From Populism to Economic Liberalism:

The Iranian Predicament

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For two decades, since the Revolution of 1979, Iran has been suffering from an acute economic crisis. This has been a crisis of the post-revolutionary type, the outcome of open social confrontations in defining a new social order when the old order has been negated by a revolution.[1] Three distinct phases depict the evolution of the post-revolutionary economic crisis in Iran. They are:

Phase I- **Revolutionary disruptions**, from the height of the revolutionary movement in 1978 to the purge of President Banisadr in 1981;

Phase II- **Islamic populism**, from the establishment of the rule of Islamic revivalist clerics in the Islamic Republic of Iran (IRI) in 1981 to the death of Ayatollah Khomeini in 1989; and

Phase III: **Liberalism of the post-Khomeini era**, which began in 1990, was accelerated in 1993, and was impeded by public opposition and factional disputes within the government, and came practically to a halt with the election of Muhammad Khatami, as the President, in May 1997.

I have previously studied phases I and II of the crisis and the reciprocal interconnection of the economic crisis with the transformation of politics in the IRI in these years.[2] Here I will focus on phase III of the crisis and will examine the economic liberalisation policy of the IRI. My main contention is that the IRI halted its economic liberalisation policy because it would have necessitated the IRI's unequivocal negation of its revolutionary claims and would have implied the formal abandonment of its remaining popular base. The responses of the IRI to the popular reaction to its economic policies, as well as the factional disputes within the regime over the implementation the liberalisation policy, indicate that the post-revolutionary character of the economic crisis is not yet completed and that the IRI has not been able to formally define and legitimize a new social order. Hence, I conclude that under the existing circumstances there is little chance for an economic liberalisation policy to achieve its objectives in Iran. In particular, I argue that, in any case, instituting a floating exchange rate for the rial is too disruptive and costly for the IRI to accept. Although Khatami's presidency may be viewed as a step toward mitigating the cultural crisis in the IRI, the resolution of the economic crisis is not in the horizon.

Below I will first outline briefly the general features of phases I and II of the economic crisis and will note the impact of these general economic conditions on the structure of the Iranian economy. Then I will examine the aborted attempt of the IRI in pursuing a liberalisation policy in phase III of the post-revolutionary economic crisis. In particular, I will examine the attempts of the IRI in unifying exchange rates, decontrolling prices and privatising state owned enterprises. At last, I will state my conclusions about the predicament of the IRI in pursing an economic liberalisation program.

Phase I- Revolutionary Disruptions

Economic disruptions began in the fall of 1978. Strikes in large enterprises were the prelude to the revolutionary disruption. Soon, takeovers and confiscations began. Some of the takeovers were 'natural' as the newly formed workers' councils took charge of the enterprises whose owners had fled the country.[3] In the summer of 1979, the Provisionary Revolutionary Government nationalised and brought under the state's ownership banks, insurance companies and many large manufacturing enterprises. Meanwhile, the Revolutionary Islamic Courts confiscated the assets of the 'anti-revolutionaries'. This brought under the domain of 'public' ownership a large collection of economic assets. 'Public' ownership in Islamic jurisprudence is distinct from state ownership. 'Public' properties are at the disposal of the Imam to be used in strengthening Islam and society of Muslims.[4] The Foundation for the Oppressed was formed in

1979, with the directive of Ayatollah Khomeini, to hold and manage 'public' assets. Soon, other foundations, such as the Martyr's Foundation and the Fifteenth Khordad Foundation, were formed.

The takeovers were extensive.[5] A popular wave had brought the sanctity of property rights and security of capital under attack.[6] The newly formed Islamic state, while defending the principle of private ownership, endorsed, and even at times promoted this popular wave as a means for mass mobilisation. The ethos of the IRI cast further doubt on the security of property. The Constitution asserts that 'the Iranian Revolution...has been a movement aimed at the triumph of all oppressed and deprived persons over the oppressor,' condemns 'concentration and accumulation of wealth and maximization of profit,' and diminishes the place of the private sector in the economy as the residual that will supplement the state and cooperative sectors (Article 44).[7] Although the Constitution recognizes 'legitimately acquired' private property (Article 47), the criteria (Article 49) are so vague that any property may be declared illegitimate. To these were added statements by Ayatollah Khomeini, such as: 'We will deal with these capitalists, whose capital and wealth could not have become so large from legitimate sources.'[8] Or, 'even if we assume someone has legitimate properties but the Islamic judge or *vali-ye faqih* realizes that an individual having so much will adversely affect the welfare of Muslims, he can expropriate those properties.'[9]

In this environment, production was severely disrupted. By 1980 there was a 20 percent decline in industrial output (Table 1) and investment of the private sector in machinery, a sensitive index of business outlook, declined to only 23 percent of the 1977 level (Table 2). When in 1979 the Provisionary Revolutionary Government provided 80 billion rials of easy credit (at the interest rate of 4 percent) for resumption of industrial activities, only 25 billion rials were borrowed by private enterprises.[10]

-- Table 1 ------------------------------------

Phase II- Islamic Populism

The mobilisation for the Iran-Iraq war and the need for increased output brought the IRI to extend some protection to property and encourage the private sector to resume production. At the same time, as the price of oil increased, Iran's oil revenues reached the $20 billion mark in 1982 and 1983 (Table 3). Consequently, by 1984, value added in manufacturing reached the pre-revolutionary level, although investment remained substantially lower than in 1977. Thus, there was a move toward normalisation of the economic conditions.

The IRI, however, did not possess an economic program for the post-revolutionary economic reconstruction. In the midst of the government's slogans on anti-dependency and economic justice, two factions dominated the debate. One faction, with a populist-statist tendency aimed for extensive control of the state over the economy, and the other, with a *laissez faire* market orientation, opposed the populist-statist tendency. After the fall of President Banisadr in June 1981, the clerics attained complete control of the state, and the confrontation between two factions of clerics came into the open, in a debate obfuscated by their vague scholastic discourse of Islamic jurisprudence. This battle was most clearly seen between the First and the Second Majles, dominated by populist-statist deputies, and the Council of Guardians, empowered by the Constitution to ratify laws passed by the Majles, and dominated by the proponents of a *laissez faire* policy. The Majles kept passing laws and the Council of Guardians kept rejecting them for being un-Islamic. Ayatollah Khomeini continued to oscillate in his support of these tendencies until his death in 1989.

Meanwhile, the IRI pursued only ad hoc economic policies to alleviate the most serious manifestations of the economic crisis, to provide for the war supply and the basic staples of mass consumption. The economic crisis was aggravated by the oil glut that began in 1985. It is no secret that the Iranian economy is highly dependent on the oil revenues, which has accounted for 85 to 95 percent of the annual exchange earnings of the country in the past decades. Any notable decline in the oil revenues imposes a serious real constraint upon the economy, in addition to the budgetary limitation that the government would face. More than 80 percent of Iranian imports are intermediate products and capital goods (Table 3). These imports are the life line of Iranian manufacturing industries. Foreign exchange earnings determines Iran's ability to import. [11] The economic crisis in the war economy intensified when oil revenues plummeted from $21 billion in 1983 to only $6 billion in 1986. Consequently, imports declined from an average of $16 billion between 1981 and 1984, to $11 billion between 1985 and 1988. The value of intermediate and capital goods, which had reached $17 billion in 1983, declined to only $8.7 billion in 1986. Consequently, the current account balance began showing a deficit, reaching to $5 billion in 1986 (Table 3), and Iran began relying on foreign borrowing to finance its import bill.

-- Table 2 --

The impact of the decline in imports on the Iranian economy was overwhelming. Between 1984 and 1988 all major economic activities suffered a decline. The only exception was agriculture, which because of its lower reliance on imported inputs managed to grow at the average annual rate of 1.3 percent (in constant prices) between 1985 and 1988. Nevertheless, in this three-year period, non-oil GDP and GNP, declined by 25 percent and 22 percent, respectively. The most serious effect of the decline in imports was on the manufacturing enterprises with more than fifty workers, which rely most heavily on imported intermediate products and capital goods. Their output and productivity in 1988 was about one-third less than what it was in 1984.[12] The impact on investments was also acute. Between 1984 and 1988 total investment declined by 56 percent, and investment in machinery (mostly imported) decreased by 70 percent (Table 2).

-- Table 3 --------------------------------------

Structural Involution

In these circumstances, political instability and turmoil continued to disrupt the accumulation process, and capitalist relations of production, in general. Low investment rates, low rates of capacity utilisation, and the decline in output were manifestations of these interruptions. The impact of the crisis on the economic structure must be seen, however, in the context of the contradictory articulation of capitalist and pre-capitalist modes of production in economies like Iran. [13]

I contend that the post-revolutionary crisis involves more than just an economic decline. The inability of the state in facilitating the production process, and the antagonism expressed toward capital and property cause a general retrenchment of capital and the capitalist relations of production. The other side of the coin is an expansion of petty-commodity production in the economy. This is a degenerative process, creating tangles within the existing economic structure, obstructing the accumulation process and aggravating the economic crisis. This gives rise to what I have called 'structural involution'.[14] Structural involution is manifested in sectoral shifts in production and employment, and in the increased peasantisation of agriculture, de-proletarianisation of the labour force, and a huge expansion of service activities in a myriad of occupations such as those held by small retailers, street vendors and moonlighting cabbies.

Between 1976 and 1986, the number of 'small' manufacturing enterprises (with less than 10 workers) increased by one-hundred percent, to about 330,000.[15] In 1987, these enterprises made up about 97 percent of all manufacturing establishments. On the other hand, 10,000 ‘medium-sized’ firms (with 10-49 workers) and 1,300 ‘Majors’ (with more than 50 workers) produced 61 percent of the manufacturing output and employed about 50 percent of manufacturing workers. Between 1976 and 1987, the average size of small enterprises increased from 1.9 to 2.3 workers (21 percent increase), while the size of the Majors increased from 294 to 407 workers (38 percent increase). In the same period, however, medium-sized firms became smaller, on the average, from 29 to 18 workers (37 percent decrease).[16] Thus, in spite of an increase in the number of these firms, their share of employment in manufacturing decreased from 18.5 to 13.2 percent. The fall in the output share of these firms was larger than the decline in the share of all large industries (with ten and more workers). That is, between 1976 and 1987, as the share of large industries in total manufacturing output fell from about 84 to 60-70 percent, the share of medium-sized firms in the output of large industries declined from 28 to 24 percent. Hence, as industrial output stagnated between 1976 and 1987, the medium-sized enterprises were squeezed from both sides, by a mass of small workshops on one side and the huge state-owned corporations on the other.

