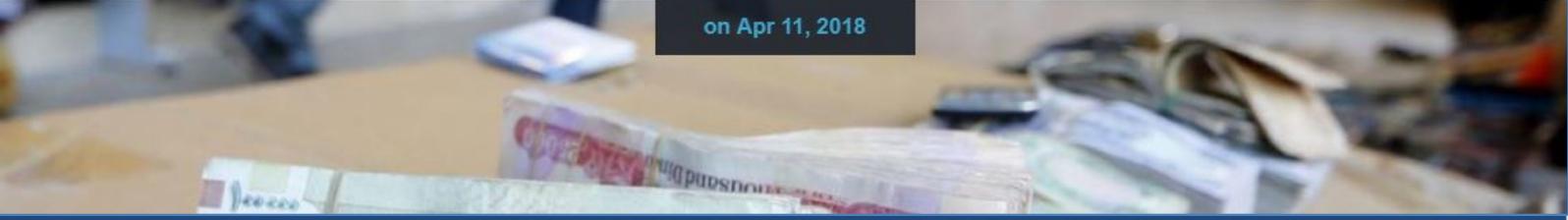




The Political and Economic Crisis in Iran, and its Social Dimensions



on Apr 11, 2018

This paper intends to provide a contextual understanding of the current political and social reality surrounding Iranian history, politics and identity while also focusing on the Iranian internal state of affairs and the relations with its neighbors. The economic structure of Iran is an important denominator for its behavior as a state. Economically, Iran is one of the richest countries in the Middle East and South Asian region.

The economic structure of Iran is an important denominator for its behavior as a state. Economically, Iran is one of the richest countries in the Middle East and South Asian region. One of the most important features of Iran's political economy is the *primacy of politics over economy*.¹ In other words, Iran's economy after the '79 revolution has always depended on the political atmosphere and political culture that overrule the society under the doctrine of self-sufficiency and self-reliance.

As a number of studies have argued, one of the main observations in industrialized economies is the importance of the middle class for development.² According to these studies, the historical role for the middle class in the social and political transition as a motor for early industrialization in developing countries, leads to the argument that in the case of Iran, a capable middle class should have been triggering reform and a democratic future after the '79 revolution. The Iranian middle class has failed until today to do so. A more inclusive political system requires a middle class of people whose economic position is independent of those in power.³ This article will shine a light on the role of the state in the economy and what this means for the position of the middle class.

Iran as a Rentier State:

After the '79 revolution, the revolutionaries' inherited an economy that in less than a century transformed from an agriculture-based system, which was led by a tribal dynasty, to a modern oil producing entity. Countries with wealth derived from [fossil fuels](#) and certain [minerals](#) often fail to grow at the same pace as countries which lack natural resources. This phenomenon, known as the

¹ http://shodhganga.inflibnet.ac.in/bitstream/10603/2024/12/12_chapter%204.pdf

² <https://opinionator.blogs.nytimes.com/2013/01/19/inequality-is-holding-back-the-recovery/>

³ Giddens, Anthony, *Capitalism and Modern Social Theory: An Analysis of the Writings of Marx, Durkheim and Max Weber*, Cambridge, Cambridge University Press, 1971. HM19 G53.

Natural Resource Curse⁴ is used to describe how countries rich in mineral resources were unable to use that wealth to boost their economies and how, counter-intuitively, these countries tend to have less economic growth, less democracy, and worse development outcomes than countries with fewer natural resources. In addition, the rentier state theory which claims that *any state that derives substantial part of its revenue from foreign sources and under the form of rent* reflects the Iranian economy, which is highly dependent on oil domination as for Iran, oil and gas revenues are the main source of foreign exchange earnings and fiscal revenues.⁵

As oil rentier states such as Iran can rely on substantial income of, *external rents*,⁶ there is a lesser need to tax the population. One of the social backlashes of this phenomenon is that the leadership is hardly accountable to their population as the flow of resource rents allows the state a certain degree of autonomy *vis-a-vis* its population, thereby indifferent against social and political pressures, according to the principal "*No taxation, no representation*".⁷

