

# **The Political Economy of the 1979 Iranian Revolution and its Aftermath (1979-2014)**

**Amirhossein Momeni**

Submitted to the  
Institute of Graduate Studies and Research  
in partial fulfilment of the requirements for the degree of

Master of Arts  
in  
International Relations

Eastern Mediterranean University  
September 2017  
Gazimağusa, North Cyprus

Approval of the Institute of Graduate Studies and Research

---

Assoc. Prof. Dr. Ali Hakan Ulusoy  
Acting Director

I certify that this thesis satisfies the requirements as a thesis for the degree of Master of Arts in International Relations.

---

Assoc. Prof. Dr. Erol Kaymak  
Chair, Department of Political Science and  
International Relations

We certify that we have read this thesis and that in our opinion; it is fully adequate in scope and quality and as a thesis for the degree of Master of Arts in International Relations.

---

Asst. Prof. Dr. Umut Bozkurt  
Supervisor

---

Examining Committee

1. Asst. Prof. Dr. Umut Bozkurt

---

2. Asst. Prof. Dr. Günay Aylin Gürzel

---

3. Asst. Prof. Dr. Berna Numan

---

## **ABSTRACT**

This thesis aims to assess the political economy of Iran, specifically that of the 1979 Islamic Revolution in Iran and its aftermath. The new regime had come to power with promises of equality and reducing the gap between the poor and the rich. Four decades have passed after the Islamic Revolution, during which different governments tried to achieve these goals by using different economic policies. This thesis will analyze whether they have been successful in achieving these goals. The most influential analysis of the state in Iran is the rentier state analysis. Rentier state is a state that can be independent from the collection of taxes as it depends on the revenues from the rent of natural resources. It is argued that since the early 20<sup>th</sup> century, petroleum and its revenues marked Iranian political economy and it gradually transformed it into a rentier system. The problem with the rentier state approach is that it separates Iran from the typical class-relations of capitalism and the tendencies of accumulation. Therefore, as an alternative to the rentier state analysis, a class-based analysis of the Islamic Revolution will be provided in this thesis to assess the classes that supported the Islamic Revolution and the classes that benefited and lost in the aftermath. The thesis divides the post revolution governments of Iran in two eras: first the era of idealistic policies and isolation and war with Iraq (1979-1989) and second the era of liberalization and structural adjustment programs (1989-2013). Using different sources and the data from the World Bank and Iran's Central Bank, the thesis' findings indicate that during the first era the proletariat and the petite bourgeoisie were the winners and during the second era it was the bourgeoisie that won.

**Keywords:** Marx, Class, Iran, Islamic Revolution

## ÖZ

Bu tez, İran'daki 1979 İslam Devrimi'nin ve sonrasındaki dönemin siyasal iktisadi bir analizini yapmayı amaçlıyor. Yeni rejim, eşitlik ve ülkedeki yoksullar ve zenginler arasındaki uçurumu azaltmak vaadleriyle iktidara gelmişti. İslam Devrimi'nden sonraki kırk yıl boyunca farklı hükümetler bu hedeflere farklı ekonomi politikalarını kullanarak ulaşmaya çalıştı. Bu tez, bu hedeflere ulaşmada başarılı olup olmadıklarını analiz edecektir. İslam devrimini destekleyen sınıfları belirlemek için Karl Marx'ın sınıf kavramsallaştırmasını kullanacaktır. İran'daki devletle ilgili en etkili analiz rantiyeci devlet analizidir. Rantiyeci devlet, doğal kaynakların kira gelirine bağlı olduğu için vergi toplamaktan bağımsızlaşabilen bir devlettir. 20. yüzyılın başından bu yana, İran'ın politik ekonomisini petrolden kaynaklanan gelirlerin belirlenmesinden ötürü, sistemin yavaş yavaş bir rantiyeci devlete doğru evrildiği iddia edilmiştir. Rantiyeci devletle ilgili temel sorun ise İran'ı kapitalizme içkin tipik sınıf ilişkileri ve birikim eğilimlerinden ayrı düşünmesidir. Dolayısıyla, rantiyeci devlet analizine alternatif bir analiz olarak İslam devriminin sınıfsal bir analizi yürütülerek İslam devrimini destekleyen sınıflar ve sonrasında kazanan ve kaybeden sınıflar belirlenecektir. Tez, İran'ın İslam Devrimi sonrası hükümetlerini iki döneme ayırır: Birincisi idealist politikaların ve tecrit politikalarının uygulandığı ve Irak'la savaşın yaşandığı ilk dönem (1979-1989) ve ikincisi serbestleşme ve yapısal uyum programlarının dönemi (1989-2013). Farklı kaynaklar ve Dünya Bankası ve İran Merkez Bankası verileri kullanılarak oluşturulmuş tezin bulguları, ilk dönemde proletaryanın ve küçük burjuvazinin, ikinci dönemde ise İslam Devrimi sonrasında yükselen burjuvazinin kazandığına işaret ediyor.

**Anahtar Kelimeler:** Marx, Sınıf, İnan, İslam, Devrimi

## **DEDICATION**

I would like to use this opportunity to dedicate the current thesis to my father and my mother:

To my father who has supported me in every possible way all these years and it is through his encouragements that I have continued to improve and learn.

To my mother, although she left this world when I was a child, not a single day goes on that I haven't felt her kind spirit beside me and I am sure that she is happy for this occasion.

## **ACKNOWLEDGEMENT**

I would like to thank Dr. Umut Bozkurt, my supervisor. She helped me through all the troubles of this thesis and was ever patient, supportive and kind. This thesis was completed through her precise attention to details and the time she invested in my supervision.

# TABLE OF CONTENTS

ABSTRACT .....	iii
ÖZ .....	iv
DEDICATION .....	vi
ACKNOWLEDGEMENT .....	vii
LIST OF FIGURES .....	xii
LIST OF ABBREVIATIONS .....	xiii
1 INTRODUCTION .....	1
1.1 Theoretical Framework .....	6
1.2 Method.....	7
1.3 Chapterization .....	7
2 THEORIES OF SOCIAL INEQUALITY .....	9
2.1 Introduction .....	9
2.2 The Context behind the Theories of Marx and Weber .....	11
2.3 Karl Marx’s conceptualization of class .....	15
2.4 Max Weber and Social Stratification .....	22
2.5 Conclusion.....	28
3 HISTORICAL BACKGROUND.....	31
3.1 Introduction .....	31
3.2 Qajar Iran.....	32
3.3 First Pahlavi Era .....	39
3.4 Second Pahlavi Era.....	42
3.5 Classes and the Revolution.....	49
3.6 Conclusion.....	50



4 POST REVOLUTION IRAN (1979 TO 1989): THE POLITICAL ECONOMY OF THE ERA OF “IDEALISTIC” ECONOMIC AND SOCIAL POLICIES .....	53
4.1 Introduction .....	53
4.2 Early Governments.....	54
4.3 Mousavi Government.....	59
4.4 The Impact of Economic Policies on the Distribution Relations.....	63
4.5 Winners and Losers .....	67
4.6 Conclusion.....	68
5 POST REVOLUTION IRAN (1989 TO 2014) THE POLITICAL ECONOMY OF THE ERA OF STRUCTURAL ADJUSTMENT POLICIES .....	71
5.1 Introduction .....	71
5.2 Government of Rafsanjani 1989-1997 .....	72
5.3 State of inequality under Rafsanjani.....	76
5.4 Winners and Losers .....	81
5.5 Khatami Government 1997-2005 .....	81
5.6 State of Inequality under Khatami Administration .....	86
5.7 Winners and Losers .....	89
5.8 Ahmadinejad Government 2005-2013 .....	89
5.9 State of Inequality under Ahmadinejad Administration.....	94
5.9 Winners and Losers .....	96
5.10 Conclusion.....	97
6 ANALYSIS OF THE POST 1979 CONTEXT IN IRAN BY USING MARX’S THEORIZATION OF CLASS .....	100
6.1 Introduction .....	100
6.2 Weber and Marx on Social Inequality.....	100

6.3 The Political Economy of the 1979 Revolution .....	101
6.4 Winners and losers: 1979-1989 .....	104
6.5 Winners and losers: 1989-2013 .....	107
6.6 Conclusion.....	110
7 CONCLUSION .....	112
REFERENCES.....	116

## LIST OF TABLES

Table 1. Gini Index of Inequality from 1969 to 2013 .....	103
---	-----

## LIST OF FIGURES

Figure 1. Gini Index of Inequality from 1969 to 1979.....	50
Figure 2. Gross National Income GNI from 1978 to 1989 constant Billion US\$ 2010. .....	56
Figure 3. GDP Annual Growth from 1979 to 1989. ....	66
Figure 4 Gini Index of Inequality from 1979 to 1989.....	67
Figure 5. GDP Annual Growth %from 1989 to 1997.....	80
Figure 6. Gini Index of Inequality from 1989 to 1997.....	81
Figure 7. GDP Annual Growth %from 1997 to 2005.....	88
Figure 8. Gini Index of Inequality from 1997 to 2005.....	88
Figure 9. GDP Annual Growth %from 2005 to 2013.....	96
Figure 10. Gini Index of Inequality from 2005 to 2013.....	96
Figure 11. Inflation rates of Iran, 1979-2013.....	104

## **LIST OF ABBREVIATIONS**

AIOC	Anglo-Iranian Oil Company
CBI	Central Bank of Iran
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
IRGC	Islamic Republic Guardian Corps
NBFI	Non Benefit Financial Institutions
OSF	Oil Stabilization Fund
PRGF	the Poverty Reduction and Growth Facility
SAPs	Structural Adjustment Programs
SAVAK	Sazman e Ettelaat Va Amniat e Keshvar (Organization of Intelligence and National Security)
UNSC	United Nations Security Council
USSR	Union of Soviet Socialist Republic

# Chapter 1

## INTRODUCTION

This thesis focuses on one of the most important political developments of the 20<sup>th</sup> century; the Islamic Revolution of Iran. 1979 Islamic Revolution marks a significant milestone as it has significant repercussions for Iran, the Middle East and the US's foreign policy in the region. The process that started with the rise of social movements against the monarchy represented by Mohammad Reza Pahlavi transformed Iran from being the most important ally of the US in the region to a state where the laws of Islam were followed. Soon after, Iran was shaken by a prolonged and costly war.

A significant literature has been formed after the Islamic revolution analyzing the different aspects of this significant transformation that took place in 1979. This thesis aims to analyze the political economy of the Islamic revolution. In particular, it will assess the social classes behind the Islamic Revolution as well as the social classes that won and lost as a result of the economic policies implemented in the aftermath.

Such a study is novel in the sense that most studies analyze the political aspects of the regime change in Iran but a political economy perspective that engages in a class analysis of the pre-revolution period, revolution and the post war era of Iran is rare. Analyzing the political economy of the Iranian Revolution is important for a few reasons.

First of all, Iran is an important country in the region. It has large oil reserves<sup>1</sup> and has one of the biggest reserves of natural gas<sup>2</sup>. Due to its oil and natural gas reserves, it has international importance. As has been seen in the first and second Oil Crises of the 1970s<sup>3</sup>, how Iran acts regarding the oil market can have significant consequences for the international community. In terms of geopolitical importance, Iran shares borders with Russia in the Caspian Sea, is neighbour to Afghanistan, Pakistan, Turkmenistan, Azerbaijan, Armenia, Turkey and Iraq. In the Persian Gulf Iran shares the Persian Gulf and the Sea of Oman with the Arab states of the Gulf. Iran controls the Hormuz Strait, where most of the world's oil is shipped through. Iran has influenced the neighboring countries, both before and after the revolution as a key country and power in the region. It has influence in many regional affairs past and present<sup>45</sup>.

Engaging in a class analysis of the Iranian Revolution is important because it presents an alternative reading of the state formation in Iran. An influential analysis of the state in Iran is the rentier state analysis. Rentier state refers to a specific type of state where the main job of the state is not to collect taxes, as the revenues from the rent of natural resources makes the government independent of taxes for most parts. This independence and abundance create a ruling class that does not feel the need to represent the society. On the other hand they try to keep the society obedient and calm

---

<sup>1</sup>Azadi, P., Dehghanpour, H., Sohrabi, M., & Madani, K. (2016). The Future of Iran's Oil and Its Economic Implications. Working Paper 1, Stanford Iran 2040 Project, Stanford University.

<sup>2</sup>Esen, V., & Oral, B. (2016). Natural gas reserve/production ratio in Russia, Iran, Qatar and Turkmenistan: A political and economic perspective. *Energy Policy*, 93, 101-109.

<sup>3</sup>Balcilar, M., van Eyden, R., Uwilingiye, J., & Gupta, R. (2017). The Impact of Oil Price on South African GDP Growth: A Bayesian Markov Switching-VAR Analysis. *African Development Review*, 29(2), 321.

<sup>4</sup>Bahgat, G., Ehteshami, A., & Quilliam, N. (2017). Security and Bilateral Issues Between Iran and Its Arab Neighbours. In *Security and Bilateral Issues between Iran and its Arab Neighbours*. Springer International Publishing.

<sup>5</sup>Fawcett, L. (2017). States and sovereignty in the Middle East: myths and realities. *International Affairs*, 93(4), 793.

by redistributing the rent in the society in a way that could fulfill some of the state's responsibility for the welfare of the citizens. This is a sort of unwritten agreement that lasts as long as the state can keep up with the costs of such policies<sup>6</sup>.

In a rentier state analysis, the order of the priority of the things the state does are those of a modern state defined by Weber, that is, legitimizing their use of violence, and monopolizing it, providing the politicians by favors, salaries, gifts and calming the ordinary people by redistributing the rent of the natural resources in order to overlook the need of state to represent the people<sup>7</sup>. A state, as defined by Weber, monopolizes the legitimacy of using force (violence), and enforces its will and dominion on the society by using the economic tools (income), prestige (status) and their share in the politics (power)<sup>8</sup>.

It is argued that since the early 20<sup>th</sup> century, petroleum and its revenues marked Iranian political economy and it gradually transformed it into a rentier system. To reiterate, the revenue of a rentier state is almost or completely dependent on the rent of one natural resource or source in general to foreign clients<sup>9</sup>. In the case of Iran that natural resource was crude oil and the foreign client was the British. In the early 20<sup>th</sup> century when the king Reza Shah negotiated a new deal with the Anglo Iranian Oil Company, oil revenues began to take larger shares of Iran's annual budget. Little by little Iran started to become dependent on its oil revenues and by the end of the Second Pahlavi

---

<sup>6</sup>Schwarz, R. (2008). The political economy of state-formation in the Arab Middle East: Rentier states, economic reform, and democratization. *Review of International Political Economy*, 15(4), 600.

<sup>7</sup>Gervasoni, C. (2010). A rentier theory of subnational regimes: Fiscal federalism, democracy, and authoritarianism in the Argentine provinces. *World Politics*, 62(2), 307.

<sup>8</sup>Weber, M. (1965). *Politics as a Vocation*. 3.

<sup>9</sup>Mahdavy, H. (1970). The patterns and problems of economic development in rentier states: The case of Iran. *Life*, 1000(1).



Era, its total natural resources rents (% of GDP) reached 32%<sup>10</sup>. After the revolution, Iran remained highly dependent on its oil revenues<sup>11</sup>, and its economy was hit hard by the low cycles of the oil market in mid 80s, mid 90s and the recent continuous low oil prices.

Oil revenues are significant for understanding the political economy of Iran however there is a significant problem with the rentier state framework. Adam Hanieh's criticism of the concept used with regards to the Gulf countries is relevant here. Essentially rentier state approach separates Iran from the typical class-relations of capitalism and the tendencies of accumulation. Hanieh reminds of what Marx called 'commodity fetishism'. In this context, commodity fetishism refers to aiming "to explain patterns of social development through a commodity rather than understanding the significance given to that commodity by the social relations within which it is embedded<sup>12</sup>". For this reason, an understanding of the Iranian political economy and state formation should not depart from oil but go beyond this by acknowledging the social classes that benefit and lose from the economic policies pursued.

Consequently, a class-based analysis of the Islamic Revolution will be provided in this thesis. Essentially, it will aim to answer two research questions: Which classes and groups supported the Iranian Revolution? Secondly, what has been the impact of economic policies implemented in Iran since the 1979 revolution on social inequality? (1979-2014). Which classes benefited from the revolution, which classes lost as a result

---

<sup>10</sup>Indicators, W. G. (2015). The World Bank Group. The World Bank Group

<sup>11</sup>Shambayati, H. (1994). The rentier state, interest groups, and the paradox of autonomy: state and business in Turkey and Iran. *Comparative Politics*, 325.

<sup>12</sup>Adam Hanieh, "Khaleeji-Capital: Class-Formation and Regional Integration in the Middle-East Gulf", *Historical Materialism* 18 (2010) 35–76, p. 38

of the policies implemented?

The thesis will look extensively into two distinct periods in post revolution Iran. The first ten years, from 1979 to 1989 were marked with protectionist economic policies and general isolation from world's economy. The second period runs from 1989 to 2013. In this period, economic policies were aimed at liberalization of Iran's economy, notably through the policy packages suggested by the World Bank and the International Monetary Fund. At the end of each era, in a separate section, the thesis will analyze which class or classes benefited and which class or classes lost as a result of the policies implemented in that era<sup>13</sup>.