Structural involution is manifested in the changes of the occupational stratification of the work force. These changes reflect, more than anything else, a process of de-proletarianisation of the working class. Between 1976 and 1986 the number of industrial wage workers (including government employees) declined by 11.3 percent, from 1,051,000 to 932,000. On the other hand, the number of self-employed workers engaged in industrial activities increased from 309,000 to 444,000 (43.7 percent) (Table 4). In the urban areas, the number of industrial wage workers declined from 713,000 to 651,000 (8.7 percent), and the number of urban self-employed workers in industrial activities increased from 178,000 to 289,000 (62.4 percent).[17] That is, the proportion of self-employed industrial workers increased from 17 to 28 percent of the urban industrial labour force. The increase by more than 100,000 in the number of urban self-employed industrial workers accounts for most of the growth, indicated above, in the number of small manufacturing establishments between 1976 and 1987. Therefore, the majority of small manufacturing enterprises were no more than one-worker workshops that mushroomed around a battered capitalist economy. These workshops are simply a reservoir for unemployed workers.

The main area of increase in employment was in services. Between 1976 and 1986, total employment grew by about 2.2 million, to 11 million (Table 4). Ninety-one percent, or about 2.0 million of these newly employed positions, were in the service sector, and the government accounted for 68 percent of the new jobs in services. Meanwhile, industrial employment declined by 13 percent to 1.6 million. Similar to the pattern of change in industrial employment, the overall employment structure shifted from wage labour to self-employed workers. In 1976, self-employed workers made up 32 percent of the total labour force; in 1986 they accounted for 40 percent (Table 4). The number of self-employed workers in all major urban and rural activities increased substantially. In the same period the number of wage workers in the private sector declined by more than one million workers. The decline in the number of wage workers was not the consequence of the increase in the number of government employees in this period. Less than 300,000 of the 1.8 million increase in the number of government workers were for non-service activities which might have replaced the activities of the private sector, and potentially brought wage workers of the private sector into government employment (about 220,000 in manufacturing). In 1986, the other 1.5 million of new government workers were employed in the activities that traditionally have not competed with the private sector, including an addition of 900,000 in the various military and paramilitary activities. A slower expansion in government employment would have increased the number of self-employed or unemployed workers. Therefore, the increase in the number of self-employed workers and the decline in the number of wage workers reflect a change in the organisation of production independent of the increase in government employment.

-- Table 4 --

In services, the increase in the number of self-employed workers is more than what it takes to account for the increase in the non-governmental activities of this sector. The number of self-employed workers in services nearly doubled between 1976 and 1986 to 1.2 million, 929,000 of whom were in cities. Out of this, no fewer than 600,000 were shopkeepers. Another 300,000 were 'taxi' drivers of various sorts. These are the occupations that have traditionally attracted the otherwise unemployed workers.

End of Populism?

Structural involution, above all, reflects retardation of the accumulation process by the state and the private sector. It leads the economy into decay. Between 1977 and 1988 national income per capita declined by nearly 50 percent and urban unemployment increased from 4.4 to 18.9 percent. Populist policies of the IRI reduced the impact of this decline on the level of consumption of the population. In this period, private consumption expenditure per capita in the urban areas fell by 30 percent and that of the rural areas by only 19 percent.[18] The cost of this populist policy was the decline in capital accumulation. The investment of the private sector in 1987-1990 was about half of what it was in 1977 and the state's investment was about one-quarter of the 1977 level (Table 2). Once capital depreciation is accounted for, little net investment was made throughout these years.

In the midst of the economic crisis a new monopolistic structure began replacing the one that became dysfunctional by the revolution. The conglomerate network of the 'revolutionary foundations,' and the group of emerging entrepreneurs, who were close associates of the regime and benefited from the many privileges of this association, dominated the market. For example, the volume of transactions of the Foundation for the Oppressed in 1994 was 6,000 billion rials (total tax revenue of the government in that year was 5,500 billion rials). Through 400 companies, the Foundation for the Oppressed produces 70 percent of glass containers, 53 percent of motor oil, 43 percent of soft drinks, 27 percent of synthetic fiber, 26 percent of tires, 20 percent of sugar, 20 percent of textiles, and 30 percent of dairy products in Iran. It owns 43 percent of hotel capacity of the country and in 1994 produced 2.4 million square meters of construction. It is also the contractor for building a highway between Tehran and the Caspian Sea. It is the largest economic entity in the Middle East.[19]

The giant ‘revolutionary foundations’ and the networks of their affiliated enterprises have benefited from special privileges and have reaped extremely attractive profits over the years. The foreign exchange gap and the shortages that developed in the market accentuated the monopolistic position of these networks. Meanwhile, the ‘un-affiliated’ enterprises were deprived of the essentials for keeping their business running. The battered and denigrated bourgeoisie that had survived the revolutionary turmoil was no match for state enterprises, ‘revolutionary foundations’, or even the merchants who had close association with the regime. Realizing that the normalisation process holds little promise for its rejuvenation, the bourgeoisie took its battle to the political arena and raised the banner of economic liberalism, demanding denationalisation (privatisation) of industries and deregulation of the market.

Two other concurring developments helped to advance the cause of economic liberalism. First, the public had become disillusioned with revolutionary rhetoric and worn out by the prevailing state of siege. Its standard of living had been declining and it had become the seemingly unlimited supply of martyrs for a war whose senselessness was becoming everyday more apparent.[20] The foreign exchange gap had intensified this state of public disenchantment. Faced with the shortage of foreign currency and the persisting need for war mobilisation, imports of items of mass consumption, which were relied upon to mitigate domestic shortages, declined by nearly fifty percent between 1983 and 1988.[21] If these were not enough, the economic burden of the public increased as the government began raising indirect taxes and the price of services that it provided in order to ameliorate its budget deficit, which had increased by the declining oil income and the falling revenues from import taxes. As the economic burden increased, and the revolutionary fervor subsided, people's longing for a program of peace and prosperity intensified

Second, the acute foreign exchange crisis and the chronic deficiency in the level of domestic investment brought the IRI to abandon its cardinal revolutionary principle in rejecting foreign capital. As it was revealed subsequently, in these years the IRI had begun borrowing to finance its imports. The matter was kept secret to avoid public embarrassment. By 1989, the IRI owed $12 billion for its short-term borrowing.[22] Moreover, the First Economic Plan, approved by the Majles for implementation in the years 1989-93, projected $28 billion external borrowing for the duration of the plan.[23] This estimate was made with the unrealistic assumption that Iran's exports earning for these years would reach $17.8 billion.[24] Attracting this large sum of foreign capital to a country that had suffered from economic sanction and other forms of international financial isolation is an overly optimistic expectation, if not wishful thinking. Nevertheless, Iran began normalising its international relations by accepting, on 20 July 1988, the U.N. Cease Fire Resolution 598 to stop the eight-year war with Iraq. Furthermore, the IRI sought the economic consultation and policy advice of the World Bank and the IMF (International Monetary Fund) in anticipation of borrowing from these institutions and with the expectation of acquiring their seal of approval to enhance its borrowing potential with other lenders.

In June 1990 the World Bank-IMF mission visited Iran and was impressed by Iran's 'determination' to commence an economic liberalisation policy.[25] The approval of the World Bank for Iran's move toward 'opening up its economy' was expressed by extending to Iran a number of loans amounting to $850 million, before the U.S. opposition in May 1994 blocked any loans to Iran, including a $400 million proposal on the table.[26]

Phase III- Economic Liberalisation

The liberalisation policy of the IRI began in 1990, coinciding with the fortunate increase in Iran's oil revenues to $18 billion in that year (Table 3). This increase in oil revenues was the combined outcome of an increase in Iran's output, from 2.2 barrels a day in 1986 to 3.5 barrels a day in 1990 (due to reconstruction of the production capacity after the cease fire agreement with Iraq) and the increase in the world price of petroleum, from $8 in July 1986 to the average of $20 in 1990 (because of the Persian Gulf war and the exclusion of Kuwait and Iraq from the oil market).[27] By 1991, Iran's imports had increased to the unprecedented mark of $25 billion and the import-dependent economy expanded. Non-oil GDP grew by 8.5 percent, 10.4 percent and 7.2 percent, in constant prices, in 1990, 1991, and 1992, respectively. This expansion was an added encouragement for the IRI to pursue economic liberalisation with its three essential components: 1- exchange rate unification and floating the currency, the rial; 2- decontrolling prices and eliminating subsidies; and 3- privatisation of the state owned enterprises.

The logic of the liberalisation policy is that when state control over the exchange rate, production and prices is eliminated, scarce resources (including foreign exchange) would be allocated by the forces of the market. That is, the highest bidders, presumably the most productive (profitable) enterprises, would receive the available resources and those who cannot match the higher bids would have to leave the market empty handed. Thus, some activities, or even sectors, would contract and others would expand. This is the 'structural adjustment' that is expected to take place. The outcome would be more exports, less imports, higher output and less unemployment. The proponents of economic liberalisation and structural adjustment note that this is a policy toward adding transparency (*shaffafiyat*) to market transactions, meaning that it would become clear why resources are moving toward any particular poles. It also means that the situation would reflect the logic of the working of the market: those who have the means would get all they want, those who don't are out of luck. This is the controversial dimension of any structural adjustment policy, and any politician would attest to the political dangers of plunging into this seemingly attractive policy. Let's consider the complexities of the liberalisation policy in Iran.