In resource poor or less resource abundant societies, free market principles leads to the overall creation of economic, governance and judiciary institutions. This in turn provides more representation to the population in the running of the affairs of the economy and state. The incentive however for the governments of rentier states to open up their economy to the free market principles is rather unlikely. Additionally, the idea of an increasing representative population challenging the principles of authoritarianism and the inherently decrease of the central authority's power, is in many cases simply not an option. The conditions and prevailing interests tend to lead to the implementation of military rule and authoritarian solutions to conflicts.⁸

The Islamic Republic of Iran: A Hybrid Political System

Although there are numerous indications that point to authoritarianism, the Iranian case is more complex than that. It is argued that the Iranian Constitution is a curious hybrid of theocratic, authoritarian and democratic elements.⁹ It is a constitutional, theocratic republic in which Shi'a Muslim clergy and political leaders vetted by the clergy dominate the key power structures, the supreme leader. Political scholars have categorized the Islamic Republic of Iran as an "electoral-authoritarian" regime of a new sort.¹⁰

The political system is composed of a complex network of elected and non-elected institutions that control each other along the decision-making process. The government has a legislature and a president, both selected by Iranian voters, but it also has a supreme leader, whose title makes clear that he has more power than the president and is not democratically elected. His power affects the whole political system. So it can be argued that Iran fits the picture only partly of how resources became a curse for the overall development.

Although the regime invested the revenue from oil heavily in arms and weapons to strengthen the regime's- internal as well as transnational- power base instead of funding the manifestations of

⁴ Jeffrey Frankel, "The Natural Resource Curse: A Survey," National Bureau of Economic Research, March 2010, accessed on March 17, 2018, <http://www.nber.org/papers/w15836>.

⁵ Cook and Mahdavy, *The Pattern and Problems of Economic Development in Rentier States: The Case of Iran*, 428-431; Beblawi, H., & Luciani, G. (Eds.). (2015). *The rentier state*. Routledge. 11-13

⁶ Herb, M. (2005). No representation without taxation? Rents, development, and democracy. *Comparative Politics*, 297-316.

⁷ Ross, M. L. (1999). The political economy of the resource curse. *World politics*, 51(2), 297-322. Chicago; Michael L. Ross, "Does Oil Hinder Democracy?" *World Politics* 53, no. 3 (2001): 332, accessed April 13, 2017, doi:10.1353/wp.2001.0011.

⁸ Clement M. Henry, "Algeria's Agonies: Oil Rent Effects in a Bunker State," *Journal of North African Studies* 9, no. 2 (2004), 68-72, accessed April 13, 2017, doi:10.1080/1362938042000323347.

⁹ Francis Fukuyama, 'Iran, Islam and the Rule of Law', *The Wall Street Journal*, 27 July 2009

¹⁰ Ibid

domestic development such as job creation and education, it became at the same time more effective in keeping the opposition at bay and more influential in world politics and less susceptible to international pressure by establishing democratic institutions. Logically, this is the sphere where the middle class comes in the picture as they can hold parts of the political structure accountable.¹¹

Middle class in Iran:

In recent history, we can roughly divide the traditional pre-revolutionary middle class under the Pahlavi monarchy, composed of petty bourgeoisie made up of small farmers, small producers, and a significantly different make-up of the modern, post-revolution middle class. Although the Islamic Revolution of '79 was a broadly carried popular revolt of different political and social groups demanding the resignation of the Shah, the Shi'a religious establishment directly afterwards took control of the revolution and crushed its former opposition allies while introducing deep changes within Iranian society.



The Islamic government from the beginning started to support the lower classes playing on the idea, supported by both religious and secular leaders of the Islamic Revolution- that the deposed Pahlavi monarchy deliberately had neglected agriculture and rural economic development in its efforts to create in Iran an imitation of a European urban, industrialized society. As a result a new Iranian middle class was shaped which was politically expedient as well as ideological. The Iran- Iraq war (1980-1988) and a new socio-economic reality led to rural exodus towards the cities and created an opportunity for the government to enforce its social justice principles by reconstructing a theocratic Shiite Persian-centric nation¹², tying the newly emerging social group to the government by subsidies and price reductions.¹³