A significant finding of this thesis that has repercussions beyond Iran is related to the fact that the "trickle down" effect promised by the neoliberal growth model has not materialized in Iran. Trickle down refers to the idea that if you implement free trade policies, it would lead to more exports and you will gain economic growth and the extra wealth made by this method would trickle down to the poorest sections of the society. The problem with such policies was that after they were in effect for years, some parts of society benefited greatly from these policies yet the majority of the population did not benefit from those revenues<sup>14</sup>. The thesis showed that the structural adjustment policies that started to be implemented in Iran after 1989 did not deliver short term and long term economic stability. Furthermore, trickledown economics did not work in Iran since inequality has been steadily rising over the second era<sup>15</sup>.

---

<sup>13</sup>AnoushiravanEhteshami "After Khomeini" London.Routledge.1995

<sup>14</sup>Hamzaee, R. G., Guy, A., & Ryan, B. (2017). Capitalism and Democracy: A Critical & Investigative Analysis of the United States Government's Policy Making. *Archives of Business Research*, 5(4).

<sup>15</sup>Salehi-Isfahani, D. (2009). Poverty, inequality, and populist politics in Iran. *Journal of Economic Inequality*, 7(1), 8.

## 1.1 Theoretical Framework

This thesis will use theories of social inequality in its theoretical framework. Two prominent scholars; Karl Marx and Max Weber and their theories of social inequality will be analyzed. This thesis will examine the political economy of the Islamic Revolution from the perspective of Marx's theory of social inequality.

Marx looked at political economy generally and class struggles specifically through the production relations. For him it is the production relationships that decide where each person stands in the society, and whether the class he represents is on the winning side of gaining the most profit or on the losing side. According to Marx, the capitalist society is made up of two main classes, the bourgeoisie own the means of production, while the working class, the proletariat possess nothing but their labor power<sup>16</sup>. He claimed that history is a history of class struggles. Weber had a different conceptualization of class. He believed that the classes in the society differed according to three main components: general income, social status and the amount of power. . The quality of the first two components contributed to the third one. So that the higher the income and status of someone, the higher level of power they commanded in a society<sup>17</sup>. For the theoretical framework of this thesis, Marx's Critical Theory of Political Economy is chosen, as I believe that it is the production relationships that are the core of classes and stratification in a society. One's having access to the means of production or not also determines her/his amount of income, status and power.

---

<sup>16</sup>Robinson, R. V., & Kelley, J. (1979). Class as conceived by Marx and Dahrendorf: Effects on income inequality and politics in the United States and Great Britain. *American Sociological Review*, p.40. Journal titles should be written in italic!!!

<sup>17</sup>Bendix, R., & Lipset, S. M. (Eds.). (1966). *Class, status and power* (p. 301). New York: Free Press.

## **1.2 Method**

In order to investigate how different policy making approaches affect social inequality, this thesis shall conduct a qualitative analysis using a critical evaluation of existing literature. I will engage in document analysis. I will take into consideration different sources and will mainly focus on journals, books, articles and the like. The thesis uses the aforementioned tools to get an in depth understanding about its case, which is the political economy of the Iranian Revolution. As a complementary tool, some statistics and measures, especially those of the World Bank Index and Central Bank of Iran would be used.

## **1.3 Chapterization**

Chapter One: Introduction will explain the general plan of the thesis. It will discuss the research question, the theoretical framework and the methodology.

Chapter Two will focus on the theories of social inequality. In this chapter, two major theories of social inequality are discussed in depth; Karl Marx's theory of social inequality and Max Weber's theory of social inequality.

Chapter Three will provide a historical background. In particular, it will discuss the dynamics behind and the social basis of the Islamic Revolution. It will discuss questions such as why Iranians hated foreign powers so much, what caused them to revolt against absolute monarchy and what were the main economic policies of the Shah. What motivated different classes of Iranian society to revolt together against the Shah's monarchy? Which classes benefited and which classes lost as a result of the policies implemented? This chapter will aim to answer these questions.

Chapter Four will analyse post revolution Iran (1979 to 1989). It will focus on the political economy of the era of “idealistic” economic and social policies. The thesis will take a look into the isolation of Iran during the Iran Iraq War and protectionist economic policies that were chosen by the early administration of Iran after the revolution. The chapter will then discuss the state of inequality in Iran at the end of the period.

Chapter Five will elaborate the post revolution Iran (1989 to 2014) and in particular the political economy of the era of structural adjustment policies. This chapter will focus on the reasons on why Iran’s government chose to ask for international loans. What were the policies that were recommended by those two organizations? What was the effect of those policies, which classes benefited and which classes lost due to those policies? In this chapter, the state of inequality after each administration is discussed.

Chapter Six will bring together the theoretical and the empirical parts and will engage in an analysis of the post 1979 context in Iran by using Marx’s theory of social inequality. It will discuss questions such as: What is the state of the capital owners, the owners of labor and the petite bourgeoisie in Iran? Which class has benefited more at the end of each period?

Chapter Seven: The Conclusion Chapter. This chapter will put the main findings of the thesis together.

## Chapter 2

### THEORIES OF SOCIAL INEQUALITY

#### 2.1 Introduction

This chapter explores the theories of social inequality by Karl Marx and Max Weber, setting the theoretical framework for the thesis. It will begin by examining the German society of 19<sup>th</sup> century that through its changes, gave birth to many thinkers, among which are the theorists of this chapter. The chapter will then introduce the class conceptualization of Karl Marx. The chapter will proceed with discussing the views of Max Weber on social stratification. I will then explain why I chose Marx's conceptualization of class over Weber's conceptualization.

From a divided and weak multitude of city-states and some stronger neighbors to a strong unified empire, the country we know today as Germany went through a great deal of technological, societal and economic change<sup>18</sup>. At the beginning of the 19<sup>th</sup> century they were humiliated by Napoleon (October 1806 – July 1807), and under the direct control of the Austrian Empire, by the end of it they had defeated both Austria and France (1866, 1871). In the same time period Germany moved from an agricultural, rural society to an industrial capitalist society<sup>19</sup>.

The theories of Karl Marx, (Born 1818, Germany, died 1883, United Kingdom), and

---

<sup>18</sup>Geiss, I. (2013). *The Question of German Unification: 1806-1996*. Routledge, London. p.36.

<sup>19</sup>Pierenkemper, T., & Tilly, R. H. (2004). *The German economy during the nineteenth century*. Berghahn Books. p. 20.

Max Weber, (Born 1864, Germany, 1920, Munich, Germany) were the product of such kind of a political context. Marx essentially built on the philosophy of Georg Wilhelm Friedrich Hegel but reinterpreted Hegel's dialectic<sup>20</sup>. In his theory of political economy, Marx interpreted history and saw the dynamics of societies in a new way. He changed Hegel's dialectic to materialist dialectic and through it developed his historical materialism<sup>21</sup>. In his historical materialism, Marx analyzes history by looking at the development of the relationship between those who own the means of production and the owners of labor<sup>22</sup>. Marx has some notable arguments on relationships of production and conflicts of interests therein, those conflicts contribute to the need for the working class to rise against capitalism and bring about a classless society.

Max Weber, who studied the works of Marx, saw the world and its underlying forces in a different light. He put emphasis on the importance of ideas, on how they transform a whole society to their preferred model<sup>23</sup>. The origins of power in society were one of Weber's favorite topics. He examined the ancient societies, the medieval societies and the modern society of his time and came up with explanations for how power was structured within each. He was also greatly interested in classes in a society and what separates a distinguishable part of society from another and provided detailed explanation for dynamics of inside the society<sup>24</sup>.

---

<sup>20</sup>Jameson, F. (2009). *Valences of the Dialectic*.

<sup>21</sup>De Nys, M., 1978, July. Marx's Historical Materialism. In *Proceedings of the American Catholic Philosophical Association* (Vol. 52, p. 183).

<sup>22</sup>Terray, E. (1972). *Marxism and "primitive" societies: two studies*. Monthly Review Pr.

<sup>23</sup>Bendix, R. (1974). Inequality and social structure: a comparison of Marx and Weber. *American Sociological Review*, p.151.

<sup>24</sup>Weber, M. (2009). *From Max Weber: essays in sociology*. Routledge, London. p.61.

## 2.2 The Context behind the Theories of Marx and Weber

In writing their theories on social inequality and stratification, Marx and Weber were inspired by the events of 19<sup>th</sup> century Germany, such as the progress of the industrial revolution and the shaping of the new nation-states. Germany was one of the most prominent countries to industrialize in the 19<sup>th</sup> century. It began as a divided nation that was distributed among a multitude of city states and two conflicting greater powers of Austria and Prussia. Germany ended the century as a major industrial power that was Europe's leading steel producer<sup>25</sup>. The shape of the German government was also the scene of great change from a variety of small and big principalities and states to the unified and powerful German Empire<sup>26</sup>.

From 1775 to 1800, the western world began to show signs of great change. In North America, the Declaration of Independence was signed in 1776<sup>27</sup> and a few years after the French Revolution (1789–99)<sup>28</sup> took place. By early 1800s, in all parts of Europe, there began talk of other possible ways of life rather than the old, religious and feudal way of life, with monarchs as the heads of the state.

Germany, in the 19<sup>th</sup> century was the scene of many changes. In the early years of 19<sup>th</sup> century, Austrian Empire had the upper hand and most power in the many states and principalities and free cities that later created what today is known as Germany<sup>29</sup>. By 1815, the days of Napoleon had come, the feudal lords swore their allegiance to him

---

<sup>25</sup>Webb, S. B. (1980). Tariffs, cartels, technology, and growth in the German steel industry, 1879 to 1914. *The Journal of Economic History*, 40(02), p.318.

<sup>26</sup>Anderson, J. (1999). *German unification and the union of Europe: the domestic politics of integration policy*. Cambridge University Press.

<sup>27</sup>Congress, U. S. (1776). Declaration of independence.

<sup>28</sup>Rudé, G. (1991). *The French Revolution*. Grove Press. p.9.

<sup>29</sup>Judson, P. M. (1996). *Exclusive Revolutionaries: Liberal Politics, Social Experience, and National Identity in the Austrian Empire, 1848-1914*. p. 4. University of Michigan Press.



after he, on behalf of the French Empire, defeated Austria and signed an armistice with them. By mid-century, Otto von Bismarck's (Born 1815, died 1898) unification of Germany began and by making proper use of the advancements of technologies, he defeated Austria and made the Prussia the main power in Germany<sup>30</sup>. After Bismarck Germany experienced an era of decline until the Nazis and Hitler came to power. During the 19<sup>th</sup> and early 20<sup>th</sup> century, Germany went through radical economic changes. It began with a mostly rural, feudal system and ended with a highly capitalistic open market system<sup>31</sup>.

In the beginning years of the 19<sup>th</sup> century, Germany was mostly a rural country. However, as the early years passed, things started to change. After Prussia was defeated by Napoleon and the French in 1806, they introduced a wide range of reforms that helped to change the face of Prussia and many of its German neighbors. The change in education system, freedom of activity for Jews, making the land purchase possible everywhere and many more began to change from a feudal, medieval collection of cities, principalities, and even countries to grow into emerging industrial big cities<sup>32</sup>.

By late 1700s and early 1800s, mostly rural and agriculture based Germany started to change towards a more industrial economy. Between 1770 and 1830, serfs were freed and now they could buy and sell land<sup>33</sup>. During the 1850s Germany went through further reforms like land reform and transportation reform with the development of the

---

<sup>30</sup>Langsam, W. C. (1930). *The Napoleonic wars and German nationalism in Austria* (No. 324). New York: Columbia University Press; London: PS King & son, Limited.

<sup>31</sup>Geiss, I. (2013). *The Question of German Unification: 1806-1996*. Routledge. London. p.44.

<sup>32</sup>Moors, C. (1991). *The making of bourgeois Europe: absolutism, revolution, and the rise of capitalism in England, France, and Germany*. Verso. P.138.

<sup>33</sup>Gerschenkron, A. (1966). *Bread and democracy in Germany*. Cornell University Press. p.49.

railroads and its transformation to capitalism was well underway. In 1860s Bismarck rose to power and by 1870 the German Empire was established. Bismarck himself was a Junker (landed aristocrat) and opposed the socialist movements. By late 1800s, Germany was one of the main industrial powers of Europe<sup>34</sup>.

Germany in the 19<sup>th</sup> century saw three important political events. First was the war against Napoleon (1806, 1807), which ended with Prussia and Austria's defeat and humiliation (Napoleon forced Prussia to pay harsh reparation fees and also fund the French occupation force)<sup>35</sup>.

After the French revolution shocked all the European powers and made them react by waging war against the new revolutionary government, Napoleon rose to prominence and declared himself the Consul, turning the tables of the war in favor of France<sup>36</sup>. After Napoleon was defeated, the rulers of Europe and the Germanic states tried to reestablish the former feudal like order to protect the nobility and suppress the liberal and nationalist movements.

The second event, was the failed revolution of 1848, where the new generations wanted a more nationalistic and liberal government and were suppressed by the ruling elite. After the many changes that occurred and were mentioned, Europe experienced some bad years in which the crops failed and the oppressed peasants faced great hardships, the anger was accumulated and by 1848, many European countries faced protests and rebellion and revolutions. These became known as the revolutions of

---

<sup>34</sup>Simon, W. M. (1968). *Germany in the Age of Bismarck* (Vol. 2), p.56. Routledge.

<sup>35</sup>Langsam, W. C. (1930). *The Napoleonic wars and German nationalism in Austria* (No. 324). New York: Columbia University Press; London: PS King & son, Limited. p.88.

<sup>36</sup> Schroeder, P. W. (1996). *The transformation of European politics, 1763-1848*. Oxford University Press. p.308.

1848. In Germany, the revolution of 1848 failed, as the peasants and the middle class wanted different things. While the middle class called for more liberal governments and laws, the peasants wanted a quicker solution to their dire situation and as the monarchist forces made clever use of this divide, the revolution did not succeed<sup>37</sup>.

After the revolution of 1848 failed in Prussia, King Fredrick William IV (reigned from 7 June 1840 – 2 January 1861) began to reverse all that the revolution had done. By 1851 the king had returned everything to how it was before the revolution<sup>38</sup>. However when he died in 1861 and William I (who reigned between 2 January 1861 and 9 March 1888) became the new king, things started to change. When a crisis rose between William I and the parliament, he chose Otto Von Bismarck to be the Minister President of Prussia (23 September 1862)<sup>39</sup>. Bismarck's rise to power was the first event in a series of events that led to German unification, however the one event that really made him a hero of German unification and help him achieve his future goals was the Austro-Prussian war of 1866. This war is the third important turning point in 19<sup>th</sup> century Germany. Over a dual claim on Schleswig and Holstein, Bismarck allied Prussia with Italy and some fourteen northern German states and defeated Austria and paved the way for German unification<sup>40</sup>.

Among the notable changes in this whole process, was Prussia's effective use of trains for transporting great numbers of soldiers in a short period of time. While Austria had only one major railway to transport the troops, Prussia had five and by using that

---

<sup>37</sup>Siemann, W. (1998). *The German revolution of 1848-49*. Macmillan Press. p. 86.

<sup>38</sup>Henderson, W. O. (1975). *The rise of German industrial power, 1834-1914*. Univ of California Press. p.155.

<sup>39</sup>Blackbourn, D. (1998). *The Long Nineteenth Century: A History of Germany, 1780-1918*. Oxford University Press, USA. p. 258.

<sup>40</sup>Fritsch-Bournazel, R. (1992). *Europe and German unification*. Bloomsbury Academic. p.166.

advantage, they took the Austrian army by sheer advantage in numbers<sup>41</sup>.

Marx was born in 1818 in Germany and grew to become active in the revolutionary society that was changing from the old order to the new. He was a critic of the old order and believed that there must be a better order than the old order, and the new capitalist, corporate order of his contemporary Germany<sup>42</sup>. He was sent into exile in 1849. When Marx was 46, Weber was born and when Marx died in 1883, Weber was only 19. Marx lived long enough to witness the unification of Germany under Bismarck, Weber grew in that Germany. While the former saw the beginning and the growth of capitalism in Germany and the world, the latter saw its establishment as the general order<sup>43,44</sup>

To reiterate, the 1848 revolutions that had erupted throughout Europe had failed in Germany because old nobility continued holding power. Among the revolutionaries that had to leave Germany was none other than Karl Marx himself<sup>45</sup>. In France, Marx became acquainted with the socialist movements of that country.

### **2.3 Karl Marx's conceptualization of class**

Karl Marx created his critical theory as a critique of the emerging force of capitalism that was taking the place of older feudal system that was in place in Europe during his lifetime. With the emergence of industrial revolution, the new bourgeoisie that were gaining prominence, wanted a new system that favored them and were fighting the old feudal nobility and their system. He argued that each society has two classes that are

---

<sup>41</sup>Wolmar, C.(2010). *Blood, Iron and Gold: How the Railways Transformed the World*. p.96.

<sup>42</sup>McLellan, D. (2006). *Karl Marx: his life and thought*. Palgrave Macmillan. p. 137.

<sup>43</sup>Padover, S. K. (1978). *Karl Marx, an intimate biography*. McGraw-Hill Companies, p. 32.