Foreign Exchange Liberalisation

The most crucial aspect of the liberalisation policy is foreign exchange realignment. In 1982, with the first appearance of current account deficits in 1980 and 1981 ($2.4 billion and $4.8 billion, respectively), some experts in the Planning and Budget Organisation proposed the devaluation of rial to close the foreign exchange gap. This view was opposed by the economists of Bank Markazi Iran, but the issue was kept out of the public arena for the obvious reason that a devaluation of rial would have meant a serious setback for the IRI. In 1986 the issue was raised in print, I believe for the first time, by Patrick Clawson (with the pen name of Wolfgang Lautenschlager) in an article in *International Journal of Middle East Studies*.[28] There, Clawson suggested that overvalued rial has had a strong adverse effect on the Iranian economy. His main point was that the inflow of cheap imports resulting from the overvalued rial, has caused a decline in the market share of Iranian industries. He maintained that 'if Iranian industry had not lost this market share, its output would possibly have been as much as one-third higher.'[29]

Clawson saw the overvalued exchange rate policy of the IRI as ploy 'to meet the interest of bazaar merchants' against 'their major competitor ... namely , modern industry.'[30]

In an article in the same journal in 1988 I argued that Clawson's analysis, or what I call the 'devaluation thesis', understates the complexities of the Iranian economic structure and Iran's economic conditions.[31] My main argument was that maintaining an overvalued rial and a multiple exchange rate system has been an instrument of the IRI's industrial and social policy. The overvalued exchange rate policy makes it possible for the IRI to run a highly import-dependent industrial structure and to minimize, at least in the short-run, the deterioration of the standard of living of the Iranian population. I maintained that the implications of a devaluation, to the extent necessary for overcoming the foreign exchange gap, are much more grave for the IRI than the 'devaluation thesis' suggests. Then, at that time, I asserted that the IRI will continue maintaining exchange control with a system of multiple exchange rates because it does not dare facing the economic and political consequences of a floating currency.

The artificially low foreign exchange price has provided Iranian industries with low-cost imported inputs. Many manufacturing enterprises of Iran were established between the mid-1960s and the mid-1970s, when 'cheap' foreign exchange was becoming ever more abundant, thanks to the increase in the volume and price of Iranian oil exports. Since the largest portion of Iranian imports are industrial inputs with few domestic substitutes, Iran's demand for imports (thus for foreign exchange) has a relatively low price elasticity. That is, only a large devaluation would have any appreciable effect in reducing imports. At the same time, the impact of devaluation on exports earning is minimal because Iran's main source of foreign exchange earning is from exports of oil, which is independent of the rial's rate of exchange. Oil prices are determined in dollars in the international market, and the volume of Iran's exports of oil depend on its international market considerations (determined by the OPEC quota, or on its own) but not by the rial cost of production of oil. The non-oil exports constitute such a small fraction of the total value of exports that only major increases in their earning can make an appreciable effect on Iran's foreign exchange gap.

The issue is accentuated by the fact that non-oil exports have a large import content. According to a report by the Ministry of Agriculture, for example, foreign exchange requirement for producing a ton of apple is $460, for oil seeds $319, and for almonds $981.[32] The same is true for many manufactured exports. For example, Jamegan, which produces TOC-TOC jeans and shirts solely for export to Europe, needs to import two thirds of its required material.[33] Production and exports of these goods are profitable because in the system of multiple exchange rates the producers pay for foreign exchange (to import their inputs) at a fraction of the price that they get from selling their foreign exchange earnings (from exporting their products). The IRI managed to increase non-oil exports since 1990 by maintaining a high spread between the cost of foreign exchange that is available to the 'export' enterprises for buying their imported inputs and the price that that these enterprises can fetch for their 'earned' foreign exchange.[34] Therefore, the net foreign exchange earning of non-oil exports is significantly less than the value of these exports indicates. In other words, some of the non-oil exports are no more than 'exports of the oil revenues, repackaged in another form.'[35]

With these supply and demand considerations for foreign exchange one can conclude that overcoming even a small foreign exchange gap necessitate a very large devaluation. This is not to say that a devaluation does not have a positive impact on the size of the foreign exchange gap. It does. Hashem Pesaran shows that Marshall-Lerner condition is indeed satisfied in the case of an oil exporting country such as Iran.[36] That means that a devaluation will reduce (*and will not increase*) the size the foreign exchange gap. The fulfillment of Marshall-Lerner condition (also referred to as stability condition) is not the problem. The issue is that because of low elasticities on the inpayments and outpayments sides, the foreign exchange market has a low degree of responsiveness to exchange rate changes. That is, devaluation will reduce the foreign exchange gap, but only at very small increments for any given rate of devaluation. Furthermore, any small fluctuation in the supply of foreign exchange (most frequently in the oil revenues, resulting from a change in the price of oil) or in the demand for foreign exchange (resulting, for example, from an increase in domestic output and higher need for imported inputs) would give rise to large changes in the equilibrium price of foreign exchange. Therefore, not only is devaluation minimally effective, but also it is needed frequently with very high doses in order to rectify short term fluctuations. Thus, the impact of such a high and frequent devaluation on the economic structure and the political landscape are factors that creep into the equation for maintaining economic and political stability in the oil/import dependent economy of Iran.

Devaluation has drastic effects on an economy so dependent on imports. A 100 percent devaluation of the rial would increase by as much as 50 percent the input cost of an average manufacturing establishment in Iran, which imports half of its inputs.[37] This is without taking into account the increase in the cost of domestic inputs resulting from the devaluation. Such a large increase in production cost cannot be possibly absorbed by any increase in the efficiency in production, be it from privatisation of these enterprises, or any downsizing efforts at the factory level. Simply put, many enterprises depending on imported inputs will have to shut down if they cannot receive their dose of subsidized foreign exchange. A sharp increase in the rate of inflation is the inevitable outcome of the devaluation.

In March 1993, after some gradual moves toward economic libralisation (decontrolling some prices and reducing some subsidies), and with optimism reflecting the high oil revenues of the previous three years (Table 3), the IRI floated the rial. Previously, the principal rates of exchange were $1=IR 70, for governmental and defense orders, and $1=IR 600, for favored enterprises which received foreign exchange quotas. There were also a myriad of rates for exports, travelers and students abroad, etc. The rial initially floated at the rate of $1=IR 1,540. But even this huge depreciation of the rial (an increase of 157 percent in the price of foreign currency) was not sufficient to close the foreign exchange gap.[38] In the following months, the price of oil, and thus Iran's oil income decreased, as the demand for imports began to increase (after the initial decline due to depreciation of the rial) when domestic prices escalated (Table 5). Obviously, with a fall in supply and an increase in demand, price would rise. So did the price of foreign exchange, and the rial depreciated further. Meanwhile, the need to pay off the short-term loans accumulated in the years of high imports (1990-1992, see Table 3) put Bank Markazi under an additional pressure. These together pushed up the value of foreign exchange. In December 1993, Bank Markazi fixed the 'float rate' at $1=IR 1,750. But as the rial continued to depreciate, the spread between the 'float rate' and the free market rate increased. In October 1994, the U.S. dollar was traded in the free market for 2,500 rials, and in March 1995 for 4,500 rials. By early May 1995, the speculative demand for foreign exchange caused the value of the rial to fall to 7,000 rials per dollar. In response, Bank Markazi, while maintaining the fixed value of the 'floating' rial at 1,750 per dollar (for those who have import licenses), raised the official value of the dollar for export earnings to 3,000 rials.

Thus, the experimentation with a floating currency was officially over, although, in reality, it did not last any more than a few weeks. Bank Markazi retreated from its foreign exchange liberalisation policy and imposed a complete exchange control. The non-official free (black) market rate outside of Iran in December 1996 was around $1=IR 4,900 and it stayed within that range in the subsequent months, until the spring of 1998, when the fall in oil income pushed the foreign exchange value to around IR 6,000 per U.S. dollar. On 12 April 1998 the dollar appreciated in the black market to 6,300 rials, but returned to 5,500 in the early days of May.[39]

The new system of multiple exchange rates: Faced with the failure of the floating exchange, the IRI has been reconstituting an elaborate system of multiple exchange rates. The main features of this system of multiple exchange rates is explained in a 1997 official publication of Bank Markazi.[40] The official exchange rate, fixed at $1=IR 1,750, is 'applied to oil exports receipts, imports of essential goods and services, debt service, and imports related to large national projects.'[41] The exchange rate for exporters 'is fixed from time to time,' but has remained at $1=IR 3,000 since May 1995.[42] Exporters were required to repatriate and sell to Bank Markazi all of their foreign exchange earnings. But even a rate more than 70 percent higher than the 'official rate' was not sufficient for promoting the non-oil exports of Iran. Non-oil exports declined from nearly $5 billion in 1994 to about $3 billion in 1996 (Table 3).

In 1996, a new provision made it possible for the exporters of manufactured products to use fifty percent of their foreign exchange earnings for importing items on the 'authorized' list.[43] Exporters of other non-oil exports could use only thirty percent of their export earnings for buying imports. Rug exporters, however, managed to receive the special advantage of being able to use 100 percent of their earnings for imports. To give a further boost to non-oil exports, in June 1997, exporters were allowed to transfer, through Tehran Stock Exchange, their foreign exchange allotment to others who would pay a premium to buy their 'right to import'. In July 1997 the premium was about IR 1,700 which would bring the exchange rate for the traded currency to $1=IR 4,700.[44] In January 1998, the government extended the 100 percent privilege of the rug exporters to all other exporters. Meanwhile, the enterprises that manage to receive foreign exchange quotas at the official rate pay only 1,750 rials per dollar to import their industrial inputs and capital goods. If the price of foreign exchange traded in the Tehran Stock

Market is an approximate reflection of the true rate of exchange in Iran, these lucky enterprises were paying in January 1998 only 37 percent of the true cost of the foreign exchange that they receive. By the early 1999, when the value of dollar in the "black market" passed the mark of 8,000 rials, and the dollar exchanged in the stock market reached 6,000 rials, this percentage was even less.