At the same time, Iran witnessed the emergence of another political pillar in the merchant class, who were a powerful ally in the earlier years of the Islamic republic because they accounted for some of the most influential and wealthy components of society. The influence of the merchant class has overtime transformed in a growing educated working class ' elite' , which is much more vocal of its political and economic grievances.¹⁴

Disappointment of the Middle class:

Since the 1979 revolution, the Iranian society and its economy have been beset by a costly eight-year war, unremitting international pressure and isolation, as well as ideological conflict. The revolutionaries clashed over what constituted an Islamic economy— and whether growth or social justice should be the top priority. In the last decennia, Iran's socio-economic structure witnessed drastic changes.

¹¹ [https://www.li.com/docs/default-source/future-of-iran/the-future-of-iran-\(economy\)-oil-and-the-future-of-iran-a-blessing-or-a-curse-pdf.pdf?sfvrsn=2](https://www.li.com/docs/default-source/future-of-iran/the-future-of-iran-(economy)-oil-and-the-future-of-iran-a-blessing-or-a-curse-pdf.pdf?sfvrsn=2)

¹² <http://foreignpolicy.com/2013/04/03/irans-forgotten-ethnic-minorities/>

¹³ Farzanegan, Mohammad Reza, Pooya Alaedini, and Khayyam Azizimehr. Middle class in Iran: Oil rents, modernization, and political development. No. 56-2017. Joint Discussion Paper Series in Economics, 2017.

¹⁴ <http://www.inquiriesjournal.com/articles/1294/discerning-iran-exploring-the-motives-for-iranian-foreign-policy>

In the beginning of the eighties, one of the main consequences of the Iran-Iraq war was the economic adaptation program which completely transformed the basis of society, set into motion by the Rafsanjani administration (1989-1997) and which concentrated on the development of small and medium industries and the integration of the Iranian economy in the global economy.



The obstacles and implications for the internal market when in competition with the Chinese, cheap means of production were serious. A large part of the Iranian industry, especially consumer goods, was unable to compete with Chinese import.¹⁵

An increasing globalization, international economic crisis and international sanctions imposed on Iran, due to its foreign policies, in combination with an initial increase, followed by global plummeting, of oil prices has led to the formation of oligarchs, operating in financial and industrial domains on not only the internal markets, but who have additional regional ambitions as well. The Iranian economy became the stage of the predictable rentier state practices illustrated by a solid network of institutionalized corruption which -through a vast network of political and religious connections was able to monopolize the economical focal points. This network was mainly comprised through powerful groups in the government, (para) military organisations as well as private businesses.¹⁶

Conclusion:

It was the lower middle class that took the largest hit. Abovementioned developments had a serious impact on the variety of economic sectors and moreover, had drastic social implications for the cleavages between the urban sphere and the rural one, between classes and genders, leading to an increased inequality as well as social discrimination. The poverty and misery of the masses left the middle class with its hands tied in taking up the deliberating role that the middle classes can play in giving leverage to the voices of the lower and working class.

The recent uprisings in various parts of Iran are a manifestation of the economic mismanagement, the predictable rentier state practices and due to the institutionalized corruption, there is no one to turn to for accountability. The erosion of the middle class, dividing society even more on socio- economic cleavages, has shattered the ambitions of the working and lower- middle class, hoping for social mobility, while dealing with a decreasing standard of life due to rising unemployment and rapidly deteriorating living conditions.

Although the hybrid character of Iran's political system allows for some space for Iranians to maneuver, the population, and especially the *higher* middle class is cautious to put its accomplishments at risk. It is an increasing larger part of lower class that will eventually pay the price for that. Iran's ruling elite, that has been counting on the lower class as its main constituency, sees its legitimacy fade. The Iranian regime will have to address some of abovementioned grievances and question the stranglehold of the security state, therefore addressing the root cause of Iran's chronic unrest.

¹⁵ <https://www.mo.be/analyse/verarmde-bourgeoisie-in-iran-is-boos>

¹⁶ Khalaji, Mehdi (17 August 2007). "Iran's Revolutionary Guards Corps, Inc.". *The Washington Institute for Near East Policy*. Retrieved 17 March 2018.

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