<sup>44</sup>Weber, M., &Zohn, H. (1988). *Max Weber: a biography*. Transaction Publishers, p. 35.

<sup>45</sup>Zucker, A. E. (Ed.). (1950). *The Forty-Eighters: Political Refugees of the German Revolution of 1848*. Columbia University Press.

most important, the ones who own the means of production and the owners of labor<sup>46</sup>. He analyzed societies by using historical materialism, saying that people always need to work on nature to survive and some people, by owning the means of production, (which could be land, raw materials, knowledge, and etc.) live off the labor of other people. That is to say they exploited their advantage and forced people without those advantages to exchange their labor with something that has less value (which is their wages<sup>47</sup>).

In the process of production, the value that was created in the final product was more than the sum of the value of the raw materials, the land and the tools used, and the labor that was done in order to create the final product<sup>48</sup>. For Marx, this added value was surplus value. So that the laborers only received a wage that barely met their daily needs and the rest of the profits of the surplus value were appropriated by the capitalists.

He believed that society forms around these relations of production, and societal norms and culture arise to support and protect their relations.<sup>49</sup>.

He differentiated four types of society, from tribal to ancient times and feudal to capitalist societies. In the ancient times there existed a slave class and slave owner class. In the feudal society there were the landowners and the serfs and finally in the

---

<sup>46</sup>Marx, K., Engels, F., & Moore, S. (1937). *Manifesto of the communist party*(p. 6). International Book Shop.

<sup>47</sup> Marx, K., & Engels, F. (1902). *Wage-labor and capital*. New York Labor News Company. P.9.

<sup>48</sup>Marx, K. (1867). *Capital*, volume I. p.287.

<sup>49</sup>De Nys, M. (1978, July). Marx's Historical Materialism. In *Proceedings of the American Catholic Philosophical Association* (Vol. 52, p. 179).

capitalist society the bourgeois and proletariat classes<sup>50</sup>. He believed that there is always a conflict between these main classes and apart from the objective differences in income and prosperity, the laws, the politics of the time, the art and all other aspects of culture form an ideological framework within which the conflict exists and people fight over it. When the worker class or the class that exchanges its labor with wages, becomes aware of the inequality that the existing relations of production produce, they would fight it in a revolution to replace the ideological system. That system includes politicians, laws, art and culture as a whole. The working class tries to replace the old system of ideas with new relations that change the relationship between the ones who own the means of production, property and capital, and the owners of labor. Such revolutions create an ideological system of their own that is there to serve the new relations of production<sup>51</sup>.

Marx and Engels both were counted among the young Hegelians, a group of young thinkers that followed the teachings of the German philosopher, Hegel and opposed the Prussian government.

Like Plato, Hegel believed that freedom was very important and it was the reason why the soul is a higher and fuller reality than the material world<sup>52</sup>. In continuation of this line of thought, he believed that the ideas were more important than materials. So in Hegelian thought every element of philosophy, from morality to freedom contributed to the importance of ideas and these ideas were what drove the material world forward.

---

<sup>50</sup>Marx, K., & Engels, F. (1973). *Karl Marx on Society and Social Change: With Selections by Friedrich Engels*. University of Chicago Press. p. 20.

<sup>51</sup>Jakubowski, F. (1976). *Ideology and superstructure in historical materialism*. St. Martin's Press. p. 19.

<sup>52</sup> Hegel, G. W. F. (1991). *The encyclopaedia logic*. Trans. TF Geraets, WA Suchting, and HS Harris. Indianapolis: Hackett. p.371.

Therefore, he paid more attention and importance to the ideas<sup>53</sup>.

Marx criticized Hegel's dialectics by saying that it was used for too many abstract things such as ideas inside the brain, while it should be implemented on the outside, material world<sup>54</sup>. While Hegel promoted the importance and priority of the ideas, Marx believed that it is the material world that matters and the ideas are all in service of what the material world dictates<sup>55</sup>.

Another difference of opinion between Hegel and Marx is on their notions of freedom, Hegel thought that freedom would develop at the society level as a whole, in the form of what he called Spirit, Marx went further than that and said that in order for the whole society to reach freedom, first the freedom of each individual must be achieved<sup>56</sup>.

Throughout his life, Marx studied the socialist ideas in the works of other French intellectuals such as Jean-Jacques Rousseau, and Charles Fourier. While he agreed with the basis of their works, their way of solving the problems was not realistic for him and he believed without fundamental change no real change can happen<sup>57</sup>.

In such a society, the ones who own the means of production and the owners of labor are in a dialectical relationship in which there is eternal conflict of interests. Each would strive to get more profits and usually it is the ones who own the means of production that benefit most in societies and exploit the workers. For him all history

---

<sup>53</sup>Calhoun, C. (2012). *Classical sociological theory*. John Wiley & Sons. p.122.

<sup>54</sup>Marx, K., & Engels, F. (1970). *The german ideology* (Vol. 1). International Publishers Co. p. 9.

<sup>55</sup>Marx, K., Easton, L. D., &Guddat, K. H. (1997). *Writings of the young Marx on philosophy and society*. Hackett Publishing. p. 325.

<sup>56</sup> Smith, C. (2005). *Karl Marx and the Future of the Human*. Lexington Books. p.118.

<sup>57</sup>Sherman, H. J. (1995). *Reinventing Marxism*. JHU Press. p.5.

is history of class struggle<sup>58</sup>.

He believed that history should be read thus and that is how he based his main criticism of capitalism and his prophecy that the existing conflict between the ones who own the means of production and the proletariat class will end up in a synthesis of revolution in which the society would move towards a more egalitarian system of norms and culture where the system takes from each member according to their ability and gives to each according to their need<sup>59</sup>.

Among other important factors in Marx's critique of capitalism was alienation. He thought the feeling of belonging and creation that a craftsman has in his work is taken away from the modern worker by the modern division of labor. It splits production into very small, repetitive, and tedious parts and each worker is assigned only to one of these small portions to create a whole product. This way the worker who is in charge of oiling the sewing machine in a textile factory does not feel any sense of mastery and ownership of the final product. This process of production is not designed by the worker, but by the capitalist class, using the intellectual labor of engineers and designers to shape the final product in a way that with minimum cost to the capitalist (cost being the wages paid to the workers and engineers and designers and all other costs of production) maximizes the return of the capital. In this fashion, the worker receives the least amount of wage possible, while being the main producer of the final product, and their sense of ownership of labor itself is also reduced to that of a worker that receives a wage, which is a set amount regardless of the profit that the final product

---

<sup>58</sup> Marx, K., & Engels, F. (2009). *The economic and philosophic manuscripts of 1844 and the Communist manifesto*. Prometheus Books. p.5.

<sup>59</sup>Cohen, G. A. (1974). Marx's dialectic of labor. *Philosophy & Public Affairs*, p.252.



yields<sup>60</sup>.

Marx also argued that the value of a commodity is not necessarily in accordance with the amount of labor that has been used to produce it, it is sometimes due to the intrinsic values that people attribute to economical products<sup>61</sup>. He called this, commodity fetishism. It is the relationships that take place in an economic system between the goods and money, traded in a market. This relationship masks the real economic relationship between the capitalist and the worker. They do not feel as a person in a social world, but rather as material producer of a commodity in a market/economic system. The value exists not in people, but in labor and commodities that is exchanged between them<sup>62</sup>.

Religion was viewed by Marx as the opium of the masses, and as the soul of the soulless, both a protest and an expression of suffering. He believed that religion helped the ruling class to enforce their values and protect their way of owning the means of production and surplus value of society, but religion was also seen as a factor that can move the oppressed<sup>63</sup>.

In his works, Marx has distinguished three different classes, bourgeoisie, proletariat and petit bourgeoisie. For him, what was important, was the position of these parts of society with respect to production relationships. Did the means of production belong to them, did they sell their own labor or buy the labor power of others? The means of

---

<sup>60</sup>Tolman, C. (1981). Karl Marx, alienation, and the mastery of nature. *Environmental Ethics*, 3(1), p.64.

<sup>61</sup>Kosoy, N., & Corbera, E. (2010). Payments for ecosystem services as commodity fetishism. *Ecological economics*, 69(6), p.1231.

<sup>62</sup>Carver, T. (1975). Marx's commodity fetishism. *Inquiry*, 18(1), p.61.

<sup>63</sup>Marx, K., & Engels, F. (2012). *On religion*. Courier Corporation. p.95.

production belong to the bourgeoisie (the capitalist class) and they buy the labor from other people, the proletariat sell their own labor, and the petit bourgeoisie own the means of production however, unlike the bourgeoisie they do not buy proletariat's labor, and use their own labor. For Marx the petit bourgeoisie were also part of the Bourgeoisie, only they did not buy the labor of others<sup>64</sup>. Marx believed that these classes had a conflict of interest, the capitalist class would want to maximize their gains from the process of production through minimizing the amount they pay for the labor that they buy. On the other hand, the workers would benefit if their wages go higher and higher, so that they receive the maximum amount of money for the labor they sell<sup>65</sup>.

These conflicting interests would create a sense of repression among the workers. Once the working class realized their shared interests and the shared conflict they have with the capitalist class, they would join each other and revolt against the capitalist class.

The goal of their revolution would be creation of a new relationship that benefits them. All industries would become public owned and the full benefit of the capitalist system would reach all the members of the new society.

The new pattern and game rules, changed the global economic game as well, so that the exploitation did not occur as much within the industrial societies, rather it created a duality between the industrial societies and the developing societies. In other words

---

<sup>64</sup>Marx, K., & Engels, F. (1967). *The communist manifesto* (1848). Trans. AJP Taylor. London: Penguin. P.25.

<sup>65</sup>Robinson, R. V., & Kelley, J. (1979). Class as conceived by Marx and Dahrendorf: Effects on income inequality and politics in the United States and Great Britain. *American Sociological Review*, p.45.

it created a center and a periphery and the zero sum game was used in this new field<sup>66</sup>.

As was shown, Marx criticized his contemporary society, and the capitalist economic system that it possessed. He thought that the society he lived in, suffered from inequality, and his way of explaining this inequality was by introducing the duality of capital owner and labor owner, or the proletariat and the bourgeoisie, where he believed that the share of the capital owner in the profits of the production was unjustly greater than that of the labor owner. In this way, it can be explained that in a given society, if the owners of labor have less share in the profit of the process of the production than the owners of capital, there is social inequality in that society and the bigger the difference in that share, the bigger the rate of inequality.

## **2.4 Max Weber and Social Stratification**

Weber published the Protestant Ethics and the Spirit of Capitalism in 1905. In his book he argued that religion was not merely a tool of the economic system to protect its values and subdue the masses. It is a group of ideas that have the force to create a new system of economic relations. He compared the Protestants and Roman Catholics. The Protestants had no confessions to wipe their sins. They had to wait till the Day of Judgment and they could gain the favor of god through hard work and labor<sup>67</sup>.

In his view, religion (in this specific case, Protestantism), helps create a society where capitalism could grow and become the dominant way of life. Thus it was not capitalism that used religion to suppress masses, rather, religious masses chose capitalism that conformed to their ideas of a good life and a good society.

---

<sup>66</sup>Frank, A. G. (1989). The development of underdevelopment-From Volume 18, 1966, Monthly Review reprint. *Monthly review*.

<sup>67</sup>Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*, trans.Talcott Parsons (New York: Charles Scribner's Sons, 1958), pp. 7.

Weber, explained differences between different classes in society in three main ways: income, status, and power. A person differed from other people based on how much money he could make, so a basis for difference between classes is their income. That is to say, how much they can earn distinguishes different classes. That is how a broker and a baker live quite differently and could be distinguished easily. Two people could also differ based on their status in society, so that the prestige or race of a person, distinguishes them from others<sup>68</sup>. Lastly people are different in a society based on their power. For example a professor has more power than a student and a judge has more power than the both of them<sup>69</sup>.

These factors all help create a person's and a class's life chances, that is to say how much they can improve their living standards, their situation in life. For classes, Weber categorized these factors into three groups: social class (the economic part), status (how society views them, in terms like honor and prestige), and party (which side they choose in politics)<sup>70</sup>.

On the question of the origin of the power, Weber defined three different and separate styles<sup>71</sup>: first was the old way, in which rulers sought their legitimacy through myths. The traditional authority, in which the difference between parts of society is not that of classes, but that of status. That is how a king could bestow nobility upon somebody and that status and its privileges remained in the family of that person. For example

---

<sup>68</sup> Clark, T. N., & Lipset, S. M. (Eds.). (2001). *The breakdown of class politics: A debate on post-industrial stratification*. Woodrow Wilson Center Press. p.42.

<sup>69</sup> Bendix, R., & Lipset, S. M. (Eds.). (1966). *Class, status and power* (pp. 295-307). New York: Free Press.

<sup>70</sup> Waters, T., & Waters, D. (2015). The Distribution of Power Within the Gemeinschaft: Classes, Stände, Parties. In *Weber's Rationalism and Modern Society*. p.69. Palgrave Macmillan US.

<sup>71</sup> Mann, M. (1984). The autonomous power of the state: its origins, mechanisms and results. *European journal of sociology*, 25(02), p.201.

they were exempt of paying taxes, or they could bear arms and become knights<sup>72</sup>.

A second form of authority is the type where a leader, using his personal passion and attraction, and people who are loyal to the charismatic leader, become the powerful members of the society. A good example is that of Napoleon who through his charisma, changed the shape of France and Europe<sup>73</sup>.

In our times, Weber continues, a third form of authority is in place, the legal authority, in which it is a set of laws and rules that elect a person to the position of authority. In that system bureaucrats are in charge. They follow the laws and know what to do in the system. It is noteworthy that even though the modern world has the legal authority, instances of older versions, traditional and charismatic authority can still be observed within the legal authority system.

It was shown above that there were three ways in which classes differ in a society, yet, power is dependent on status and income, in such a way that it comes as a consequence of one or both of them. For example, if one person is very rich, or has a very high status, as a consequence he is placed in a position in the society which brings him power<sup>74</sup>. Weber and Marx viewed class stratification differently.

Marx looked everything through his lens of the relationship between the ones who own the means of production and owners of labor and the struggle for power was a struggle for better conditions in this conflict. Weber on the other hand had a more complicated

---

<sup>72</sup> Spencer, M. E. (1970). Weber on legitimate norms and authority. *The British journal of sociology*, 21(2), p.128.

<sup>73</sup> Dow, T. E. (1969). The theory of charisma. *The Sociological Quarterly*, 10(3), p.311.

<sup>74</sup> Uphoff, N. (1989). *Distinguishing power, authority & legitimacy: Taking Max Weber at his word by using resources-exchange analysis*. Polity, p.307.

idea. He believed that a person could gain power through the three components of social class, status and party. Their status would give them power in the social order, their party would bring them power in politics and if their social class has more power, they would have more economic power<sup>75</sup>.

They were also in disagreement on the idea that the shared economic chances, or misfortunes in the case of workers would lead to a consciousness of shared interests and lead to collective social action to bring changes that would improve those shared economic chances. Despite his observations that severe poverty would make people more selfish<sup>76</sup>, Marx believed that the bourgeoisie would ever increase the gap between the share of the profit of themselves and the proletariat, so much so that the proletariat would have no other option but to seek to change the whole capitalist system. Weber on the other hand thought that this understanding and awareness of the shared goals that would produce collective action for social and political change, does not rise from within the working class. He thought that an outsider, such as an intelligentsia would guide the negatively situated working class and unify them to confront the positively situated capitalist class<sup>77</sup>.

Although Weber disagreed with Marx on the basis of the classes, there is only one instance in which they are similar to each other and that is in their common observation that a society is a market society. In a market society, Weber agreed that there are two main classes, the capitalist class and the labor class. And he believed a person is positioned in a society in way that is either positively privileged or negatively

---

<sup>75</sup>Salomon, A., & BENDIX, R. (1960). *Max Weber: An Intellectual Portrait*. p.87.

<sup>76</sup>Bendix, R. (1974). Inequality and social structure: a comparison of Marx and Weber. *American Sociological Review*, p.158.

<sup>77</sup>Bendix, R. (1974). Inequality and social structure: a comparison of Marx and Weber. *American Sociological Review*, p.161.

privileged<sup>78</sup>. So if a person is born in a poor family, that person has less chances of success, as he/she receives less education, has less access to healthcare and has less chances of acquiring a job that would enable that person to earn enough money. Yet Weber distinguished between the employers and employees rather than those who own the means of production and owners of their own labor<sup>79</sup>.

Weber saw other classes that were between these main two classes. For example the middle privileged property class that has members of both positively and negatively privileged classes. The Entrepreneurs and workers are both members of this class. Entrepreneurs are the positively privileged members and workers the negatively privileged members. These distinctions do not mean that he viewed class through privilege (as Marx saw it through production relations), rather he gave examples of classes using privilege<sup>80</sup>.

Weber wrote his “Protestant Ethics” in order to start a discussion around his main points in the book, of the relationship of the ideas and the societal changes and he did accomplish that end. Years after his death, still his ideas incite discussion and there has been a very broad range of criticisms pointed to his thesis. Anthony Giddens, wrote an introduction to a translation of his “Protestant Ethics” and there, after covering Weber’s intellectual career, he covers that broad range of criticisms. He dismisses a great number of the criticisms as self-contradictory or ignorant of Weber’s ideas<sup>81</sup>.He

---

<sup>78</sup> Cox, O. C. (1950). Max Weber on social stratification: A critique. *American Sociological Review*, p.224.