The multiple exchange rate system of Iran includes special rates for tourists and students as well as for those seeking medical treatment abroad. The decline of foreign exchange revenue in the spring of 1998 as brought the government to devalue some of these rates. For example, Iranian tourists, entitled to $1,000 at the official export rate, after 21 March 1998 had to purchase their foreign exchange allotment at the rate of 4,720 rials per dollar.[45] Similarly the price of airline tickets for travelling abroad, purchased domestically, was raised about 60 percent to account for the devaluation of the exchange rate for Iranian travelers.[46]

It is doubtful that the IRI would submit itself to a free market of foreign exchange. The brief experimentation in the working of a floating currency showed that the market is too erratic and the political stakes are too high to warrant the risk of submitting to a free or even a managed float. The 'free market' of foreign exchange has already regained its old and dubious title of 'black market.' The operators in this market are no longer referred to as 'dealers' or 'agents' but as 'smugglers' and 'disruptive, opportunist elements,' 14,000 of whom were arrested and fined by the government agents in May 1998.[47] With an expected 25 percent decline in Iran's foreign exchange earnings in 1998-1999, more restrictions, more devaluations, and a more elaborate system of multiple exchange rates are expected. In October 1998, Bank Markazi made it clear that it would not consider floating the rial before March 2000.[48]

Politics of Wage and Price Liberalisation

Devaluation has an inflationary impact on the domestic economy. Price of imports increases, and so would the price of those goods with import content. If the devaluation has any notable impact on the international demand for exports, the domestic price of the exportables would increase, too, especially when capacity expansion is limited due to various internal economic constraints. Nearly all prices change to accommodate the changes in price of tradable goods. In the two years (1993 and 1994) following the devaluation, the wholesale price index increased by 78 percent, and consumer price index by 96 percent. As expected, products with a higher import content had a higher rate of increase in their prices. The rise in the price of chemicals and transport equipment, the most import dependent industry groups in Iran, far exceeded the rise in the general wholesale price index (Table 5).

The price effect is expected to remedy the foreign exchange gap from two avenues. First, with the price increase for imported goods and goods with a high import content, domestic demand would shift toward the domestic alternatives, provided that the price of these product does not increase in step with the increase in the price of imports and those with high import content. Second, if the rate of inflation in consumer prices is not matched by the increase in nominal wages, real wages would decline, reducing real income of the largest group of urban consumers, and consequently, causing a fall in the demand for domestic and for imported products. The lagging wage rate effect is appealing to the policy makers because it is anti-inflationary and would, at least partially, compensate the increase in the demand for imports due to the rising domestic prices, and would help to promote exports by containing the labour cost of production.

It is in this context that one may view the emphasis of the proponents of liberalisation policy on cutting subsidies and raising the price of products of mass consumption offered by the government. These policy measures not only would divert some resources from producing these products, whose cost of production is higher than their subsidized market price, they would also help to reduce the real income of a large mass of population and thereby reducing the demand for other products, many of which are imported, have high import content, or are exportable. For example, as the fare for the subsidised urban transportation is increased or the subsidy for bread is cut, the typical urban dwellers end up allocating a larger share of their household budgets for these expenditures, in spite of taking, say, fewer bus rides and buying less bread.[49] To the extent that the urban dwellers pay more of their income for taking bus rides or buying bread, they would have less to spend on buying a new television set, or a hand woven Persian rugs. Thus the demand for television, which has a high import content, and the domestic demand for Persian rug, which is an export product, fall and as a result the demand for imported goods will decrease and more rugs may be exported.

But all this is achievable at the cost of reducing the standard of living of the general population, which, as the proponents of liberalisation policy see, is in itself a blessing for the economy. This is so because the inflationary trend, and subsequently the decline in real wages and standard of living, reduces the distributive share of labour and augments the share of capital (profit) in the economy. Consequently, as the argument goes, private consumption would decrease and the possibility for investment would increase. This would potentially increase productive capacity, employment and output. As attractive as these possibilities seem, it is the mass of population that must pay the cost of the increased investment today, in return for uncertain benefits for the wage earners of tomorrow.

In 1993 and 1994 liberalisation of the market became accelerated. Many prices were let free and the government began raising the price of goods and services that it provided. The price of natural gas, telephone, post, electricity, inter-city trains, airlines, and urban public transportation increased, some by more than one hundred percent. The rate of inflation in 1994 was officially marked 59.6 percent (Table 5), although the Tehranis and the inhabitants of other large cities may have felt a sharper reduction in the purchasing power of their rials. The adverse impacts of the liberalisation policy on the urban population raised the level of public discontent and intensified the factional discord within the regime. Fearful of the political impact of the inflation, the Majles deputies spoke out in opposition to the liberalisation policy and its effects on the 'ordinary people'. A deputy declared that 'mismanagement of the government has provided a fertile ground for hoarding and profiteering.'[50] The Majles began obstructing government's attempt in raising the price of the services and products that it provided, and it even passed the first draft of a bill to dissolve the Supreme Economic Council (which had approved price increases) and to have the Majles take over the matter of prices.[51] Although that bill never became a law, the government seemed to have welcomed the concern of the Majles deputies. By October 1994, programs were announced to combat inflation by controlling prices and every government official and leader of the Friday prayer condemned profiteering and price gouging. The Minister of Justice declared that the death penalty could be the punishment of big retailers if they gouge prices.[52] In November, Ali Khamne'i, the Supreme Leader of the Revolution, expressed his support for the anti-profiteering policies of the government.[53] Two days later, President Hashemi Rafsanjani, leading Tehran's Friday prayer, underscored his government's commitment to a battle against inflation. He stated that anyone who opposes this efforts would be 'annihilated'.[54] Yet, on the same days, the Majles in spite of being dead-set against price hikes, approved, as a part of the Second Development Plan, a 100 percent increase in the price of gasoline, and annual increases of 20 percent for the next five years in the price of gasoline and other petroleum products. Thus, the price of gasoline increased from 50 rials to 100 rials per liter (15 cents per gallon) beginning March 1995.[55] Although there was much reaction to the energy price hike (taxis increased their fares by as much as 50 percent), the price increase could hardly match the rate of inflation and remains significantly lower than the international price. The government pays $400 to $900 million a year to import additional amounts of petroleum products to satisfy the domestic demand. The effective subsidy for maintaining the energy prices is currently about $11 billion a year.[56]

--- Table 5 ---

In this way the IRI began a zig-zag strategy to pursue economic liberalisation. It pushed forward where it could, mainly in the arenas that were inconspicuous, and gave in when public discontent mounted. As riots and demonstrations in opposition to government policies (e.g., in Mashhad, Qazvin, Arak, Akbarabad and Islamshar) became elements of political negotiation, the parameters of public tolerance gained higher importance in the equation of political stability. Demand for wage increases were accommodated under pressure and ignored otherwise.[57] Thus, salaries of government workers (4.25 million workers out of 14.6 million working population – see Table 4) were increased occasionally to partially catch up with the consumer inflation. The official minimum wage rate was also increased periodically to compensate for the rising prices (Table 5). Ironically, the main beneficiaries of the increase in the minimum wage rate are workers in state enterprises and large corporations, who generally receive higher wages and in addition are entitled to a series of fringe benefits, which are calculated based on the official minimum wage rate. In the low end of the wage scale, little is gained because the minimum wage rate is substantially lower than the prevailing rate for unskilled workers.

Figure 1 presents the changes in the nominal wage rate of construction workers (skilled and unskilled), the official minimum wage rate, the wage rate (including benefits) of workers in large (50+ workers) enterprises, in contrast with the changes in the consumer price index. It is distinctly clear (see also Table 5) that while the minimum wage rate and the wage rate (including benefits) of the workers in large enterprises increased substantially faster than consumer prices, wages of construction workers lagged behind the inflationary trend, in spite of an urban construction boom in these years. In 1996, about 563,000 workers were employed in enterprises employing more that fifty workers,[58] and 1.65 million were employed in construction activities.[59] Although the wage rates for all major groups of workers are not available, the indications are that some groups among the urban workers have managed to stay in pace with the price increase, while some clearly have not. The overall effect should be reflected in the changes in consumption expenditure, which we will examine below.

--- Figure 1 ---

Privatisation

The third component of the libralisation policy was privatisation of state owned enterprises, to increase their efficiency of by making them subject to the forces of the market. Employment, production and pricing decisions in state-owned enterprises are made with political considerations. Thus, these enterprises may hire more than the optimum number of workers, pay them higher than market wages, produce more or less than the optimum output and price it lower than the profit-maximizing firm would. All of this would generate economic inefficiency and would inhibit capital accumulation in the economy.

Between 1976 and 1986, the number of government employees had increased by 107 percent, hence, in 1986, almost one-third of workers were employed by the government (Table 4). The dominance of the state in the economy was also reflected by the state's share in manufacturing production, noted at the outset, and its share in capital formation. In 1990 when the early attempts for liberalisation began, investment (in machinery and construction) by the public sector was 46 percent of the total in the economy. In the same year, the share of public current expenditures in Gross Domestic Expenditures (GDE) was 11 percent (Table 6). Together, state accounted for 28 percent of the GDE.

