to feed at the trough without consideration for the general public, unrest will almost certainly return and accelerate.

## THE TICKING BOMB

Many of the “old guard” leadership associated with traditional business interests and the bazaar view this trend with serious concern. At the same time, many influential religious leaders have kept silent or offered only faint criticism of Ahmadinejad's election. It is clear to them that the regime and its allies are seriously challenging the role of traditional political leaders vis-à-vis business activities.

The past year has witnessed the escalation of a power struggle in Iran's political elite, a strug-

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gle that pits the old guard—led by two former presidents, Ali Akbar Hashemi Rafsanjani and Mohammad Khatami; a prominent cleric, Mehdi Karroubi; and Ahmadinejad's principal opponent in the election, Mir Hussein Moussavi—against Ahmadinejad, Yazdi, Ayatollah Ahmad Jannati, and the Revolutionary Guards.

The decision by Iran's supreme leader, Ayatollah Ali Khamenei, to back the latter group causes one to wonder if he has already lost control to the Revolutionary Guards and the conservative clerics who support them, or if he is simply in their camp. Leaders of the old guard understand that another four years of Ahmadinejad and his pro-Revolutionary Guard policies will diminish their own role to such an extent that they will in fact be at risk of losing their livelihoods and even their lives.

The question thus posed is whether a compromise between the two factions is possible. Can such disparate forces reach an understanding? What sort of compromise would make the faction of reformist, bazaar-connected, moderate clerics trust the faction of Ahmadinejad, the Revolutionary Guards, Yazdi, and Khamenei? Yet, if no compromise is achieved, Iran's economic time bomb will continue to tick.

Time is running short. If Ahmadinejad and the Revolutionary Guards are not reined in, Iran's economic and political structure could evolve into a dictatorship of paramilitary thugs and oligarchs controlling a monopolistic and corrupt system. Would that be acceptable to the majority of Iranians, rising numbers of whom will lack employment? ■