<sup>79</sup>Breiger, R. L. (1981). The social class structure of occupational mobility. *American Journal of Sociology*, p.586.

<sup>80</sup>Jones, B. (1975). Max Weber and the Concept of Social Class. *The Sociological Review*, 23(4), p.740.

<sup>81</sup>Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*, trans.Talcott Parsons (New York: Charles Scribner's Sons, 1958), Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*, trans.Talcott Parsons (New York: Charles Scribner's Sons, 1958), p.xxi.

believes that the causal link between the Calvinist ideas (all work is holy, society as a whole is more important than family<sup>82</sup>) and certain economic activities might not exist, or that the relationship is the other way around. That the economic changes are what caused the change, from Protestant ideas to Calvinist ideas.

Furthermore, many argue that his thesis is largely Anglo-Saxon centered, that if other contemporary Western European Protestant communities are studied, the same link would not appear, an example of which is the Switzerland.

Another strong criticism is that the Catholic ideas are not necessarily against capitalistic activities and that those ideas have in some cases worked towards a capitalistic society. And lastly the concept of calling (the Christian terminology for religious and holy work, usually applied to priests and nuns, and in Weber's opinion, in Calvinist societies could apply to all work that was done for god<sup>83</sup>) that Weber puts at the center of his ideas is not definitely a new idea, and it has existed before, however it has also changed due to the broad changes in society that preceded the emergence of Capitalism<sup>84</sup>.

To sum up, Weber looks at the forces at work in the society in a different light. Instead of ideas being the tools of the production relationships, the whole society shapes itself in way to follow ideas. His famous example for that, is the protestant ethics that in his opinion created capitalism. These protestant ethics were a series of ideas that placed

---

<sup>82</sup>Swidler, A. (1986). Culture in action: Symbols and strategies. *American sociological review*, p.272.

<sup>83</sup>Allan, K. (2005). *Explorations in classical sociological theory: Seeing the social world*. Pine Forge Press. p.162.

<sup>84</sup>Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*, trans.Talcott Parsons (New York: Charles Scribner's Sons, 1958), Weber, M. (1958). *The Protestant ethic and the spirit of capitalism*, trans.Talcott Parsons (New York: Charles Scribner's Sons, 1958), p.xx.



importance on all kinds of work, provided that they contribute to society as a whole.

## **2.5 Conclusion**

This chapter intended to set the theoretical framework by examining the key theories of class and social inequality proposed by two of the most notable thinkers in the field, Karl Marx and Max Weber.

Marx criticized the dominant theories of political economy of his age. He analyzed society and history, by looking at the relationships between those who own the means of production and the people who have to sell their labor power to make a living. He argued that during time, as the ability to produce progresses, the relationship between these two main classes of society changes. In time that change will be so great that a revolution happens. He believed that it is in the nature of capitalism to enhance the distance between the proletariat and the bourgeoisie by the implementation of new technologies to maximize the efficiency and output of the workers for the least amount of wages that is possible. It is this nature of capitalism that helps create a working class consciousness. In time that consciousness helps the proletariat organize themselves against the bourgeoisie and revolt against capitalism, create a more socialist system which in time will give its place to communism, in which the distribution of surplus production in society is based on person's abilities and needs.

Weber and Marx viewed class stratification differently. Marx looked everything through his lens of the relationship between those who own the means of production and owners of labor and the struggle for power was a struggle for better conditions in this conflict. Weber on the other hand had a more complicated idea. He believed that a person could gain power through the three components of social class, status and party. Their status would give them power in the social order, their party would bring

them power in politics and if their social class has more power, they would have more economic power.

Weber believed that possession of properties is one of the ways to define a class in a society. Those who have more property have more chances of enhancing their position in life, their life chances and the life chances of their children, and this is perhaps the closest the ideas of Marx and Weber get, as Weber was mostly critical of Marx's theories. Weber believed that any person situated within a class in a society, has certain amount of life chances, which is in direct relation with the amount of that person's material wealth, his ability to increase that wealth and his or her standard of living. In other words, people are positively or negatively situated in the market and labor relations, those with property are better situated to enhance their living, capital, power, and status within the society.

Weber distinguishes between three kinds of authority in a society: traditional, charismatic, and legal or rational. He believed that the modern capitalist society had legal authority, in which the bureaucracy rules and to make changes in the society, one should know how to deal with the bureaucracy. This kind of system of authority increases the division of labor and specialization and monopolizes the use of aggression in a given nation-state. For Weber, the most critical and conflicting phase of capitalism was its establishment, once the new superstructure of ideas, laws, and socially accepted relationships of production were in place, the struggle and conflict will be reduced. This is of course in direct contradiction with Marx's prophecy of the escalation of conflict between the working class and the capitalist class that would eventually end in revolution and communism. Both theories that were covered in this chapter explain society and the conflicts and inequality within that society, one with

the production relationships and the other with the three components of power, status and income.

After careful consideration of both theories, I decided to opt for Marx's theory that explains the concept of class on the basis of production relationships. I believe that someone's position in the production relations, i.e. whether he/she has access to the means of production or not also impacts his income, status and power in the society. Weber breaks it down, so that many different things causes inequality in society. A person might have low income but have high status in the society. In such an analysis, the roots of inequality become ambiguous, while in Marx's theory, it can be seen that at the heart of the functions of society lies the production relationships. It is a person's situation in these relationships that decide their status, income and the resulting power of these two. It is in this way that Marx offers a deeper understanding of inequality in societies and that is why I chose Marx's theoretical framework to analyze Iranian political economy after the Islamic Revolution.

## Chapter 3

### HISTORICAL BACKGROUND

#### 3.1 Introduction

Islamic Revolution of Iran that took place in 1979 was a major event in the 20<sup>th</sup> century and its roots could be traced well back into the 19<sup>th</sup> century, where the people of Iran had experienced another revolution. Both revolutions shared many similar actors and motives. In this chapter, the historical roots and the main classes that were involved in making the 1979 revolution happen will be discussed.

The chapter will begin by an introduction of state of affairs in the Qajar period (1789-1925) where people revolted against absolute monarchy and the presence of the foreign actors in Iranian politics and economy. That movement led to Iran's Constitutional Revolution (1906 – 1911)<sup>85</sup>. The people demanded a court of justice and a constitutional monarchy instead of the absolute monarchy. Even though they fought hard, the royalty and the British and the Russians did not like the idea very much, and the movement was suppressed.

The chapter will then continue with the first Pahlavi era with King Reza Shah Pahlavi (that ruled between 1925 and 1941). In that era Iran went through many changes and moved many steps towards modernization with modern schools, huge infrastructure programs, university and a modern army. At the same time, Reza Shah ruled with

---

<sup>85</sup>Afary, Janet. "*The Iranian constitutional revolution, 1906-1911.*" New York (1996): p.63.

absolute power and no dissent was tolerated. Lastly the chapter will cover Reza Shah's abdication and the rule of his heir, the last monarch of Iran, Mohammad Reza Shah Pahlavi, who was also known as the Shah (ruled between 1941 and 1979).

In each of these periods the chapter will explore the main classes of the Iranian society that were most important and effective and for the second Pahlavi era, it will go in depth to see which groups and classes were involved in the Islamic Revolution.

### **3.2 Qajar Iran**

The Islamic Revolution of Iran was the outcome of many events and efforts that had been going on for more than seventy years. Many of the powerful feelings that were reflected in the slogans and demands of the revolutionaries were expressed nearly 80 years before in the movement that was called the constitutional revolution of Iran.

Factors such as foreign intervention in Iranian politics, lack of rule of law, and the gap between the wealthy and those who didn't have much, especially between the lifestyle of the royal court and the poor members of the society and the dissatisfaction they created were there when the constitutional revolution was happening. Even though most of the revolutionaries were suppressed, years later, they were seen again when the oil nationalization movement began in 1950s. When that movement was also suppressed, the same problems could be heard in the slogans and demands of the revolutionaries that rose against the Shah and his regime<sup>86</sup>.

During the rule of Qajar dynasty (1789 – 1925), Iran lost a lot of its territory in what became parts of the neighbour countries of Afghanistan, Pakistan, Turkmenistan,

---

<sup>86</sup>Arjomand, S. A. (1986). Iran's Islamic Revolution in comparative perspective. *World Politics*, 38(03), p.394.

Tajikistan, Armenia, Azerbaijan, and Georgia<sup>87</sup>. A great sense of humiliation was felt in Iran after consecutive defeats against the Russian Empire and the Great Britain. Among the most important sources of dissatisfaction against the Qajar dynasty, was the numerous concessions that the kings gave to Europeans, to finance their trips to Europe and the lavish lifestyle of the royal court<sup>88</sup>. The most notable of such concessions was the D'Arcy concession. It was an oil prospecting concession. In certain parts of southern Iran, it was thought possible that oil could be found. That is why William D'Arcy, A British businessman and king Mozaffar ad-Din Shah of Iran. It gave exclusive right to prospect for oil in Iran to the British partner. This agreement was made for the period of 60 years<sup>89</sup>, and it haunted the successor kings, until the Oil Nationalization Movement successfully nationalized oil in the 1950s<sup>90</sup>.

In the early 1900s, the colonial competition between Russia and England had terrible effects on the lives of Iranians, under the incompetent rule of the Qajar kings. The overall weakness of the government and the comparison that people made between their country and other similar countries led to the dissatisfaction of the people<sup>91</sup>.

One good example of such countries was Japan. The Meiji Restoration (1868), changed the feudal system of the Shoguns to a new centralized western form of constitutional monarchy<sup>92</sup>. Japan modernized itself and grew in power to the degree

---

<sup>87</sup>HomaKatouzian, HosseinShahidi, 2007. *Iran in the 21st Century: Politics, Economics & Conflict*,P.44

<sup>88</sup>Amirahmadi, H. (2012). *The Political Economy of Iran under the Qajars: Society, Politics, Economics and Foreign Relations 1796-1936* (Vol. 30). IB Tauris.

<sup>89</sup>Paine, C., &Schoenberger, E. (1975). *Iranian Nationalism and the Great Powers: 1872-1954. MERIP Reports*, (37), p.6.

<sup>90</sup>Elm, M. (1994). *Oil, power, and principle: Iran's oil nationalization and its aftermath*. Syracuse University Press. p. 283.

<sup>91</sup>Peter Avery, G. R. G. Hambly C. Melville, 2008. *The Cambridge history of Iran Volume, 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press, P.179

<sup>92</sup>Coox, A. D. (1973). *Meiji 1868: Revolution and Counter-Revolution in Japan*: Akamatsu, Paul:(Translated from the French by Miriam Kochan) New York: Harper & Row. p. 298.

that it brought defeat to Tsarist Russia in the Russo-Japanese War (1904-1905). To the people who had been beaten by western powers, this defeat showed that the east could still win against the west, given the circumstances<sup>93</sup>. The other factor that changed the view of Iranians on how a government should work was the return of the Iranian students from Europe. These students were sent to Europe to learn the new sciences. They spoke of the rule of law and of constitutional monarchies they had witnessed there, that the king was also subject to law and not above it<sup>94</sup>.

The first wave of students was sent to Europe after Iran's defeat by the army of Russia. The then crown prince, Abbas Mirza (1789 - 1833) sent a group of students to learn the European style of military training<sup>95</sup>. The trend to travel to Europe to learn the new sciences continued until Amir Kabir (1807-10 January 1852, the most notable reformist of the Qajar era<sup>96</sup>) Naser al-Din Shah's (ruled 5 September 1848-1 May 1896) minister, created a polytechnic school called Dar ul-Funun<sup>97</sup>. These students who studied the modern sciences came from different parts of the society, from princes and wealthy families to middle class merchants and clerics.

The other members of petite bourgeoisie class of the society that were literate and dissatisfied with the way the kings ruled were the clerics<sup>98</sup>. They protested against the increasing power of foreigners (especially the English and Russians). In their eyes the Christians were infidels and according to Islam, infidels should not be allowed control

---

<sup>93</sup>Deutschmann, M. (2015). *Iran and Russian Imperialism: The Ideal Anarchists, 1800-1914*. Routledge. London. p.158.

<sup>94</sup>John Foran 1993. *Fragile Resistance: social transformation in Iran from 1500 to the Revolution*. Westveiw Press, p.181

<sup>95</sup>Mikaberidze, A. (Ed.). (2011). *Conflict and Conquest in the Islamic World: A Historical Encyclopedia*. ABC-CLIO. p.517.

<sup>96</sup>Molavi, A. (2005). *The Soul of Iran*. p. 197.

<sup>97</sup>Abrahamian, E. (1982). *Iran between two revolutions*. Princeton University Press. p.76

<sup>98</sup>Gleave, R. (Ed.). (2004). *Religion and society in Qajar Iran*. Routledge.London. p.25.

over the livelihood of Muslim societies<sup>99</sup>. The more power infidels wielded meant that the ideology of the British and the Russians would fill the minds of masses instead of the teachings of Islam. Moreover, in their eyes the laws of Islam were not being followed by the king and the government<sup>100</sup>.

These factors worked together as the events followed to lead to a constitutional revolution. The king (Mozaffar ad-Din Shah, ruled 1896-1907) who was very old when he finally left the title of the crown prince and became the king<sup>101</sup>, did not and could not put up much of a fight against the popular demand for the establishment of a court of justice and a parliament. Mozaffar ad-Din Shah soon died after signing the decree of the constitution<sup>102</sup>.

His son, Mohammad Ali Shah (ruled between 3 January 1907 and 16 July 1909) was dependent on the Russians due to the loans his father had taken<sup>103</sup>. He did not much like the limits on his power with the new constitution and parliament. It did not take him long to put the parliament under cannon fire with the aid of the Russian Cossack force and dissolve the parliament and end the reign of the new constitution<sup>104</sup>.

These actions angered the supporters of the constitutional monarchy and they began to march with arms towards the capital, after some battles between them and the royalist

---

<sup>99</sup>Tabataba'i, M. H.,. *Al-Mizan - An Exegesis of the Qur'an*. Translated by: Akhtar Rizvi, S., Vol 5, p.116.

<sup>100</sup>Arjomand, S. A. (1981). *Shi'ite Islam and the Revolution in Iran. Government and Opposition*, 16(3), p.316.

<sup>101</sup>Mostowfi, A. (1997). *The Administrative and Social History of the Qajar Period [The Story of My Life]: From Mozaffar ed-Din Shah to Vosuq od-Dowleh's Anglo-Persian Agreement*, trans. NayerMostofi Glenn, 3.

<sup>102</sup>Nashat, Guity. *The Origins of Modern Reform in Iran, 1870-80*. Univ of Illinois Pr, 1982.

<sup>103</sup>HomaKatouzian. 2000. *State and Society in Iran: The Eclipse of the Qajars and the Emergence of the Pahlavis*. P.63

<sup>104</sup>Arjomand, S. A. (1981). The Ulama's traditionalist opposition to parliamentarianism: 1907–1909. *Middle Eastern Studies*, 17(2), p.180.



forces, the capital, Tehran was conquered.

Mohammad Ali Shah fled to Russia, and his son, Ahmad Shah (ruled 16 July 1909-15 December 1925) became the next king<sup>105</sup>. Ahmad Shah was too young to become king immediately, and until the coronation he had to rely on regents who ruled in his stead. His rule was at the same time as the First World War. Despite his decree of the neutrality of Iran in the war, the country became the scene of the battles of the First World War<sup>106</sup>. During the times of war there came a time when the government's ability to govern the country was so weakened that it could barely control the capital Tehran, and the rest of the country was out of control<sup>107</sup>. Later on, his prime minister and the future King, Reza Shah, performed a military coup, and some years later he left the country for medical reasons, a journey that turned into an exile<sup>108</sup>.

Before moving forward to the next dynasty and how things turned around, here's a look at the economical state of Iran during these periods: during the 19<sup>th</sup> century, the economy of Iran became more and more dependent on Russia and England. This came as a result of many loans taken by the kings and also by selling the rights of customs and mines and roads and telegraph and other income sources<sup>109</sup>. The growth in the economy that had happened in throughout the century was not controlled by the government nor did its benefits go to the majority of the people. A select few, including

---

<sup>105</sup>Ghods, M. R. (1991). Iranian Nationalism and Reza Shah. *Middle Eastern Studies*, 27(1), p.39.

<sup>106</sup>Majd, M. G. (2013). *The Great Famine & Genocide in Iran: 1917-1919*. University Press of America.

<sup>107</sup>Kazemzadeh, F. (1968). *Russia and Britain in Persia, 1864-1914: A Study in Imperialism* (Vol. 6). Yale University Press.

<sup>108</sup>Zirinsky, M. P. (1992). Imperial Power and Dictatorship: Britain and the Rise of Reza Shah, 1921–1926. *International Journal of Middle East Studies*, 24(04), p.653.