In 1991 the government announced its intention to privatise four hundred nationalised enterprises.[60] The initial limitations in the privatisation policy of the IRI was the legal and political constraints in its offering of various state enterprises for privatisation. First, the Constitution of the IRI specifies a number of major activities as the monopoly of the state. Article 44 of the Constitution declares that 'the state sector is to include all large-scale and major industries, foreign trade, major mineral resources, banking, insurance, energy, dams and large-scale irrigation networks, radio and television, post, telegraphic and telephone services, aviation, shipping, roads, railroads and the like.'[61] Although foreign trade is listed among these activities, the Council of Guardians opposed all attempts of the Majles in legislating a law for nationalisation of foreign trade. With this major exception, all activities named in Article 44 are off limit to the private sector. Any attempt for privatisation of nationalised enterprises in the above list would require a revision in the Constitution. About thirty enterprises (of the 2,400 owned by the state), mainly in oil, petrochemicals, steel, water and electricity, constitute about 90 percent of the state sector.[62]

-- Table 6 --

Second, 'revolutionary foundations' have been, de facto, exempted from the privatisation policy since they claim to be under 'public' ownership.[63] These colossal conglomerates are neither subject to the forces of the market, nor to the budgetary and accounting scrutiny of the government. They operate under the direct supervision of the Supreme Leader of the Revolution and manage their activities and their profits to promote the welfare of the Muslim community, as they and the Supreme Leader of the Revolution see fit. They dispense their profit by paying the family of martyrs, veterans of the IRI's wars, and engaging in activities that they believe would advance the cause of Islam, like allocating a reward for assassination of Salman Rushdi, and financing Islamic movements in various parts of the world. Their sheer economic and political power has prevented any discussion of making the slightest limitation in the expanding domain of their activities, much less privatising them. The Foundation for the Oppressed in particular has expanded its activities into spheres that have been set aside for the state sector, like trans-ocean shipping and air transport, and is trying to enter the arena of finance, to compete directly with the state owned banking system.[64]

Privatisation of the four hundred enterprises confronted major obstacles. The initial criticism of the policy was the consideration of 'economic justice' and the absence of any limits on concentration of ownership over these enterprises. At least in two cases the government agreed to take back the privatised enterprises after workers protested the privatisation of their companies.[65] In July 1994, the Majles passed a law to stop offering the stock of these enterprises in the Tehran Stock Exchange until the conditions could be determined for offering the stocks first to the families of martyrs of the revolution and veterans of the war.[66] Yet when all these matters were resolved, the enthusiasm for purchase of these enterprises was limited and, ironically, much of what was sold was purchased by the 'revolutionary foundations'. There is, however, no clear account of the degree of success of the government in selling off these enterprises and the new structure of their ownership. An amendment to the 1998 budget requires the government to complete the privatisation of the enterprises under its ownership within that budgetary year. As of this writing, there has been no indication of any new developments on this issue.

Structural Adjustment

With the oil revenues averaging over $19 billion in 1990-1996, Iran had some of its more fortunate times. The IMF, which regards this an ideal condition for pursing a liberalization policy, has expressed its displeasure about the zig-zag strategy of the IRI and its limited success in opening the market to the private sector.[67] After seven years of pursuing a privatisation policy, the state (including the ‘revolutionary foundations’) remains the dominant actor in the economy. Between 1986 and 1996, the number of government employees instead of declining, increased by 23 percent.[68] From the 804,000 new government employees, 251,000 were added to state industrial enterprises, where the privatisation is expected to have been pursued most vigorously (Table 4). Meanwhile the state’s share in allocation of domestic output has also increased. Public current expenditures, in current prices, increased from about 10 -11 percent of GDE in 1990-1992, to around 13 percent in 1993-1996. At the same time a notable increase is shown in the share of the public sector in investment. In 1994-1996 public investment, in current prices, accounted for no less than 44 percent of the total (Table 6). One of the objectives of the liberalisation policy, as I have noted above, is to increase the level of investments in the national economy, generally by reducing the share of private consumption and government current expenditures in the GDE. The total amount of investment increased (in constant prices) in the years of economic liberalisation (Table 2), most significantly as the result of the economic expansion brought about by increasing oil prices. The share of gross domestic investment in GDE, too, increased in the initial years of liberalisation as the result of two concurrent changes. First, the share of private consumption expenditure in GDE declined from 66 percent in 1990 to 55 percent in 1993. This indicates that overall the wage/income of the population had lagged behind prices. Second, in these years the value of imports increased substantially, even more than the increase in oil revenues, therefore part of the increase in investment was provided for by negative net exports. Thus, instead of paying for the increased investment in 1990-1992 fully by reducing either private or public expenditures, the reliance on imports was increased. Starting in 1994, the impact of the IRI’s policy in accommodating wage demands is observed in the upward movement of the share of private expenditures in GDE (Table 6). But in these years, as net exports is kept positive (to pay for foreign debts incurred in the years of high imports), the changes in the inventories declined from 13 percent of GDE in 1993 to one percent in 1994 and –6 percent in 1996.

Overall, in the years of economic liberalisation, 1990-1996, any growth of the private sector (in constant prices) has been mainly due to the general expansion of the economy and not because of a decline in the activities of the public sector. The private sector's investment has increased, but mainly because the economy has expanded and not as the result of either a reduction in governments expenditures and investment in the economy or because of a decline in the share of consumption expenditures. The increase in the activity of the private sector in the expanding economy has increased the number of wage workers outside the public sector. In 1996 they constituted 23 percent of the working population, compared to only 17 percent in 1986, but still much less than 35 percent in 1976. The increase in the ratio of wage workers in total employment was mainly the result of reduction in the rate of growth of the self-employed workers, where much of the unemployment is disguised (Table 4). The changes in the sectoral distribution of employment has been along the trend observed in the first post-revolutionary decade. In the 1986-1996 decade the relative size of agricultural employment decreased from 29.1 percent to 23.0 percent, while that of the industry increased from 14.3 percent to 19.4 percent, almost approaching the prevailing ratio in 1976. Service employment continued to increase from 43.1 percent of the total employment in 1986 to 46.3 percent in 1996, in comparison to only 31 percent in 1976.[69] In general, we can see that the decline in the share of agricultural employment over the last two decades has been offset principally by the increase in the relative size of the service sector.

Wither Liberalization? Whither the Economy?

For two decades the Iranian economy has suffered from disruptions and stagnation. In spite of some expansion in the past few years resulting from increases in oil revenues, in 1996 non-oil GDP per capita had just reached the level that it was at twenty years ago. That is, the oil sector aside, the economy has, at best, stagnated. Industrial value added per capita has declined, and so has the service sector, which now employs nearly one half of the working population. GNP per capita in 1996 was only 73 per cent of the 1977 level. This indicates a substantial decline in the standard of living. The result would be even more disheartening if one were to consider the bias of the GDP deflator, which underestimates the extent of inflation. The foreign exchange rate is still fully regulated, with multiple exchange rates providing highly favourable rates for the import dependent manufacturing enterprises, many under the ownership of the 'revolutionary foundations'. By 1996, the devaluation of the rial by 192 percent (from $1=IR 600 to $1=IR 1,750) and other liberalisation measures had raised the wholesale price index by 258 percent, and the consumer price index by 206 percent (in comparison to 1992). This is hardly a success story. Contrary to the aims of the liberalisation policy, the state still dominates the economy. Prices are controlled, government bureaucracy has grown, and privatisation has been limited. To pursue the path of liberalisation the IRI had to implement a tight austerity policy. This would have entailed the complete abandonment of the IRI's populist stature and loss of the political base that it still claims to represent.

In the course of the revolutionary movement, the Islamic contenders for leadership tried to outdo their principal rivals on the left, Marxist or otherwise, who had shaped the ideology of the opposition in the previous two decades. Even idols of many Muslim activists, Ali Shariati, Ayatollah Taleqani and the People's Mujahedin Organization, were ideologically, if not epistemologically, on the left.[70] A manuscript left behind after the May 1979 assassination of Murtaza Muttahari, Shariati's major critic and the guru of Muslims conservatives, indicates that he, too, was evolving toward an involuted variation of the Marxist view about capital, labour and surplus![71] Ayatollah Khomeini and his master tactician, Ayatollah Beheshti, skillfully maneuvered to take ownership of the slogans of the left. They condemned the 'blood-sucking capitalists' (*sarmayehdaran-e zaloosefat*) and damned dependent capitalism (*sarmayehdari-ye vabasteh*) . They did so by relying on the authority of the Quran, the Tradition of Muhammad, and the deeds and thoughts of Imam Ali and Imam Husayn (the Martyr). The Constitution of the IRI was so close in many respects to the demands of the left that the young activists of the Tudeh Party would gleefully brag to their Marxist rivals that their leader, Nuraldin Keyanuri, served as an advisor to Ayatollah Beheshti in drafting the Constitution. Maybe he did. But it was Khomeini who promised land to the peasants; jobs, ownership and prosperity to the dispossessed; a dwelling and free electricity to every urbanite, and even dowry to new brides and subsidized pilgrimages to the holy Shrines to needy Muslims. The promises became obligations when millions took part in the jihads of the IRI, first against the 'infidel' contenders of power in Kurdistan and Turkman Sahra, and the 'hypocrite' followers of Mujahedin in the streets and the back alleys of the cities, and later, in an eight-year deadly campaign against Iraq, to reach Quds (Jerusalem) via Karbala.

The rivals were defeated. The left was suppressed and disappeared from the political scene in Iran, and vanished in the international arena. The IRI, entangled in its struggle with its self-definition, is still left with the mass of the 'oppressed' who were promised to have the opportunity to establish their rule, and an oil market, which is at least as sensitive to the winter temperature in Europe as it is to the supply adjustments of the Saudis. The oil revenues have been used more for augmenting consumption and mitigating the erosion in the standard of living than being directed toward capacity expansion and economic development. The policy of economic liberalisation was a way of getting out of the deadlock of populism. But the IRI is carrying a heavy ideological baggage. The earlier condemnations of capitalism, exploitation, economic inequality, in the heydays of the revolution, by the same leaders of the IRI who are now trying to come out of the capitalist closet to promote entrepreneurship, high profit and capital accumulation, were too explicit and vociferous to be easily hushed up today. Rejection of what the IRI now regards (still within its closed circles) as its early 'juvenile leftism' is in the works. Nematzadeh, a former Minister of Industries and a proponent of economic liberalism, made the following comments in 1996:

In 17 years of debate we have not succeeded in explaining investment, capitalism, and capital.... But we must distinguish between capitalism (*sarmayeh-dari*) and making capital investments (*sarmayeh-gozari*). An investor (*sarmayeh-gozar*) is someone like a learned person who benefits the society with his knowledge ... and with whatever else he has accumulated as scientific capital. However, a capitalist (*sarmayeh-dar*) does not make use of his material means, instead he entraps money and does not let others use it…. Hence an investor is like a university professor and as respectable and dear to us as a teacher.[72]

Thus, Nematzadeh tries leave the anti-capitalists happy with their terminology and give dignity to 'investors'. Nematzadeh is playing a game of hermeneutics, similar to that played in the industrial West over a century ago, when the term capitalist had become too ideologically charged to be of any practical use. Instead, the terms 'entrepreneurs,' 'industrialists,' and 'producer' found widespread usage. Capitalist, which is frequently used with a non-complimentary adjective, is left for the speech of the left. Nematzadeh proposes the term 'entrepreneur' (*kar-afarin* – literally meaning 'creator of work') and even suggest a National Entrepreneur Appreciation Day.