<sup>109</sup>Abrahamian, E. (1974). Oriental despotism: The case of Qajar Iran. *International Journal of Middle East Studies*, 5(01), p.21.

the court of the king, some of the landlords and merchants were reaping the benefits<sup>110</sup>. During the years of the Constitutional Revolution different factions of political players had been formed: The Islamic clergy, nationalist secular intellectuals, conservative intellectuals and the Bazaar. During these years they protested the king's powers and fought with the court and within themselves as their ideas for an ideal government were not compatible<sup>111</sup>.

When World War I ended, Iran was left in a devastating state; the armies of Russia controlled the northern parts of Iran and the armies of England controlled the southern parts. The king, Ahmad Shah couldn't accomplish much.

The British decided that in order to secure their interests in India, Iran needed a strong government. This would enable the Russians and other European powers to use Iran as a base to attack and threaten the British forces in India. Thus they arranged a coup, Zia'eddin Tabatabaee (1888-1969) was the political leader<sup>112</sup> and Reza Khan (a Cossack force colonel, later to be King, Reza Shah, ruled 1925- 1941) was the military leader. After the coup's success, Tabatabaee took the job of the Prime Minister and Reza Khan was chosen to be the minister of war <sup>113</sup>.

In the following years after the world war, Reza Khan continued to rise to prominence. He went and oppressed the separatist movements in different parts of the country and ensured army's revenue so that the standing army he had made grew in power<sup>114</sup>.

---

<sup>110</sup>Floor, W. M. (2009). *Guilds, merchants, and Ulama in nineteenth-century Iran*. Mage Pub. p.165.

<sup>111</sup>Algar, H. (1980). *Religion and state in Iran, 1785-1906: the role of the ulama in the Qajar period* (No. 17). Univ of California Press. p.165.

<sup>112</sup>Abrahamian, Ervand (2013). *The coup : 1953, the CIA, and the roots of modern U.S.-Iranian relations*. New York: New Press, The. p. 36

<sup>113</sup>Majd, M. G. (2001). *Great Britain and Reza Shah*. University Press of Florida. p.267.

<sup>114</sup>A. Banani, 1961. *Modernisation of Iran, 1921- 1941*, p.41.

Furthermore, he introduced conscription and forced the tribal powers in the country to send their youth to the army<sup>115 116 117</sup>.

In the 19<sup>th</sup> century, tribes were political and military forces to be reckoned with in Iran. They exercised autonomy in their own territories and the Qajar kings could not directly oppose them. Tribal leaders were from time to time some of the highest ranking ministers<sup>118</sup>.

Their main way of life, source of food and income was animal husbandry. They would travel from pasture to pasture in different seasons and protect their territory and fought over better pastures and routes with other tribes.

The new tax and conscription that was put in effect by Reza Khan was too much for the tribes<sup>119</sup>. He did not directly force all the tribes at once. He had other opponents to his new laws of tax and conscription. The clergy of the country did not much like the outlook of the youth being taken into military service where new ideas that were not necessarily Islamic would be reinforced in their education<sup>120</sup>.

The might of the new standing army was also not enough to tackle these tribes directly; especially the Bakhtiari and Qashqai tribes. After some governments, Ahmad Shah asked Reza Khan to be not only the War Minister, but also the Prime Minister at the

---

<sup>115</sup> Ghani, C., & Ghanī, S. (2000). *Iran and the Rise of the Reza Shah: From Qajar Collapse to Pahlavi Power*. IB Tauris.333.

<sup>116</sup> Keddie, N. R., & Richard, Y. (2006). *Modern Iran: Roots and results of revolution*. Yale University Press. 87.

<sup>117</sup> Ghods, M. R. (1991). Iranian Nationalism and Reza Shah. *Middle Eastern Studies*, 27(1), p.40.

<sup>118</sup> Peter Avery, G. R. G. Hambly C. Melville 2008. *The Cambridge history of Iran, Volume 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press P.226.

<sup>119</sup> Keshavarzian, A. (2003). Turban or hat, seminarian or soldier: State building and clergy building in Reza Shah's Iran. *Journal of Church and State*, p.111.

<sup>120</sup> E. Pesaran. 2011. *Iran's Struggle for Economic Independence*. Routledge London, p.25

same time<sup>121</sup>.

The forceful manner and nationalistic sentiments of Reza Khan had won many supporters for him in the new generation that was tired of humiliation at the hands of the Russians and the British<sup>122</sup>. However the parts of the clergy, most notable amongst which was Modarres (1870 -1937), did not like his actions and policies<sup>123</sup>. In order to avoid further Russian and English presence, the government had asked United States for financial experts and in the hopes of getting a loan from the U.S., A.C. Millspaugh had come to Iran. Millspaugh was a financial expert that was sent as an adviser to Iran by United States government to tackle the chaotic mess of Qajar bureaucracy and managed to control taxes and the economy on general to some extent, by balancing the accounts and making the bureaucracy more efficient<sup>124</sup>.

The task of subduing the rebellions had shown the importance of roads. Thus the then prime minister, Reza Khan, started to build a railroad that connected the Persian Gulf to Tehran, the capital. Railroad meant new taxes, yet he managed to eventually finish the project without any foreign loans<sup>125</sup>.

### **3.3 First Pahlavi Era**

After a certain period, Reza Khan grew in power. When the king left the country for health reasons he invited the political elite of Iran to a constitutional parliament. That

---

<sup>121</sup>Ghods, M. R. (1991). Iranian Nationalism and Reza Shah. *Middle Eastern Studies*, 27(1), p.37.

<sup>122</sup>HomaKatouzian, HosseinShahidi, 2007. *Iran in the 21st Century: Politics, Economics & Conflict*, p.44

<sup>123</sup>Michael P. Zirinsky (1992). Imperial Power and Dictatorship: Britain and the Rise of Reza Shah, 1921–1926. *International Journal of Middle East Studies*, 24, p.640.

<sup>124</sup>A. Chester. (1925).*The American task in Persia*, Millspaugh, New York & London: The Century co. p.42.

<sup>125</sup>Wright, Edwin M.. 1942. Iran as a Gateway to Russia. *Foreign Affairs* 20 (2). Council on Foreign Relations. p. 370.

parliament dissolved the Qajar dynasty and appointed Reza Pahlavi as Reza Shah, head of the new Pahlavi Dynasty<sup>126</sup>.

When Reza Shah became the king, he continued with his policy of centralization of the power in Iran, through the creation of industries in big cities, forcing the tribes into settlement, cancelling the D'Arcy concession and reaching another settlement with the AIOC (Anglo Iranian Oil Company), changing legal and education systems<sup>127</sup>.

All these were great changes and compared to the decaying 19<sup>th</sup> century of Qajar Iran, all seemed quite radical. It is important to notice that the spirit of the times was nationalism and anything, any policy that had anything to give to either Russia (now USSR after the revolution) or Britain would face severe popular resistance. This sentiment was born through the Constitutional Revolution and continued to exist and grow stronger<sup>128</sup>.

The global situation after the war had changed drastically and in the Middle East. The Tsarist Russia had fallen to revolution and due to a great number of internal problems, could not exert much authority in Iran<sup>129</sup>.

Britain on the other hand had suffered a lot from the war and although they were present, they were not as powerful as before, it was in these circumstances that in order

---

<sup>126</sup>MironRezun. Brill Archive, Jan 1, 1981 - *Political Science. The Soviet Union and the Iran: Soviet Policy in Iran from the Beginnings of the Pahlavi Dynasty Until the Soviet Invasion in 1941*. P.44.

<sup>127</sup>William L Cleveland, Martin Bunton, (December 2, 2008). *A History of the Modern Middle East, Fourth Edition 4th Edition*. Westview Press; 4<sup>th</sup> edition. P.190.

<sup>128</sup>FarzinVejdani. August 2012, Appropriating the Masses: Folklore Studies, Ethnography, and Interwar Iranian Nationalism. *International Journal of Middle East Studies*, Volume 44, Issue 3, pp. 516.

<sup>129</sup>FarzinVejdani. August 2012, Appropriating the Masses: Folklore Studies, Ethnography, and Interwar Iranian Nationalism. *International Journal of Middle East Studies*, Volume 44, Issue 3, pp. 523.

to distance Iran from these two powers, Reza Shah moved closer to the United States and Germany. Among the two, Germany was more willing to help Iran and their technicians helped Reza Shah with many of his projects<sup>130</sup>.

Nearing the end of Reza Shah's reign, the world was moving towards the Second World War and Iran's involvement with the Nazi Germany worried the British and the USSR. Reza Shah however did not expel the many German technicians or join the Allies when asked to, instead he declared Iran neutral in the war. This would not do for the Allies as they needed Iran's railway to send supplies to Russia. They conquered Iran in 1941, the British from the south and USSR from the north and they abdicated Reza Shah into exile and his son was chosen as the next king<sup>131</sup>.

Reza Shah was a dictator and enforced his will most forcefully. The pressure and suppression that he put into action during his reign, did help him in his reforms, yet they created resentment in certain parts of the society<sup>132</sup>. He seized a great deal of property in the country for himself, almost destroyed the most notable tribes of Iran and he preferred the secular government<sup>133</sup>. These factors created certain resentments within the clergy, the Qajar aristocracy, peasants and people of the country.

He also created a new rich class that prospered under his iron will, a new intellectual class that had graduated from the University of Tehran that he established or from universities of Europe. He took a country with almost no industry, roads, or commerce

---

<sup>130</sup>Peter Avery, G. R. G. Hambly C. Melville 2008. *The Cambridge history of Iran, Volume 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press, P.237.

<sup>131</sup>Bryson, S. B. (2007). A Very British Coup: How Reza Shah Won and Lost His Throne. *World Policy Journal*, p. 93.

<sup>132</sup>Marashi, A. (2011). *Nationalizing Iran: culture, power, and the state, 1870-1940*. University of Washington Press. p.111.

<sup>133</sup>Millsbaugh, A. C. (1946). *Americans in Persia.*, Washington, D.C: Brookings Institution. p. 26.

and created a legal system, industries and railway and roads<sup>134</sup>.

### 3.4 Second Pahlavi Era

Mohammad Reza Shah became the king after the Allies sent his father into exile<sup>135</sup>.

The first thirteen years of his rule were marked with his inexperience and lack of power.

When the World War II ended, the British forces left Iranian soil, however some Soviet forces remained and two Soviet governments declared their independence in the north-west of Iran<sup>136</sup>: one was Azerbaijan People's Republic the other government was the Republic of Mahabad. This crisis was called the Iran crisis of 1946<sup>137</sup>. During this time the Prime Minister Qavam (2 January 1873-23 July 1955, who in total, had the office of prime minister for five times) played the Soviets under the pretence that until Soviet forces have not left Iran's soil, parliament cannot ratify the oil contract that the prime minister had made with them. When the Soviets did take their forces out, Iran's army went and brutally subdued the self-proclaimed governments<sup>138</sup>.

As years went by, the importance of the revenues from oil grew more and more and it became a national debate where majority of the people wanted to nationalize the oil industry. The British on the other hand did not like the idea of letting go of cheap Iranian oil<sup>139</sup>. This issue grew more and more in intensity and importance until the Prime Minister Razmara was assassinated and Mosaddiq became the new prime

---

<sup>134</sup>Arfa Hassan, (1965). *Under Five Shahs*. W. Morrow. P.91.

<sup>135</sup>Chehabi, H. E. (1991). *Religion and politics in Iran: how theocratic is the Islamic Republic?*. Daedalus. p. 81.

<sup>136</sup>Rossow, R. (1956). The Battle of Azerbaijan, 1946. *Middle East Journal*, 10(1), p.29.

<sup>137</sup>Lenczowski, G. (1990). *American presidents and the Middle East*. Duke University Press. p. 9.

<sup>138</sup>Pfau, R. (1977). Containment in Iran, 1946: The Shift to an Active Policy. *Diplomatic History*, 1(4) P.365.

<sup>139</sup>Marsh, S. (2001). *HMG, AIOC and the Anglo-Iranian oil crisis: In defence of Anglo-Iranian. Diplomacy and Statecraft*, 12(4), P.158.

minister.

Mosaddiq, who was an aristocrat that had always criticized Reza Shah's policies and throughout his career in the parliament had stood for nationalization of the oil, grew more and more popular. After he became the prime minister, Iran faced a very tough economic situation. Not only the royalties from the AIOC were cut, the British blocked Iran's reserves in Britain, they couldn't get any foreign loans<sup>140</sup>.

In this period, the Shah felt that Mosaddiq is against him, so he started distrusting his prime minister. As time went by Mosaddiq's Islamist followers and the masses left him. They thought Mosaddiq is working with the communists and is not following the teachings of Islam<sup>141</sup>.

He followed very strict reforms against the very rich and against the bureaucracy and tried to establish national industries. All this, in the face of British sanctions, a parliament that turned against him over time and lastly a coup that was planned by the Americans and the British ended his time as the prime minister (19 August 1953). He was sent to the military court and afterward sentenced to prison and exile<sup>142</sup>.

In this period of time, again the intellectuals and people felt the presence of the foreigners, which added to their bitter hatred. In the short run of Mosaddiq's government, the shape of Iranian politics changed again. Now the Shah felt safe in the loyalty of the army and there was no leading opposition to his rule, yet he was in debt

---

<sup>140</sup>Clawson, P., & Sassanpour, C. (1987). Adjustment to a Foreign Exchange Shock: Iran, 1951–1953. *International Journal of Middle East Studies*, 19(01), P.12.

<sup>141</sup>Takeyh, R. (2014). What really Happened in Iran: The CIA, the Ouster of Mosaddeq, and the Restoration of the Shah. *Foreign Aff.*, 93, 2.

<sup>142</sup>Farmanfarma, A. (1954). Constitutional Law of Iran. *The American Journal of Comparative Law*, p.246.



to the Americans, General Zahedi who led the coup and the thugs from south of the capital who had helped control the streets during the coup<sup>143</sup>.

In the post-coup era, the power of SAVAK, the intelligence agency of Shah began to be sensed among Iranians. No one felt safe in expressing their opinions<sup>144</sup>. Another notable change was the fact that the Shah did not want his prime ministers to be too powerful. He wanted to control all aspects of the government and preferred prime ministers who would only look up to him and follow all his orders to the letter<sup>145</sup>.

On the economic changes, Shah focused on giving a modern look to the country and many building projects in the cities, especially in Tehran started off, the royal family and a new class of wealthy Iranians started to enjoy a prosperity that other parts of the society did not have any share in<sup>146</sup>.

These were the beginning steps that Shah took in securing his own autocracy, and he went so far in enforcing his own will that there was no return. When Ali Amini (Iranian politician, was Prime Minister for the Shah from 5 May 1961 to 19 July 1962) resigned, after initiating the land reforms, the Shah showed himself to be the hand that delivers freedom to peasants, and wherever he was opposed he brutally silenced the opposition<sup>147</sup>.

---

<sup>143</sup>Gasiorowski, M. J. (1987). The 1953 coup d'etat in Iran. *International Journal of Middle East Studies*, 19(03), P.273.

<sup>144</sup>Wege, C. A. (1997). Iranian intelligence organizations. *International Journal of Intelligence and Counter Intelligence*, 10(3), p.289.

<sup>145</sup>Fatemi, K.. (1982). Leadership by Distrust: The Shah's Modus Operandi. *Middle East Journal*, 36(1), p.51.

<sup>146</sup>HomaKatouzian, 1981. *The political economy of modern Iran*. New York University Press P.80.

<sup>147</sup>Najmabadi, A. (1987). Iran's turn to Islam: From modernism to a moral order. *The Middle East Journal*, p.213.

There came a time where Shah's parliament (for that was what the parliament had become) had to pass a law that would extend diplomatic immunity to American citizens in Iran, who mostly worked as military advisors or technicians. In the previous years, Ayatollah Boroujerdi, who was a proponent of the doctrine of no intervention in politics had died<sup>148</sup>. In the absence of the greatest cleric (which was his position), there emerged a new face in clergy, Ayatollah Khomeini, who spoke out against the aforementioned law and Shah's policies in becoming a client state for the United States. He was arrested for his speech against Shah. This was only the beginning of his career in Iranian politics. After some further speeches, when he was freed, he was exiled to Turkey and then to Iraq<sup>149</sup>.

Meanwhile, Shah faced no strong opposition, and went on with his plans for rapidly modernizing Iran. The Oil Crisis of the 1970s helped him further his ambitions. He now could afford to buy any American weaponry he wished for, something Kissinger had promised him<sup>150</sup>. There were magnificent ceremonies held in honor of 2500 years of Persian monarchy, many international personalities came to Shah's court and his frequent state visits put him in the focus of the media. But all that was about to turn, he started to fall when he least expected it.

The centralization policies that he further continued, even more so than his father, had led to an enormous shift in the population balance between city and village in Iran. A significant percentage of people lived in absolute poverty in the suburban areas around

---

<sup>148</sup>Hoveyda, F. (2003). *Shah and the Ayatollah, The: Iranian Mythology and Islamic Revolution: Iranian Mythology and Islamic Revolution*. ABC-CLIO

<sup>149</sup>Hooglund, E., & Royce, W. (1985). *The Shi'i clergy of Iran and the conception of an Islamic state. State, Culture, and Society*, P.115.

<sup>150</sup>Rubin, B. (1999). The Persian Gulf After the Cold War: Old Pattern; New Era. *Middle East*, 3(2), 64.

major cities while the very rich got richer and richer in a state that favored those who imported and those who would distribute those imports in retail<sup>151</sup>. The gap between wealthy and the poor was widening each day and the political suppression was in place in a most brutal fashion, books were censored, and artists were imprisoned for any work of art that might in some way criticize the Shah or his government<sup>152</sup>.

The presence of foreigners, specifically, Americans who enjoyed handsome salaries and high standards of living further aggravated the people. For the open doors policy of import had brought in goods and luxuries that not all people could afford and yet here were foreigners who were occupying jobs that Iranians should or could have. They were mostly industrial and military advisers<sup>153</sup>. These feelings could be categorized as relative deprivation, where the Iranian people thought the lifestyle of the Americans and other foreign advisors were much better than that of their own and the gap in their expectations grew over the years of the rule of the Shah and his close ties to the US. The collective reaction of the people to this feeling of deprivation could be seen in the Islamic revolution itself<sup>154</sup>.

In Shah's Iran, with his economic growth plan of import substitution model, the national abilities to produce industrial and consumer goods were limited, so he launched a state driven industrialization plan and the vast development plan benefited mostly the great importers, the elite of the royal family and those close to them, army commanders and the foreign aides and workers who had to do the job of using the

---

<sup>151</sup>Peter Avery, G. R. G. Hambly C. Melville 2008. *The Cambridge history of Iran, Volume 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press P.283.

<sup>152</sup>Mousavi, N. (1992). *The obscure limits of freedom. Index on Censorship*, 21(3), p.18.

<sup>153</sup>Peter Avery, G. R. G. Hambly C. Melville 2008. *The Cambridge history of Iran, Volume 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press. P.288.

<sup>154</sup> Kuran, T. (1989). Sparks and prairie fires: A theory of unanticipated political revolution. *Public choice*, 61(1), 41.

complex modern machinery or the military advisors who oversaw the use of the imported arms<sup>155156</sup>.

In the late seventies, Shah began criticizing the west for the prices they paid for oil, that it was too low for such a limited resource. Such comments did not sit well with the Americans, or western countries. The increase of oil prices also meant that western products that Iran imported such high quantities, became more expensive, what added to the mismanagement was a deteriorated agriculture due to land reforms that failed to increase production that created inflations<sup>157</sup>. These land reforms were the main part of the great reform program that the Shah implemented from 1963 to 1978<sup>158</sup>. These reforms included vast education and hygiene improvements for the villages and more importantly the purchase of the large pieces of land from great landowners and selling them in smaller pieces and at a lower price to the former peasants<sup>159</sup>. The traditional way of agriculture in Iran was based upon great land owners and the peasants. The land reform broke that relationship. There were no great land owners and the small pieces of land and meagre wealth of the former peasants meant that their ability to produce agricultural products was reduced<sup>160</sup>.

All the factors above were helping to create a mood of general dissatisfaction that when a newspaper, on orders from government insulted Khomeini, the powder of revolution

---

<sup>155</sup>Ramazani, R. K. (1982). Who Lost America? The Case of Iran. *Middle East Journal*, 36(1), 5.

<sup>156</sup>Majd, M. G. (2000). *Resistance to the Shah: landowners and ulama in Iran*. University Press of Florida. p.12.

<sup>157</sup>Keddie, N. R. (1968). The Iranian village before and after land reform. *Journal of Contemporary History*, 3(3), p.75.

<sup>158</sup>Siavoshi, S. (1990). *Liberal nationalism in Iran: the failure of a movement*. Westview Pr. p.23.

<sup>159</sup>Bill, J. A. (1970). Modernization and reform from above: The case of Iran. *The journal of politics*, 32(1), p.33.

<sup>160</sup>Milani, M. M. (1988). *The making of Iran's Islamic revolution: from monarchy to Islamic republic*. Westview Pr. p.85.

caught the flame and there came a time that even freeing the political prisoners, imprisoning of officials that were sacrificed as the people responsible for the brutal treatment of opposition and economic state of Iran, could not calm people on the streets.<sup>161</sup>, Finally Shah left the country due to his failing health, and less than two months later the revolution had successfully overthrown the Pahlavi Dynasty.

Throughout the chapter, three main parts of the society were shown to be active in all the movements were the intelligentsia, the clergy, and the Bazaar. In terms of their class background, most of the members of these groups were among either proletariat or the petit bourgeoisie. <sup>162</sup>In Iran's case, the great land owners, the modern factory owners, the army leaders and all others who had relations with the royal court, belonged to the bourgeoisie class that took most of the revenues from production and more importantly the oil revenues to themselves. The other parts of the society, the proletariat and the petite bourgeoisie, including the commercial petite bourgeoisie and the teachers and professors lost in the battle of getting a share in the national revenue most of which was oil revenue<sup>163</sup>.

In Shah's economy, where Shah, the royal court, the elite and army leaders among which many were importers of consumer and luxury goods were the winners. All parts of the bourgeoisie class that had access to most of the oil revenue. On the other hand, the losers included the proletariat, and the petite bourgeoisie. That included the traditional commercial petite bourgeoisie, the Bazaar and three important parts that

---

<sup>161</sup>Peter Avery, G. R. G. Hambly C. Melville 2008. *The Cambridge history of Iran, Volume 7- from Nadir Shah to the Islamic Republic*. Cambridge University Press P.290.

<sup>162</sup>Skocpol, T. (1982). *Rentier state and Shi'a Islam in the Iranian Revolution. Theory and society*, 11(3), p.273.

<sup>163</sup>Kapuscinski, R. (1992). *Shah of Shahs*, trans. William R. Brand and Katarzyna Mroczkowska-Brand (New York: Vintage, 1992), p.62.

divided into the religious activists<sup>164</sup>, with Ayatollah Khomeini as their leader, the Marxists and communists with many parties and groups, the most notable among them the Tudeh party<sup>165</sup> (party of the masses) and the people's Mujahedin of Iran<sup>166</sup> and Muslim liberals like the Nehzat e Azadi<sup>167</sup> (Freedom Movement of Iran) who also worked with the religious activists.

### **3.5 Classes and the Revolution**

If we look at Iran's society before the revolution by departing from the class conception of Marx, we can divide it to three major classes:

First were the bourgeoisie. They were the people who had the best access to Iran's main source of income. This source of income was not production, it was oil revenues. The ones that decided who gets more shares from that income were the Shah and the royal court. The bourgeoisie that had close ties to the Shah and the royal court benefited directly from these revenues. They (importers, brokers, bankers ...) received loans and annual budget entries for import and state-sponsored projects<sup>168</sup>.

In the second place come the proletariat. This group was represented by former peasants who were freed by the land reforms and also city workers and new industry workers. They were among the supporters of revolution and did not have a good share in the national revenue.

---

<sup>164</sup>Fischer, M. M. (2003). Iran: from religious dispute to revolution. Univ of Wisconsin Press. p.126.

<sup>165</sup>Abrahamian, E. (1979). Iran in Revolution: The Opposition Forces. MERIP Reports, (75/76), p.7.

<sup>166</sup>Bloomfield Jr., Lincoln. "Mujahedin-e Khalq (MEK/PMOI) and the Search for Ground Truth About its Activities and Nature" The House Committee on Foreign Affairs.

<sup>167</sup>Najmabadi, A. (1987). Iran's turn to Islam: From modernism to a moral order. Middle East Journal, 41(2), p.204.

<sup>168</sup>Nasr, V. (2000). Politics within the Late-Pahlavi State: The Ministry of Economy and Industrial Policy, 1963–69. *International Journal of Middle East Studies*, 32(1), p.105.

The third part was the petite bourgeoisie; The Bazaar, the intelligentsia and the clergy. This part of Iranian society was the part that mobilized against the Shah. They did not have a good share in the national revenue either.

In Shah's Iran the winners were the political elite, bourgeoisie and the losers were the rest of the society. That is not to say that Shah did not try to improve the conditions of the other classes, but his efforts only strengthened the bourgeoisie

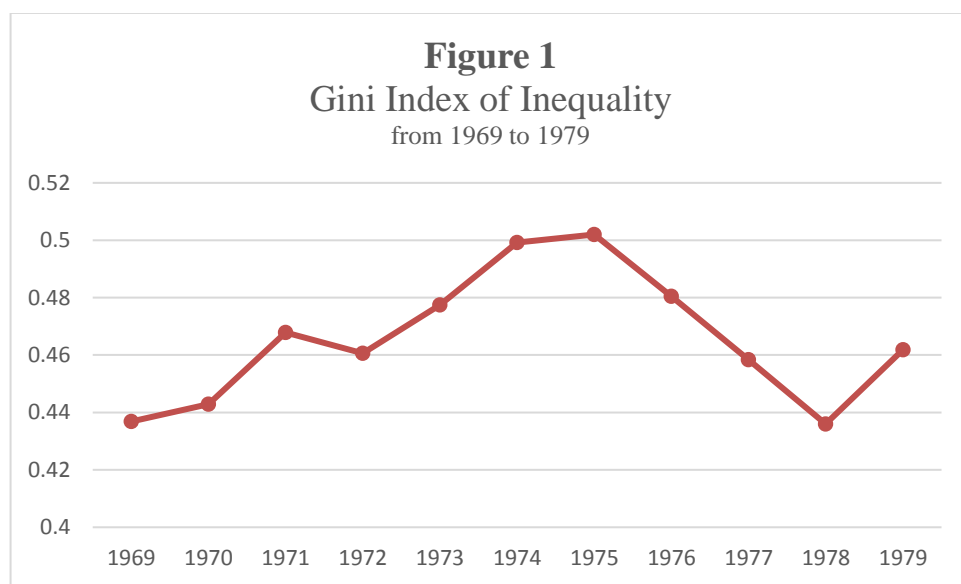


Figure 1. Gini Index of Inequality from 1969 to 1979<sup>169</sup>.

### 3.6 Conclusion

In this chapter three main periods of Iran's history were taken into consideration: the Qajar dynasty and the Constitutional revolution, the rise of Reza Shah to power and his time as the first Pahlavi, and the era of Mohammad Reza Shah.

In terms of political economy, In Iran the king, at the head of the government, used his

---

<sup>169</sup> Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.

power and connections to take from the national resources whatever possible, and his courtiers followed his example<sup>170</sup>.

Reza Shah's time saw some very promising moves towards modernization and development. Yet his policies and effort were mixed, some moved the country forward and some kept it firm in its underdeveloped place<sup>171</sup>.

Among these policies were policies of establishing a legal code and universities, initiating education reforms, building roads and railway. He empowered a standing army that could at least provide security against internal strife.

He also forcibly settled the tribes, destroyed any opposition, ignored the obvious mastery of Britain and Russia when they requested the removal of Germans from Iran and Iran's joining the Allies, and seizing properties all over Iran<sup>172</sup>.

During this era of improvements, those close to the king enjoyed security, prosperity and those who stood against him met an untimely end. The extreme face of dictatorship in this era created a suppressed hatred for the Pahlavi family that could be clearly seen during the times of Islamic revolution.

Mohammad Reza Shah ruled for three very different decades: the first one where he did not have much power, the second one where he almost lost his throne and the third one where he gained his highest eminence and then fell. In his time the rent seeking

---

<sup>170</sup>Amirahmadi, H. (2012). *The Political Economy of Iran under the Qajars: Society, Politics, Economics and Foreign Relations 1796-1936* (Vol. 30). IB Tauris.

<sup>171</sup>Foran, J. (1993). *Fragile resistance: Social transformation in Iran from 1500 to the revolution*. Westview Press. p.276.

<sup>172</sup>Lenczowski, G. (1978). *Iran under the Pahlavis* (No. 164). Hoover Institution Press.



nature of Iranian economy grew ever more (the total natural resources rent (% of GDP) went up from an average of around 0.5% to around 32% in 1979)<sup>173</sup>.

After the nationalization movement of Mosaddiq, the oil revenues greatly increased<sup>174</sup>, later the Oil Crisis due to Arab Embargo added to those sources and all this wealth was to be distributed first and foremost to those closest to power, specifically the Shah himself<sup>175</sup>.

The end of the Pahlavi dynasty left an inheritance of an asymmetrical development, with an army armed with weaponry that couldn't use many of those arms, in a region burning in the turmoil of the cold war in an era of revolutions all over the world, with freedom seeking movements all around<sup>176</sup>. In that society, the rent seeking bourgeoisie that were close to the Shah himself and his royal court, were the winners and they opposed the revolution. The working class and the petite bourgeoisie on the other hand were the losers and they were the classes that revolted against the Shah and his monarchy.

---

<sup>173</sup>Indicators, W. G. (2015). The World Bank Group. The World Bank Group

<sup>174</sup>Farzanegan, M. R. (2011). *Oil revenue shocks and government spending behavior in Iran. Energy Economics*, 33(6), pp.1055-1069.

<sup>175</sup>Milani, M. M. (1988). *The making of Iran's Islamic revolution: from monarchy to Islamic republic*. Westview Pr.

<sup>176</sup>Abrahamian, E. (1982). *Iran between two revolutions*. Princeton University Press. p.48.

## Chapter 4

### **POST REVOLUTION IRAN (1979 TO 1989): THE POLITICAL ECONOMY OF THE ERA OF “IDEALISTIC” ECONOMIC AND SOCIAL POLICIES**

#### **4.1 Introduction**

In the previous chapter, the many events in the past century that led to the Islamic Revolution were discussed. It was shown how a mixture of a will for modernization (in the face of consecutive defeats in wars against Russia and Britain), independence from foreign intervention and dissatisfaction with the gap between rich and poor and the way the kings ruled, created a movement that overthrew the monarchy.

In this chapter, the effort of those movements to shape a government will be covered. The form of the next government was decided in a referendum in 1979. The new regime would be an Islamic republic. This chapter will focus on the post revolution Iran. First the policies of the early governments will be assessed, from the temporary government of Mehdi Bazargan (1907-1995) to the presidency of Ayatollah Khamenei, and his prime minister, Mirhosein Mousavi and his government. The chapter will focus on different economic policies opted by that government to control and manage the Iran-Iraq War and all the difficulties that the new government after the Islamic revolution has to face. In this period, the government implemented land reforms, price fixing, and exchange rate controls. It rationed most basic goods. This era is mostly referred to as an era of idealistic policies and war, where the economy was mostly isolated and controlled by protectionist policies and price fixing efforts by

the governments.

The last section of the chapter will look at the state of inequality in Iran, after ten years of revolution and war, to examine the success of the idealistic policies of the Mousavi government. It will analyze whether they advanced the cause of revolutionary slogans of equality or made the rent seeking activities easier.

The next chapter will cover the post Ayatollah Khomeini era of Iran's contemporary history. The key difference between these two eras is the economic policies. In the second era, there was a transition to an open market economy.

## **4.2 Early Governments**

The first years of the Islamic Revolution were filled with intense political debate among the many different groups that had participated in the revolution. The most notable amongst these groups were the Islamists, the liberals, the Marxists and the Islamist-Marxists. Steadily the Islamist faction grew in power and this power showed itself in the policies that were chosen in the coming years to govern an Islamic economy.

At the dawn of the revolution, Ayatollah Khomeini appointed a temporary government with the duty of establishing order and preparing the requirements for a referendum that would choose the type of government that Iran would have after revolution and also a popular vote for the first president of Iran.

The head of this government was the religious liberal figure Mehdi Bazargan, and his government was formed mostly of nationalist-religious figures. Among the most notable policies of this new, temporary government was the confiscation of the many

properties<sup>177</sup>, lands, capital and belongings of the former regime and its supporters who fled before the revolution, or were arrested after revolution had taken place. The government also held a referendum for the type of government, elected a council of experts to devise an Islamic constitution and elected the first Islamic assembly.

One of the main criticisms against Shah was regarding the capitalist system that he had put in place and its dependence upon foreign aid in the form of technology and management. Now the wealth that was left was given to certain foundations which had charitable goals, such as the Dispossessed Foundation (Bonyad e Mostazafin), or the Imam Khomeini Relief Committee (Komiteye Emdad e Emam Khomeini)<sup>178</sup>. These foundations had very strong links with the top revolutionary leaders and thus were immune to inspection and taxes. They grew in wealth and influence, without obligation to any part of the government<sup>179</sup>.

In this new government, the former capitalist class had lost most of its capital and now the public sector, with the government at its head had the final say in almost all economic matters. In terms of the gap between the richest and the poorest, one might argue that it had been reduced greatly, however, in terms of economic prosperity the change was for the worse, Iran's Gross National income fell from 233,261,401,30 (constant US\$ 2010) in 1978 to 164,241,982,29 in 1981<sup>180</sup>. The Gini index of inequality for the 1970s in Iran, saw a peak of 0.5, which was reduced to an average

---

<sup>177</sup>Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.621.

<sup>178</sup>Amuzegar, J. (2000). *A perspective on Iran's post-revolution political economy*. A lecture delivered at the Foundation for Iranian Studies, March, 24.

<sup>179</sup>Maloney, S. (2000). *Agents or Obstacles? Parastatal Foundations and Challenges for. The economy of Iran: The dilemma of an Islamic state*, 29, p.145.

<sup>180</sup> Indicators, W. G. (2015). The World Bank Group. The World Bank Group.

of 0.37 in the period of 1979 to 1989<sup>181</sup>.