The game of words aside, promoting economic liberalism entails providing security and high profit potentials for capital. This requires the state's commitment to pursuing, consistently and unequivocally, a policy to protect the domain and freedom of activity of capital by its own withdrawal from the market, both as a producer and a regulator. It also requires the state to reformulate the rules of the market to facilitate capital accumulation. The constitutional limitation on the domain of activity of the private sector (Article 44) and the Labour Law of 1990 are the main areas of legal contention. I have already referred to the constitutional limitation on the activity of capital. A revision in the constitution would be the purist solution. But that may prove too embarrassing for the leaders of the IRI. Instead, it is expected that these constitutional limitations would be gradually ignored, and as private capital finds these areas of large investment attractive, it would also find the gates for entering them sufficiently open. The labour law is a more difficult challenge for the IRI because it has direct implications for Iranian workers. The Labour Law of 1990, which reflects some of the early post-revolutionary sentiments about capital- labour relations, was rejected as un-Islamic several times and was never sanctioned by the Council of Guardians. It was at last enacted with the approval of the newly formed Council of Expediency. A revision of this law is one of the most serious demands of the 'entrepreneurs'. But such a revision would be a formal repudiation of the populist position of the IRI and would entail a direct face off with the Iranian labour.

The presence of the 'revolutionary foundations' and their huge conglomerates is another major obstacle of the IRI in promoting economic liberalism. While the 'revolutionary foundations' have been a source of monopolistic rent and the mainspring of much 'primitive accumulation' for some privileged few, they are a cause for concern, caution and even hostility for the majority of players in the market. The 'revolutionary foundations' are too powerful for any competitor to withstand. The issue is more complicated by the formal and informal political and economic ties between the 'revolutionary foundations' and the Islamic

Revolutionary Corps and the other 'revolutionary institutions', which together serve as the coercive force of the IRI.

The economic dilemma of the IRI has become even more complicated by the intensification of the cultural confrontation in the Iranian society and, subsequently, the recent realignment among the forces within the regime. After two decades of cultural oppression, the IRI has not been able to bring the population into submitting to its traditionalist Islamic norms of personal and public conduct and into acceptance of its idealised traditional Islamic cultural mores. The landslide victory of Muhammad Khatami in the May 1997 presidential election was a definite achievement for the Iranian people in expressing their opposition to the imposition of the traditionalist cultural norms. Khatami, however, came to the forefront of the battle for the leadership of the IRI by the alliance of two hitherto opposing factions within the regime, namely a liberal coalition promoting economic liberalism and the hard-core remainders of the populist-statist tendency. These two factions are known in the Iranian politics as the 'modern right' and 'modern left', respectively. Their 'modernity' comes from being viewed more moderate on imposition of the traditional Islamic values than the hardliners, who are also distinguished as the 'traditional right' and 'traditional left'.

The cultural confrontation aside, Khatami must chart the course of economic development of the IRI. The sharp decline in oil prices in 1998 has brought urgency to the issue. The 1998 budget's forecast for oil prices was $16 a barrel. This was revised to $12 in May 1998.[73] In June 1998, however, Iranian crude oil was traded at $9.50 per barrel.[74] An oil income of no more than $10-$12 billion can be projected for 1998, when the annual import bill would be about $14 billion, with an outstanding foreign debt of $9-$12 billion. Prices have begun rising sharply since the spring of 1998 as foreign exchange has become more scarce and a decline in the flow of imports is expected. The unemployment rate was estimated by the officials of the IRI in April 1998 somewhere between 9 and 12 percent.[75] Whatever the true rate of unemployment may be, it is on the rise. In May 1998 *Payam-e Emrouz* declared the conditions of industries as 'shocking' and listed 400 factories that have just closed and warned that 'several hundred are at the verge of closure.'[76] Khatami, who took a year to address the economic question noted in May 1998 that 'the sickness of our economy is related to our poor economic structure.'[77] In August 1998 Khatami unveiled his economic policy plan, expressed as a series of "concerns".[78] He elaborated on the issue in November 1998, when presenting the Budget Bill 1378 (for 1999/2000) to the Majles. Katami's plan is an eclectic composition of the views of the two factions supporting him. On the one hand, he stresses that the key to economic recovery of Iran is mobilization of domestic capital and attraction of foreign investment, which may be possible, he notes, only if security of capital is guaranteed and constraints imposed on the private sector are eliminated. On the other hand, to satisfy the populist-statist faction of his alliance, which finds this liberal proposition unpalatable, he makes a pledge that his administration "will do its best to maintain social justice and a more equitable distribution of income." [79] Yet, the structure of the proposed budget does not indicate a major departure from the policies of the previous years. Therefore, the debate over free market and state intervention continues in the midst of a sever economic crisis, as the pinch of the oil revenue decline becomes more apparent. In February 1999, as the IRI was celebrating the twentieth anniversary of the revolution, the Iranian currency plunged to nearly 9,000 rials per dollar, with anticipation of reaching the 10,000 mark.[80] The economic crisis is becoming once again to the center of the political stage, while factional disputes and political assassinations have intensified the crisis of the regime. Ironically, it turns out that Khatami who came to the presidency with a cultural campaign is faced with the acute dilemma of the economy. The IRI has not been able to deliver what it has promised, and this has become more apparent every day. Formal repudiation of its claims is politically painful and dangerous.

Hashemi Rafsanjani, in his eight years of presidency, zig-zagged his way through the repudiation process. The popular opposition was too strong for a formal turnabout. He and every statesmen of the IRI are quite familiar with the story that the disgruntled Muslims stormed the house of Uthman (the Third Rightful Caliph of Muslims) in opposition to his financial reform, demanding what they believed to be their rightful share from the public fund (*bait al-mal*). Uthman was murdered in cold blood by the angry mob. The rule of Uthman (AD 644-656) was a period of intense internal conflict in the newly established Islamic state, as the state was being transformed from a populist, rebellious Islam to Pax Islamicus of the Umayyads (661-750) and the Abbasids (750-1258). This transformation began with Umar (the Second Rightful Caliph, 634-644). Uthman, Abu Dharr,[81] Imam Ali (the Fourth Rightful Caliph, murdered in 661) and Imam Husayn[82] were all, in different ways, the casualties of this transformation.[83] So far, the statesmen of the IRI have avoided facing Uthman's fate, but they have also failed to define the economic future of the Islamic Republic, much less constructing their promised Pax Islamicus.

Table 1

Value Added Index in Major Economic Activities

In the Three Phases of the Economic Crisis

1977-1996

In 1982 prices

	Total value added index (%)																					Per capita value added (%)	
		Phase I				Phase II								Phase III							%Δ*	Index	%Δ*
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1977-96	1996	1977-96
Agriculture	100	107	113	117	119	127	134	143	155	162	166	161	167	181	190	204	216	220	225	233	4.5	133	1.5
Industry	100	90	76	80	80	81	97	101	96	87	89	85	91	103	120	126	127	134	141	150	2.2	86	-0.8
Services	100	99	111	102	97	99	113	116	119	103	97	89	91	97	108	119	128	132	135	141	1.8	81	-1.1
Non-oil GDP	100	102	118	125	122	124	141	147	147	125	124	110	113	124	137	146	154	159	168	178	3.1	102	0.1
GNP (at market prices)	100	88	93	84	82	93	105	106	106	90	91	83	86	97	109	115	118	116	121	128	1.3	73	-1.6

Sources: Bank Markazi, *Hesabha-ye Melli-ye Iran 1353-1366* (Tehran, 1991); *Hesabha-ye Melli-ye Iran 1367-69* (Tehran, 1992); idem, *Economic Report and Balance Sheet*, various issues; and idem, *Annual Review*, various issues.

Table 2

Gross Domestic Fixed Capital Formation
In the Three Phases of the Economic Crisis
1977-1996

In 1982 prices

	Investment index (%)																				Average annual investment in 1978-96 relative to 1977 %
		Phase I				Phase II								Phase III							
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	
Total	100	81	56	57	53	57	79	79	67	51	42	35	38	43	60	64	66	68	70	76	60
Private	100	60	62	68	59	60	97	102	87	61	55	47	52	52	78	79	86	88	90	98	73
Machinery	100	18	14	23	28	20	56	74	44	8	13	23	38	45	95	97	112	108	110	115	55
Construction	100	84	89	93	76	73	120	118	111	90	78	60	59	57	69	68	71	77	79	88	82
Government	100	98	51	48	49	59	64	61	50	43	32	26	26	34	45	52	50	52	54	58	50
Machinery	100	107	65	51	60	79	91	95	83	59	38	28	33	49	61	74	61	65	67	70	65
Construction	100	95	47	48	45	52	55	48	38	37	30	26	24	29	40	45	46	48	50	54	45
Machinery, Total	100	60	38	36	43	48	73	84	62	32	25	25	36	47	79	86	87	88	90	94	60
Construction, Total	100	91	64	66	58	61	82	77	68	59	50	40	39	41	52	55	57	60	62	68	60

Sources: See Table 1.

Table 3

Balance of Payments

1977-1996

In US$ million

	1977	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Exports, merchandise	21,521	12,338	10,959	22,082	21,587	17,087	14,175	7,171	11,916	10,709	13,081	19,305	18,661	19,868	18,080	19,434	18,360	22,391
Oil and gas	20,926	11,693	10,619	21,797	21,230	16,726	13,710	6,255	10,755	9,673	12,037	17,993	16,012	16,880	14,333	14,600	15,103	19,271
Non-oil products	595	645	340	284	357	361	465	916	1,161	1,036	1,044	1,312	2,649	2,988	3,747	4,834	3,257	3,120
Imports, merchandise	17,968	10,888	15,515	14,345	20,603	14,494	12,006	10,585	12,005	10,608	13,448	18,330	25,190	23,274	19,287	12,617	12,774	14,989
Intermediate and capital goods (%)	82	73	77	77	84	84	86	82	82	82	82	87	88	88	88	87	na	na
Trade balance	3,553	1,450	-4,556	7,737	984	2,593	2,169	-3,414	-89	101	-367	975	-6,529	-3,406	-1,207	6,817	5,586	7,402
Current account balance	1,293	-2,434	-4,815	7,368	445	1,924	-476	-5,156	-2,090	-1,869	-191	327	-9,448	-6,504	-4,215	4,956	3,358	5,232

Sources: Bank Markazi, *Economic Report and Balance Sheet*, various issues; idem, *Annual Review*, various issues.