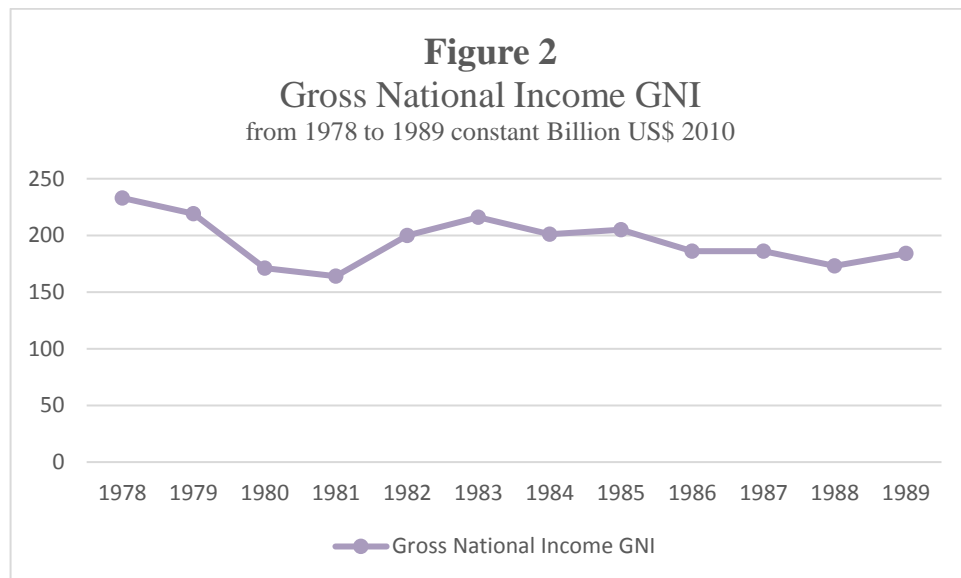


Figure 2. Gross National Income GNI from 1978 to 1989 constant Billion US\$ 2010<sup>182</sup>.

If property rights and property relationships were promised to change, such change never did come. In the new state there was a massive debate about the proper Islamic property relations and property rights. In the end after many years and many arguments the ideas that defended that Islam protects the right to private property won. This meant that the new state, and its governments were not exactly open market oriented yet they were less likely to adopt communist policies of no private property<sup>183</sup>.

The confusion that can be witnessed in such thoughts and policies, was shared by the politicians of the Islamic republic of Iran. Some wanted policies close to the Soviet model of economy, some wanted liberal and neo-liberal policies.

---

<sup>181</sup> Indicators, W. G. (2015). The World Bank Group. The World Bank Group.

<sup>182</sup> Indicators, W. G. (2015). The World Bank Group. The World Bank Group.

<sup>183</sup> Salehi-Isfahani, D. (2009). Poverty, inequality, and populist politics in Iran. *The Journal of Economic Inequality*, 7(1), p.17.

All of them, however, believed that Iran should not belong to either block, the capitalist or the socialist. The capitalist block and the U.S. at its head were representatives of the great Satan (as the revolutionaries in Iran called the U.S.) and the Soviet bloc that denied the existence of god, surely could not have programs befitting the “Islamic” republic of Iran<sup>184</sup>.

In the end what was really implemented was a model different from the economic model of the Soviet Union as well as the US. During this era, Iran imported most of its military needs for the war<sup>185</sup>, but later moved towards independence by producing its own arms. At the same time the import of luxury goods had become very limited and only the necessities could reach an import permit<sup>186</sup>.

The government had the key role in the nationalization of all major industries and kept on intervening in the economy. They believed that the Islamic government must be there to make sure the market is not acting against the interests of all<sup>187</sup>.

On the other hand, the vague consensus of all parties involved was that Islamic economy meant the preservation of private property rights. To achieve such a hard goal, the constitution of the Islamic Republic had seen an important role for the cooperative sector. This meant that instead of great capital owners, ordinary petit bourgeoisie members could come together and in a setting where all members had equal voting rights (regardless of how many shares they owned) would form

---

<sup>184</sup>Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.635.

<sup>185</sup>Cordesman, A. H. (2005). *Iran's developing military capabilities*. CSIS. p. 18.

<sup>186</sup>Karsh, E. (2009). *The Iran-Iraq War*. The Rosen Publishing Group. p.78.

<sup>187</sup>Hooglund, E. (1987). Iran and the Gulf War. *Middle East Report*, p.16.

manufacturing capital cooperatives<sup>188</sup>.

Early years after the revolution were the scene for two major events that shaped the future of the newly formed Islamic Republic of Iran. In November 1979, the U.S. embassy was occupied and the employees of U.S citizenship were taken hostage. The Muslim Students Followers of the Imam's Line attacked the embassy and took 52 American citizens hostage. This was a reaction against U.S interventions in Iranian affairs, specifically the permission given to the former Shah to enter the U.S to treat his cancer. This enraged the revolutionaries in Iran who wanted to prosecute the Shah<sup>189</sup>.

This crisis brought about many changes, especially after Ayatollah Khomeini called it the second revolution<sup>190</sup>. It strengthened the religious activists in Iran, made the position of the liberal temporary government weaker and on the other side of the planet, it cost President Jimmy Carter an election<sup>191</sup>. The hostages were freed after 444 days in January 20, 1981. Consequently, the temporary government of Bazargan resigned in protest of the hostage crisis, and later, Abolhassan Banisadr was elected as the first president of new government after the revolution<sup>192</sup>.

This led to the U.S. sanctions against Iran and later led to the Iran Iraq war that caused many deaths, and took up most of the national revenue. After many border clashes

---

<sup>188</sup>Pesaran, M. H. (1982). The system of dependent capitalism in pre-and post-revolutionary Iran. *International Journal of Middle East Studies*, 14(04), p.514.

<sup>189</sup>Houghton, D. P. (2001). *US foreign policy and the Iran hostage crisis* (Vol. 75). Cambridge University Press. p.109.

<sup>190</sup>Bowden, M. (2007). *Guests of the Ayatollah: The Iran Hostage Crisis: The First Battle in America's War with Militant Islam*. Grove/Atlantic, Inc.p.93.

<sup>191</sup>Rodman, P. W. (1981). The Hostage Crisis: How Not to Negotiate. *Washington Quarterly*, 4(3), p.15.

<sup>192</sup>Nikazmerad, N. M. (1980). A chronological survey of the Iranian revolution. *Iranian Studies*, 13(1-4), p.343.

with Iraq that dated back to the times of Shah, Saddam ordered the army of Iraq to invade Iran.

The international community supported Iraq mostly<sup>193</sup>. The Iran Iraq War would go on for eight years (from 22 September 1980 to August 1988).

Banisadr's days were mostly days of conflict that revolved around who should lead the war, the Army or the revolutionary Islamic Republic Guardian Corps (IRGC). After facing some defeats in the battlefield and political conflicts, he was impeached. Eventually, Ayatollah Khamenei became president and Mir Hossein Mousavi became prime minister. Both men would be elected a second time to fill the very same positions. They served as heads of government from 1981 to 1989.

### **4.3 Mousavi Government**

Mousavi's government started to take control of economy in Iran to make sure all the resources were allocated properly to help the war effort and ensure the minimum living goods were accessible for all. For that purpose he introduced rationing coupons and limited foreign imports with the exception of necessary goods<sup>194</sup>. Another state policy of this era was the creation of a rural infrastructure initiative decreed by Ayatollah Khomeini called "Jahad e Sazandegi" or the Construction Jihad. This organization was formed to help create infrastructure in the rural areas of Iran. University students were among its members and they were also involved in the construction activities of the

---

<sup>193</sup>McNaugher, T. L. (1990). Ballistic missiles and chemical weapons: The legacy of the Iran-Iraq war. *International Security*, 15(2), p.6.

<sup>194</sup>Tehrani, S., & Halliday, F. (1981). Eyewitness from Iran: " Signs of Civil War". *MERIP Reports*, (98), p.9.



war<sup>195</sup>.

They helped to build roads, connect villages to the electricity network, telephone network, and build public health houses and schools. In agricultural activities, they helped the farmers by providing the tools, the seeds and methods of agriculture. During the war, they helped to build trenches and many bridges over the marches in south eastern Iraq (in the later part of the war, when Iran was on the offensive and inside the Iraqi territory). Many of their members lost their lives during these wartime constructions. Despite the ongoing war, the government still invested in welfare and civil programs<sup>196</sup>. This policy was intended so that even though all parts of the society did suffer greatly during the war, the most vulnerable groups did not have to live without simple food or healthcare or other such necessities.

The social spending policy included building infrastructure, keeping the industries going and giving many interest-free loans to encourage small businesses<sup>197</sup>. These policies helped not only the poorest parts of the Iranian society, but also helped increase the size and prosperity of the middle class, the Bazaar class as people called them reaped most of what small benefit was there to take<sup>198</sup>.

On the other hand, all major industries were nationalized and price control was very acute, foreign import was also exclusive to the most needed materials.<sup>199</sup> The issue of

---

<sup>195</sup> Lob, E. S. (2013). *An Institutional History of the Iranian Construction Jihad: From Inception to Institutionalization (1979-2011)*.

<sup>196</sup> Foran, J., & Goodwin, J. (1993). Revolutionary outcomes in Iran and Nicaragua: Coalition fragmentation, war, and the limits of social transformation. *Theory and Society*, 22(2), p.227.

<sup>197</sup> Amirahmadi, H. (1990). Economic reconstruction of Iran: Costing the war damage. *Third World Quarterly*, 12(1), p.30.

<sup>198</sup> Mazarei Jr, A. (1996). *The Iranian economy under the Islamic Republic: institutional change and macroeconomic performance (1979–1990)*. Cambridge Journal of Economics, 20(3), p.298.

<sup>199</sup> Alnasrawi, A. (1986). Economic consequences of the Iraq-Iran war\*. *Third World Quarterly*, 8(3), p.876.

nationalization of the foreign trade (that used to be controlled by the great importers of the Pahlavi era) and controlling foreign imports was a policy intended to control the inflation that arose from the prices set by the private sector. It took the government many years and intensive debate to finally pass it in the parliament in 1983<sup>200</sup>.

In this policy, the government imported all the necessary goods itself, and also left some foreign exchange for the private sector and nationalized industries, to import the goods that were not considered necessary. The argument that stopped the complete monopoly of the government on the imports was the sanctity of private ownership in Islam<sup>201</sup>. The conservative clergy in the Guardian Council<sup>202</sup> of Iran, argued that Islam has always respected individual's right to their own property.

Another important feature of this era was the growth of life expectancy. In the Pahlavi era, the life expectancy rate was around 55 years yet it rose to almost 61 years despite the ongoing war and changing population<sup>203</sup>.

The redistribution policies included the rationing of the necessary goods such as cooking oil, heating fuel, sugar, tea and the likes, and distributing consumer goods through vouchers and cooperative shops. This meant that the government was in full control of the prices.

These redistributive policies helped control the war economy that was highly prone to

---

<sup>200</sup>Nowshirvani, V. F., & Clawson, P. (1994). *The State and Social Equity in Postrevolutionary Iran. The politics of social transformation in Afghanistan, Iran, and Pakistan*, p.133.

<sup>201</sup>Mehran, G. (1990). *Ideology and education in the Islamic Republic of Iran. Compare*, 20(1), p.57.

<sup>202</sup>This council was created in the Islamic Republic constitution to interpret the constitution and oversee the candidates for different elections and also supervise the legislations of the parliament, so that they conform with the constitution, it is mentioned in articles: 91,94,96,and 98 of the Islamic Republic Constitution. Algar, H. (2015). *Constitution of the Islamic Republic of Iran*. BookBaby.

<sup>203</sup>The World Bank. (2016). *World development indicators 2016*. Oxford University Press, USA

inflation. Another effect of these policies was their share in achieving the goal of reducing the inequalities to some extent. As was mentioned before, this government managed to reduce the Gini index of inequality from 0.502 in the Second Pahlavi era (1975) to an average of 0.37<sup>204</sup>.

These policies were not all popular, and supporting an eight year war did take its toll on the Iranian economy. The wealthy class opposed the government intervention most intensively, and ordinary citizens were tired of standing in long lines for the simplest of necessities<sup>205</sup>.

By the end of the war in 1989, much of the infrastructure of Iran was damaged. The economy had suffered greatly. Many of the south western cities of Iran were ruined. Families all over the war zones had been relocated and migrated to other cities that were farther from the battlefield. Despite all that, Iran financed all its war costs on its own and ended the war debt-free<sup>22</sup>, while Iraq ended the war with over a \$100 billion debt<sup>206</sup>.

Less than a year later, Ayatollah Khomeini died. The Council of Experts declared the then president Ayatollah Khamenei to be Supreme Leader. This brought an end to the government of Mousavi, and later the Prime Minister seat was taken out from the executive branch, making the president, its head. Throughout the rule of the Mousavi government, Ayatollah Khomeini had played a conciliatory role, and many times defended what the opposition of the government called leftist policies. When he died

---

<sup>204</sup>The World Bank. (2016). *World development indicators 2016*. Oxford University Press, USA

<sup>205</sup>Akhavi, S. (1987). Institutionalizing the new order in Iran. *Current history*, 86(517), p.53.

<sup>206</sup>Tripp, C. (1989). *The Consequences of the Iran-Iraq War for Iraqi Politics*. In *The Iran-Iraq War*, p. 63. Palgrave Macmillan UK.

those in favor of these policies lost their most powerful ally.

#### **4.4 The Impact of Economic Policies on the Distribution Relations**

The policies that were introduced in the government of Mir Hossein Mousavi were policies that made vast concentrations of wealth impossible. The government controlled the prices and nationalized the foreign trade and rationed the necessary goods<sup>207</sup>. It made sure that the least wealthy of the people received the minimum goods that were necessary for them to continue to live.

In an effort to increase social equity, the government actively encouraged the formation of cooperatives. In the constitution, in an attempt to reconcile Islam and private enterprise, the cooperatives were introduced, hoping that they would soon help make the situation for the less fortunate better, by helping them work together and gather enough capital to start production and business<sup>208</sup>. However, for the main part, the cooperatives that was formed during this era were mostly distributing centers, that with the consent of the government would distribute the imported goods that were under strict regulation of the government<sup>209</sup>.

These cooperatives did help decrease the speculation and price inflation but they couldn't increase the productive capacity of Iran. The members all had equal voting rights, despite the amount of capital that they had invested. This design was created in the hopes of avoiding amassment of big capital under one person, and the government wished for employee based cooperatives and even worker cooperatives, in its attempts

---

<sup>207</sup>Rabiee, F., &Geissler, C. A. (1990). Rationing and wartime food policies in Iran. *ProcNutrSoc*, 49, p.46.

<sup>208</sup>Khajehpour, B. (2000). Domestic political reforms and private sector activity in Iran. *Social Research*,

<sup>209</sup>Amirahmadi, H. (1990). Economic reconstruction of Iran: Costing the war damage. *Third World Quarterly*, 12(1), p.33.

at bringing social equity<sup>210</sup>.

Of course as mentioned before, most of the cooperatives that were formed were distributive cooperatives and only very few cooperatives were formed to produce anything. The problem of such distributive policies was their tendency to be used for abuse of the protective and encouraging measures of the government in their protection. They were licensed to distribute many imported goods. This meant that not all of those cooperatives helped achieve the goal of the government for more production and better distribution. Nonetheless, these policies broke the monopoly of the big importers of the Pahlavi era, who had grown very wealthy during the oil boom of the 1970s<sup>211</sup>.

The regulatory policies hit the traditional bazaar class, and although the interest free loans were aimed at helping this class, (which in Iran was the equivalent of petite bourgeoisie), the state fixed prices and the limitation of import (which with the ongoing war and the drop in oil prices worldwide, had become inevitable) disrupted the businesses of the bazaar<sup>212</sup>. These policies were in line with the criticisms against Shah's development plans and tilted the system that was in place during the Pahlavi Dynasty.

The ideological and cultural atmosphere also had dramatically shifted from Shah's narrative of the great civilization to a more Islamic, egalitarian (at least in words)

---

<sup>210</sup>Zarafshani, K., Rostamitabar, F., Hosseininia, G. H., Akbari, M., & Azadi, H. (2010). Are agricultural production cooperatives successful? A case study in Western Iran. *American-Eurasian Journal of Agricultural and Environmental Science*, 8(4), p.483.

<sup>211</sup>Mazarei Jr, A. (1996). The Iranian economy under the Islamic Republic: institutional change and macroeconomic performance (1979–1990). *Cambridge Journal of Economics*, 20(3), p.304.

<sup>212</sup>Cottam, R. W. (1981). Revolutionary Iran and the War with Iraq. *Current History*, 80(462), p.5.

debate in which students were urged to travel to distant rural places and help improve the living conditions of the people that live there<sup>213</sup>.

Although these policies were adopted, the war depleted Iran's resources and took up most of its national revenues that had dropped significantly due to the international oil prices decline<sup>214</sup>.

During this era, the property relationships also changed. During the Shah's rule, the main class that benefited from his drive for development were the wealthy elite that had close ties with his court. Yet after the revolution and the beginning of the war, most of the members of this class had fled Iran, with their properties and industries, confiscated and nationalized<sup>215</sup>.