Table 4

Changes in Occupational Categories

1976, 1986, 1996°

In 1,000 workers

Occupational categories	1976 Total°	%	1976 Industry*	1986 Total°	%	1976-86 %Δ	1986 Industry*	1996 Total°	%	1986-96 %Δ	1996 Industry*
Gov. employees	1,673	19.0	265	3,454	31.4	106.5	491	4,258	29.2	23.3	743
Entrepreneurs	182	2.1	50	341	3.1	87.3	67	528	3.6	54.6	126
Self-employed	2,810	31.9	309	4,398	40.0	56.5	445	5,199	35.7	18.2	653
Family workers†	1,021	11.6	411	462	4.2	-54.7	65	797	5.5	72.5	242
Wage workers††	3,072	34.9	786	1,882	17.1	-38.7	440	3,327	22.8	76.8	966
Not specified	41	0.5	2.4	464	4.2	1041.6	67	463	3.2	-0.3	92
Total	8,799	100.0	1,824	11,002	100.0	25.0	1,575	14,572	100.0	32.5	2,822

° Censuses of 1976 and 1996 include the working population 10 years and above, whereas the census of 1986 includes working population 6 years and above. I have subtracted the workers aged 6-9 in the 1986 census to have the data for the three years comparable.

* Includes manufacturing, mining, water, gas and electricity.

† Includes unpaid trainees.

†† Includes all wage and salary workers in the private sector.

Sources: Markaz-e Amar-e Iran, *Sarshomari-ye 'Omomi-ye Nofus va Maskan, 1355* (Tehran, 1980); idem, *Sarshomari-ye 'Omomi-ye Nofus va Maskan, 1365* (Tehran, 1988); and idem, *Sarshomari-ye 'Omomi-ye Nofus va Maskan, 1375* (Tehran, 1997).

Table 5

Wage Rates and Prices

1990-1996

	1990	1991	1992	1993	1994	1995	1996
Prices Indices							
Wholesale	100.0	126.6	168.9	211.7	301.4	482.7	604.0
Chemicals and petrochemicals	100.0	122.6	187.2	376.6	539.1	726.7	884.9
Machinery and transport equipment	100.0	130.6	201.2	256.7	381.4	640.2	824.3
Consumer price	100.0	120.7	150.1	184.4	294.3	372.4	458.8
Consumer price inflation rate	8.9	20.7	24.4	22.9	59.6	26.5	23.2
Wage Rate Indices							
Minimum wage rate (nominal)	100.0	166.7	226.7	299.4	389.4	533.3	690.7
Minimum wage rate (real)	*100.0*	*138.1*	*151.0*	*162.4*	*156.2*	*143.2*	*150.5*
All construction workers wage rate (nominal)	100.0	113.6	136.9	161.4	200.4	278.2	372.1
All construction workers wage rate (real)	*100.0*	*94.1*	*91.2*	*87.5*	*68.1*	*74.7*	*81.1*
Large enterprises (50+ workers) wage rate* (nominal)	100.0	137.4	179.3	231.5	295.2	403.5	535.2
Large enterprises (50+ workers) wage rate (real)*	*100.0*	*113.9*	*119.4*	*125.6*	*100.3*	*108.3*	*116.6*

* Includes benefits.

Sources: Bank Markazi, *Economic Report and Balance Sheet*, various issues; idem, *Annual Review*, various issues; and idem, *Natayej-e Barresi-ye Kargaha-ye Bozurg-e San'ati, ye Keshvar, 1375* (Tehran, December/January 1997/1998).

Table 6

Composition of Gross Domestic Expenditures

1988-1996

Current prices

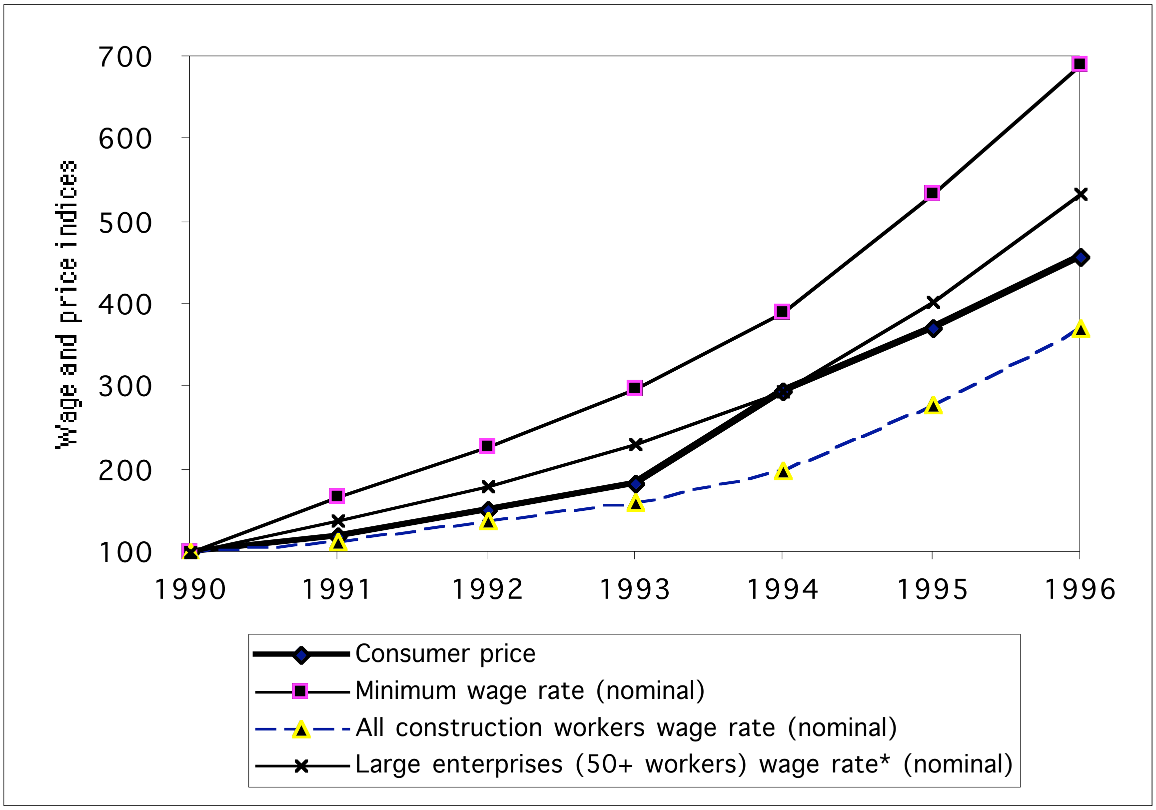
	1988	1990	1991	1992	1993	1994	1995	1996
Share in Gross Domestic Expenditures %								
Private consumption expenditures	66.8	65.7	63.2	62.0	55.1	56.1	60.9	61.7
Public current expenditures	14.3	11.1	10.7	10.4	14.6	12.6	12.9	13.4
Gross domestic investment	13.3	15.5	21.6	22.0	22.1	23.2	23.2	25.6
Change in inventories	5.8	13.2	11.6	13.3	6.9	1.0	-3.6	-5.7
Net exports	-1.1	-3.8	-4.6	-3.7	1.3	7.1	6.7	5.0
Share in investment %								
Private	59.4	53.8	60.9	59.0	51.7	55.3	54.8	55.9
Public	40.6	46.2	39.1	41.0	48.3	44.7	45.2	44.1

Sources: Bank Markazi, *Economic Report and Balance Sheet*, various issues, idem, *Annual Review*, various issues.

Figure 1

Wage Rates and Inflation

1990-1996



* Includes benefits.

Sources: Table 6.

[1] See Behdad, Sohrab, 'The post-revolutionary economic crisis' in Saeed Rahnema and Sohrab Behdad (eds), *Iran After the Revolution: The Crisis of an Islamic State* (London: I.B. Tauris, 1995); and idem, 'Disputed utopia: Islamic economics in revolutionary Iran', *Comparative Studies in Society and History*, 36/4 (1994).

[2] Behdad, 'The post-revolutionary economic crisis'. See also Rahnema, Ali, and Farhad Nomani, *The Secular Miracle* (London: Zed Press, 1990).

[3] Bayat, Assef, *Workers and Revolution in Iran (*London: Zed Press, 1987).

[4] Muhammad Baqir Sadr explains this distinction. See Behdad 'Disputed utopia', p 790.

[5] Behdad, 'The post-revolutionary economic crisis', p 101.

[6] See Moghadam, Fatemeh, 'Property relations in Iran 1800-1979', in Rahnema and Behdad, *Iran After the Revolution*, Chapter 3.

[7] *Constitution of Islamic Republic of Iran*, translated by Hamid Algar (Berkeley: Mizan Press, 1980), pp 19, 21

[8] [Khomeini, Rohollah], *Payam-e Enqelab, Majmo'eh-e Payamha va Bayanat-e Emam Khomeini*, volume III (Fall/Winter 1979/80) (Tehran: Payam-e Azadi, 1982) p 126.

[9] Ibid.

[10] Bank Markazi, *Barresi-ye Tahavvolat Eqtesadi-ye Ba'd az Enqelab* (Tehran, n.d. --1984), p 181.

[11] On foreign exchange revenues being the determinant of demand for imports see Mazarei, Adnan, 'Imports under a foreign exchange constraint: The case of the Islamic Republic of Iran', Middle Eastern Department, International Monetary Fund, *Working Paper* (WP/95/97) (October 1995).

[12] Bank Markazi, *Natayej-e Barresi-ye Kargaha-ye Bozorg-e San'ati-ye Keshvar, 1370* (Tehran, 1993), p 17.

[13] See Weeks, John, *Limits to Capitalist Development; The Industrialisation of Peru, 1950-1980* (Boulder, CO: Westview Press, 1985), p 67.

[14] For a more detailed study see Behdad, Sohrab, 'Production and employment in Iran: Involution and de-Industrialization theses.' Coville, Thierry, (ed), *The Economy of Islamic Iran: Between State and Market* (Louvain: Peeters for Institute Français de Resherch en Iran, 1994), which is the source for the following analysis.

[15] Markaz-e Amar-e Iran (MAI), *Amar-e Kargaha-ye Kochak-e San'ati Shahri, Sal-e 1355* (Tehran, 1981), p 10.

[16] The source of statistics are MAI, *Amar-e Kargaha-ye Bozorg-e San'ati-ye Keshvar, Sal-e 1355* (Tehran, 1981); idem, *Amar-e Kargaha-ye San'ati-ye Keshvar, Sal-e 1366*, *Dara-ye Panjah Nafar*

Kargar va Bishtar (Tehran, 1990); idem, , *Amar-e Kargaha-ye San'ati-ye Keshvar, Sal-e 1366* (Tehran, 1990); and Bank Markazi, *Natayej-e Barresi-ye Kargahaye Bozorg-e San'ati Keshvar, 1359* (Tehran, 1981).

[17] MAI, *Sarshomari-ye 'Omomi-ye Nofus va Maskan, 1355* (Tehran, 1980); idem, *Sarshomari-ye 'Omomi-ye Nofus va Maskan. 1365*, (Tehran, 1988).

[18] See Behdad 'Post-revolutionary economic crisis', pp 114-15.

[19] *Payam-e Emrouz*, 4 (February/March 1994), p 23 and *Payam-e Emrouz*, 21 (December/January 1997/98), p 75. See also Waldman, Peter, 'Clergy capitalism', *The Wall Street Journal* (5 May 1992), which puts the budget of the Foundation for the Oppressed at $10 billion.

[20] The Martyr's Foundation puts the number of martyrs of the 1979 revolution and the 1980-88 Iran-Iraq war at 213,000. 'More than 200,00 deaths since 1979 revolution', Agance France Press, (13 March 1998) from www.iranian.com.

[21] Bank Markazi, *Gozaresh-e Eqtesadi va Taraznameh*, various issues.

[22] *Kayhan Hava'i* (14 August 1991).

[23] For a study of the First Five-Year Plan see Ghasimi, M.R., 'Iranian economy after the revolution: An economic appraisal of the Five Year Plan', *International Journal of Middle East Studies*, 24/4 (1992).

[24] Plan and Budget Organisation, *Peyvast: Qanoon-e Barname-ye Avval Touse'eh-ye Eqtesadi, Ejtema'i va Farhangi-ye Jomhouri-ye Eslami-ye Iran, (1368-72)* (Tehran, 1988), p II-8.

[25] *IMF Survey* (30 July 1990), p 228.

[26] See *MEED* (20 May 1994).

[27] Bank Markazi, *Gozaresh-e Eqtesadi*, *1365,* p 164 and *Gozaresh-e Eqtesadi*, *1369*, pp 178, 181.

[28] Lautenschlager, Wolfgang, 'The effects of an overvalued exchange rate on the Iranian economy, 1979-84', *International Journal of Middle East Studies*, 18/1 (1986).

[29] Ibid., p 43.

[30] Ibid., p 50.

[31] Behdad, Sohrab, 'Foreign exchange gap, structural constraints and the political economy of exchange rate determination in Iran,' *International Journal of Middle East Studies*, 20/ 1 (1988), p 1.

[32] *Kayhan* (25 April 1992).

[33] *MEED* (24 February 1995). Meanwhile the textile factories in Iran were reported to be operating at less than 60 percent capacity in February 1995 because they could not import all their needed material. Reported by www.irna.com (Islamic Republic News Agency -IRNA) (Tehran, 27 February 1995).

[34] Vahid Nowshirvani points out that a major part of this increase in exports is due to the increase in the legal export of Persian rugs, which were mostly exported illegally before, as the illegal foreign exchange market was much more lucrative. Therefore, a substantial part of the increase in exports between 1990-

1993 is expected to be a one shot affair. See Nowshivani, Vahid, ‘Sarnevesht-e barnameh-ye ta`dil-e eqtesadi’, *Iran Nameh*, XIII/1-2 (1995).

[35] *Kayhan* (25 April 1992).

[36] Pesaran, Hashem, ‘The Iranian foreign exchange policy and the black market for dollars’, *International Journal of Middle East Studies,* 24/1 (1992).

[37] For data on import dependence of various manufacturing activities see Behdad, ‘Political economy of exchange rate determination in Iran’, p 11.

[38] See Farzin, Hossein, ‘The political economy of Foreign Exchange reform’, in Rahnema and Behdad, *Iran After the Revolution*, p 191, for average monthly rate of IR/US$ exchange between June 1992 and February 1994.

[39] *MEED* (24 April 1998), p 21

[40] See ‘Key features of the current exchange system,’ in Bank Markazi, *Economic Trends*, no. 9, (Second Quarter, 1997) p. 14. See also IMF, *Exchange Arrangements and Exchange Restriction,. Annual Report 1997* (Washington, DC: IMF, 1997), pp411-415.

[41] Bank Markazi, ‘Key Features’, p 14.

[42] Ibid.

[43] Ministry of Commerce has three lists for imports, ‘authorized’, ‘conditional’, and ‘prohibited’. See ibid.

[44] *MEED* (13 February 1998), p. 21.

[45] *Iran Times* (27 March 1998).

[46] *MEED* (24 April 1998), p 21.

[47] *MEED* (8 May 1998), p 22.

[48] *MEED* (13 November 1998), p 16.

[49] This is true if the demand for the subsidized product or service is inelastic.

[50] *Iran Times* (6 May 1998).

[51] Ibid.

[52] *Iran Times* (21 October 1994).

[53] *Ittila’at* (10 November 1994).

[54] *Ittila’at* (12 November 1994).

[55] *Iran Times* (11 November 1994 and 18 November 1994).

[56] *MEED* (13 March 1998), p 3. For a study of domestic pricing of energy products in Iran see Salehi-Isfahani, Djavad, ‘The oil sector after the revolution,’ in Rahnema and Behdad, *Iran After the Revolution*, Chapter 6.

[57] See, for example, ‘Tehran Mercedes workers end protest,’ C-reuter@clarinet.com (27 July 1995), reporting on the strike of the state-run Khavar Truck Company. The strike ended after management agreed to the workers’ demands over wages and benefits.

[58] Bank Markazi, *Natayej-e Barresi-ye Kargaha-ye Bozurg-e San’ati, ye Keshvar, 1375* (December/January 1997/1998), p 17.

[59] MAI, *Sarshomari-ye 'Omomi-ye Nofus va Maskan, 1375* (Tehran , 1997), p 191.

[60] Sazman-e Sanay'-e Melli-ye Iran, Sherkat-e Sarmayehgozari, *Gozaresh-e Tahqiqati* Number 24 (September/October 1992), pp 24-26.

[61] *Constitution of the Islamic Republic of Iran*, p 45.

[62] *MEED*, 27 March 1998.

[63] See the text of a speech by the Chairman of the Foundation for Oppressed *in Payam-e Emrou*z, number 21 (December/January 1997/1998), pp. 75-76

[64] *Payam-e Emrouz*, 21 (December/January 1997/1998), pp 76-77.

[65] The companies involved were the Asalem Lumber and Nazpoush Textiles. See 'Iran reverses two Privatizations after protests,' C-reuter@clarinet.com (Reuter), 14 August 1995.

[66] *Iran Times* (5 August 1994).

[67] 'Iran: IMF Points to Lost Opportunity,' *MEED* (30, January 1998), p 18.

[68] In all cases datat referring to government, public or state ownership include the enterprises under the ownership of 'revolutionary foundation,' i.e. 'public' enterprises.

[69] MAI, *Sarshomari-ye 'Omomi 1355*; idem, *Sarshomari-ye 'Omomi, 1365*; idem, *Sarshomari-ye 'Omomi, 1375*.

[70] Behdad, 'A Disputed Utopia.'

[71] Ibid.

[72] *Payam-e Emrouz*, 14 (September/October 1996), p 23.

[73] *MEED* (1 May 1998), p 19.

[74] May, Barry 'Khatami mulls sweeping economic review,' Reuters www.infoseek.com (16 June 1998).

[75] *MEED* (1 May 1998), p 19.

[76] 'Doshvariha-ye eqtesad: Besyar beham pichideh, Moqe'iyat-e San'at: Besyar tekan dahandeh,' and '400 Karkhaneh ta'til shod; Chand sad karkhaneh dar astaneh-ye Ta'til,' *Payam-e Emrouz*, 23 (May 1998) p 116-119.

[77] 'Iranian president interviewed on the economy,' FBIS, 15 May 1998 (also available at www.columbia.edu/sec-cgi-bin/gulf).

[78] *Ittila'at* (4 August 1998). See also *Iran Times* (21 August - 30 October 1998)

[79] *Hamshari* (30 November 1998) electronic edition, www.neda.net/hamshahri.

[80] "Iran rial near free fall," Reuter (1 February 1999) from infoseek.go.com/Center/News.

[81] The egalitarian Companion of Muhammad, who opposed the accumulation of wealth by the powerful rulers in the Islamic state and was banished to exile by Uthman, where he died in AD 652.

[82] The Third Imam of Shi'is, murdered in Karbela in 680 by Yazid, the son of Mu'awiya, the founder of the Umayyad dynasty.

[83] See Sohrab Behdad, 'Islam, revivalism and public policy,' in Behdad, Sohrab, and Farhad Nomani (eds), *Islam and Public Policy*, Greenwich: JAI Press, 1997, pp. 3-8.