During Mousavi's government, the bazaar merchant class and the remainder of the wealthy elite had lost their strong stance in the Iranian economics. However this did not necessarily mean a significantly raised position for the laborers who also had to cut a day's pay each month to support the war effort. Mostly it meant everyone suffered from the consequences of war equally, more or less<sup>216</sup>.

This lack of success is probably due to the war, as it exhausted the manpower, resources and many lives of the young population of Iran. Add to the destructive power of war, the reluctant international community to trade and invest in Iran after the

---

<sup>213</sup>Afshar, H. (1985). Women, state and ideology in Iran. *Third World Quarterly*, 7(2), p.268.

<sup>214</sup>Gately, D., Adelman, M. A., & Griffin, J. M. (1986). Lessons from the 1986 oil price collapse. *Brookings Papers on Economic Activity*, 1986(2), p.243.

<sup>215</sup>Moaddel, M. (1991). Class struggle in post-revolutionary Iran. *International Journal of Middle East Studies*, 23(3), p.327.

<sup>216</sup>Hiro, D. (1989). *The longest war: the Iran-Iraq military conflict*. Psychology Press.p.45.

Hostage crisis, with American sanctions and embargo against Iran and it would hardly seem a wonder that an economy that is mostly dependent on oil export revenue, with damaged oil fields and a destroyed merchant fleet after the Tanker war in the Persian Gulf did not do well.

Especially since the United States sided with Iraq. The U.S. provided security for tankers that shipped Iraqi oil this changed the balance of the tankers war in the Persian Gulf in favor of Iraq, leaving Iranian oil tankers defenseless and an easy target for Iraqi air force.

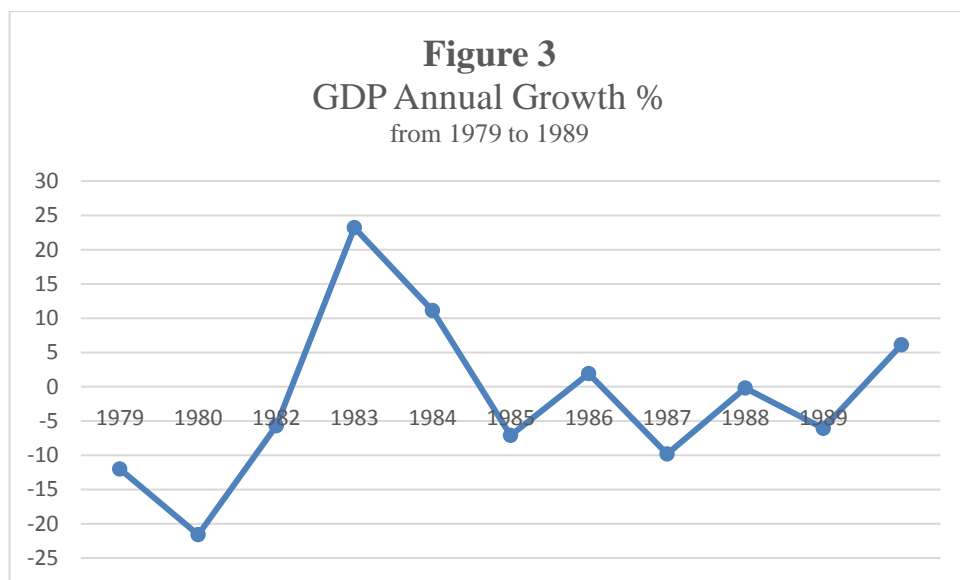


Figure 3. GDP Annual Growth from 1979 to 1989<sup>217</sup>.

<sup>217</sup>Indicators, W. G. (2015). The World Bank Group. The World Bank Group.



Figure 4 Gini Index of Inequality from 1979 to 1989<sup>218</sup>.

#### 4.5 Winners and Losers

With the policies discussed, now the chapter can point out which class or classes won and lost as a result of those policies. The Mousavi administration put policies in place that shifted the balance in the conflict of interests between the owners of capital and the owners of labor, in favor of the proletariat and the petite bourgeoisie (So the bourgeoisie (former factory owners, great landowners, big importers) were the losers and the petite bourgeoisie and the proletariat were the winners (The Bazaari, the teachers, workers). This shift was not a great shift in magnitude (as the Gini coefficient shows) however it is very significant when the general situation of the country is taken into consideration. All this change happened within the chaos of the revolution and war, with all the pressures they put on the economy, including the war demands and the embargo.

Among all those problems, the minimum requirements of the proletariat were provided

<sup>218</sup> Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.



by the government. The food and necessary goods rationing program and the health care programs such as the Construction Jihad are prime examples of how government policies shifted in favor of the owners of labor.

The nationalization of major industries and the redistributive policies were other means of shifting the balance of economy in favor of the proletariat and the petite bourgeoisie. One of those policies was the creation of the cooperatives that took shape during this era.

#### **4.6 Conclusion**

The first decade after the revolution was filled with insurgencies, terrorism, and war. In that decade, the main government was that of President Khamenei and Prime Minister Mousavi. The Mousavi administration got hold of all parts of the economy and regulated it all, in order to make sure that everything worked smoothly towards supporting the troops at the battlefield. For this reason, they regulated the way industries worked, most of which had been nationalized in the first years of the revolution.

A further regulatory goal of the government was to make sure that all Iranians had access to the most basic necessities, to achieve this, the most basic necessary goods were rationed and people received coupons to make sure all had an equal share.

With the radical drop of the oil prices, the government increased its intervention in the economy by limiting and controlling the foreign imports. With the huge cost of war and such harsh regulatory measures, the economy did not show a strong growth and there was not much prosperity in Iran.

Despite all that, the gap between the wealthiest and the poorest was reduced in that period. This means that the middle class and the working class benefited from these policies and the capital owners and rent seekers lost.

Furthermore, the war did not create an uncontrollable inflation, neither was Iran left with an enormous foreign debt, which was what Iraq was left with after the war.

The government's encouragement of cooperatives led to a more egalitarian distribution of goods in the society, by breaking the hold of the former private importers on the imported goods, and giving it to groups of people who did not necessarily have much wealth.

While there were people who abused this policy to their own ends, these policies reduced the gap between the wealthiest and poorest parts of the society in terms of access to daily needs in goods.

Another important aspect of this era was the enlargement and growth of the foundations that were set up by various decrees that Ayatollah Khomeini had issued. These foundations were put in charge of the money, property and wealth of the Pahlavi regime and the wealthy elite that were close to them. These foundations worked without scrutiny and had powerful allies in all parts of the revolutionary state of Iran.

The death of Ayatollah Khomeini, changed the shape of Iranian politics, and as will be seen in the next chapter, the policies of state control and regulation were dropped. Khomeini was the main supporter of these policies, many times speaking in favor of

the government and supporting them by forcing the executive and legislative branches to reach a compromise.

With Ayatollah Khomeini out of the picture, the power shifted dramatically towards the Parliament's speaker, Akbar Hashemi Rafsanjani, who was soon to be the next president and with the post of prime minister gone, highest ranking member of the executive branch of the government.

## Chapter 5

### POST REVOLUTION IRAN (1989 TO 2014) THE POLITICAL ECONOMY OF THE ERA OF STRUCTURAL ADJUSTMENT POLICIES

#### 5.1 Introduction

In the previous chapter, the state of Iranian economics after the revolution and during the longest conventional war of the 20<sup>th</sup> century was discussed (1979-1989). This period ended with Iran signing the UNSC resolution 598 and accepting peace and the death of Ayatollah Khomeini. The resolution 598 demanded that both countries return to international borders, ceasefire and return the prisoners of war<sup>219</sup>. The former chapter had focused on Iran's economy when consecutive governments implemented protective economic policies under isolation. This chapter, on the other hand, will focus on governments that tried to liberalize the Iranian economy (1989-2013).

In this chapter, state of Iranian economics during the rule of the new supreme leader, former president Ayatollah Khamenei will be discussed. Specifically, the policies of different administrations such as the conservative president Akbar Hashemi Rafsanjani, the popular reformist president Mohammad Khatami and lastly the populist president Mahmud Ahmadinejad will be analyzed. It will be discussed how Iran tried to be a part of the international community and create ties with industrial

---

<sup>219</sup>Security Council Resolution 598, The situation between Iran and Iraq, S/RES/598 (16 January 1987), available from [undocs.org/S/RES/598\(1987\)](http://undocs.org/S/RES/598(1987)).

powers other than the U.S. The U.S. had put sanctions and embargoes against the Islamic Republic ever since the Hostage Crisis.

The chapter will assess the economic policies in force when Rafsanjani was president and later when Khatami was elected on a platform of reform and political freedom. It will then continue with elaborating Khatami's advocacy of "dialogue between the civilizations".<sup>220</sup> Then the chapter will show how the conservative establishment feared Khatami's reforms and attacked his agenda at any given chance. Finally the chapter will cover how president Ahmadinejad managed an all-time high oil revenues and isolated the country further and further and how his presidency was marked by receiving sanctions after sanctions while the UN Security Council, in response to the new policies and practices of the Iranian government started to pass resolutions against Iran's nuclear program. In this chapter, at each period, first the economic policy and later their impact on different social classes will be discussed. The last section of this chapter will cover how much success these presidents had in achieving the equity promised by the Islamic Republic of Iran.

## **5.2 Government of Rafsanjani 1989-1997**

After the death of Ayatollah Khomeini, a number of important changes took place in Iranian politics. The Council of Experts that according to the constitution was in charge of selecting the next leader chose Ayatollah Khamenei as the next president. The other important change was the amendments that were added to the constitution<sup>221</sup>, giving new status to the leader making the position supreme. The amendments also abolished the post of the prime minister. This meant more power for the new leader and the new

---

<sup>220</sup>Dallmayr, F. (2002). *Dialogue among civilizations: some exemplary voices*(Vol. 21). Macmillan, p.5.

<sup>221</sup>Ehteshami, Anoushiravan. *After Khomeini: The Iranian Second Republic*. Routledge, 2002, p.17.

president, with all the power of the executive branch of the government in his hands. In the election that soon followed, Akbar Hashemi Rafsanjani became the president, who in the past was appointed as commander in chief by Ayatollah Khomeini and was the chairman of the Islamic Assembly.

This new era marked a meaningful shift in governmental policy. The more conservative government did not believe in the tight governmental control that the former government had put in place. Since the Iran Iraq war was over, the main task of the new government was rebuilding the ruined infrastructure of the country, the cities that had suffered a lot in the missile attacks, and the oil industry.

As was mentioned in earlier chapters, Iran ended the war with Iraq with overwhelming problems. The cost of the war effort had emptied the foreign currency reserves and left the country with a 12 billion debt<sup>222</sup>. The new government did not have many ties with world powers. It could not gain much revenue from selling the oil while much of the oil industry lied in ruins. It was so hard for the government to manage their tasks. As a result, they had to shift the original position of the Islamic Republic that foreign capital is evil and should never enter the Islamic economy. By the early 1990 the delegates of the World Bank and the International Monetary Fund (IMF) had entered Iran for the first time since the revolution<sup>223</sup>. They would loan the third world countries the money they needed for development on the condition that they implement certain economic policies within those countries. Iran was no exception and the new

---

<sup>222</sup>Malek, M. H. (1991). *Iran After Khomeini: Perpetual Crisis Or Opportunity?*(No. 237). Research Institute for the Study of Conflict and Terrorism.

<sup>223</sup>Amuzegar, J. (1992). The Iranian economy before and after the revolution. *Middle East Journal*, 46(3), p.418.

government embarked upon the Structural Adjustment program<sup>224</sup>.

Structural Adjustment Programs or SAPs are the policy packages that the World Bank and the IMF offer the countries in economic crises, these policy sets include a variety of measures ranging from austerity measures to privatization. They have two main areas in mind, one is stability and the other is long term adjustment policies. These policies were developed with neoliberal ideas in power at the World Bank and the IMF. They believed that by stabilizing the economy and forcing market freedom, the market itself would encourage development of industries and manufacturing jobs.<sup>225</sup>.

It is the assumption of the neoliberal economics that all the players in the market have equal access to the technology and knowledge that is needed for competition and that by giving them freedom they would maximize the outcome of the economy. The firms can simply import any technology like any given good by paying a price that is exactly what it is worth, they operate within the economy without risk and all players of the market utilize full information<sup>226</sup>. They usually used the trickledown economics argument that if we allow the market to run the economy and thus empower the capitalist class, economic growth and more equality would trickle down the hierarchy of social classes to lower middle and working classes<sup>227</sup>.

In the case of SAPs, however, these policies did not bring about the growth in

---

<sup>224</sup> Moslem, M. (2002). *Factional politics in post-Khomeini Iran*. Syracuse University Press. p.92.

<sup>225</sup> Peabody, J. W. (1996). Economic reform and health sector policy: lessons from structural adjustment programs. *Social Science & Medicine*, 43(5), p.830.

<sup>226</sup> Larner, W. (2006). Neoliberalism: Policy, ideology, governmentality. In *International political economy and poststructural politics* (p. 205). Palgrave Macmillan UK.

<sup>227</sup> Martinez, E., & Garcia, A. (1998). *What is 'neo-liberalism'?. Third World Resurgence*, p.8.

production and decrease in inequality as intended<sup>228</sup>. There were many countries in the late 80s and early 90s that went through SAPs in the hopes of bringing foreign capital into their systems, especially in the Latin America and Africa. All the governments preferred to sacrifice social programs to be able to cope with the austerity measures imposed by the two international organizations<sup>229</sup>.

Rafsanjani's government began implementing the changes that were needed to secure loans in 1991. Among the most notable of these changes was loosening the government's hold on prices and to let the market determine them<sup>230</sup>. The other important policies that were put into action were the liberalization of the foreign exchange and the beginning of a privatization program. This program was meant to begin returning some of the state owned firms to the private sector<sup>231</sup>.

For the first two years of the new administration luck seemed to be in their favor because with the commencement of the Iraqi invasion of Kuwait, oil prices soared and helped fuel the many superficial civil constructions of the Rafsanjani Government. However, as was typical of almost all other countries that implemented the Structural Adjustment Programs, they did not deliver on the promises that were given as a program for short term stability and long term growth. At the beginning, the incoming foreign capital and the increased oil revenues helped soften the blow of these vast economic policy changes. When the oil prices started to go down again, things began

---

<sup>228</sup>Schatz, S. P. (1994). Structural adjustment in Africa: a failing grade so far. *Journal of Modern African Studies*, 32, p.679.

<sup>229</sup>Dollar, D., & Svensson, J. (2000). What explains the success or failure of structural adjustment programmes?. *The Economic Journal*, 110(466), p.911.

<sup>230</sup>Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.622.

<sup>231</sup>Harris, K. (2013). The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran. *International Journal of Middle East Studies*, 45(01), p.46.



to take a different turn. The population's consumption needs that were repressed over eight years of war could not be repressed in times of peace and they began consuming goods that were mostly imported. The government started to become deep in debt and inflation rate and exchange rates started increasing significantly<sup>232</sup>. Consumer goods inflation rose to almost 50% and short term debts to foreign firms was as much as 23.2 billion dollars in 1995<sup>233</sup>. To make things even worse, U.S. increased its sanctions in response to Iran's involvement in Lebanon and Palestine, and some allegations of terrorist activity. Thus the IMF could not effectively help relieve the growing crisis fearing the veto of U.S. As events came to this conclusion, the government saw no other way than to return to the interventionist closed model of the last decade. This effectively put a stop to the SAP and slowed Rafsanjani's vast infrastructure projects.

### **5.3 State of inequality under Rafsanjani**

Rafsanjani received a society that did not do well economically as a whole. After eight years of long and disastrous war, what riches were left in the country were in the hands of the top brokers of the black markets. Although the industries were active, they were mostly producing for the war effort and were state owned<sup>234</sup>. The new government due to reasons mentioned earlier, adopted the SAP policies. The SAPs in time received so many criticisms that the two organizations, the Fund and the Bank had to change the name of their aid programs to The Poverty Reduction and Growth Facility (PRGF)<sup>235</sup><sup>236</sup>.

The problem with the SAPs was that the measures forced upon the target countries

---

<sup>232</sup>Amuzegar, J. (1997). Iran's Economy and the US Sanctions. *The Middle East Journal*, p.193.

<sup>233</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>234</sup>Sarabi, F. (1994). The post-Khomeini era in Iran: The elections of the fourth Islamic Majlis. *The Middle East Journal*, p.95.

<sup>235</sup>Hawkins, D., Lake, D. A., Nielson, D., & Tierney, M. J. (2004). *The Poverty Reduction and Growth Facility (PRGF)*.

<sup>236</sup>Schadler, S., & Bredenkamp, H. (1997). *The ESAF at ten years: economic adjustment and reform in low-income countries* (Vol. 156). International Monetary Fund.

would mean the governments would cut social spending and health budgets rather than other executive expenses. So in short term and the long run, the first part of the society to be hit with these policies would be the lowest ranking citizens in terms of socioeconomic status. Funding for health and social programs that was needed most urgently in third world countries that needed foreign loans was significantly reduced. In time this policy would create dissent and the governments could not keep it up<sup>237</sup>.

Privatization is another requirement of SAPs, and history of privatization in different countries under SAPs shows that it tends to create an opportunity for rent seeking activities since not all members of the economy actually have the same information like those closer to the sources of power. In the case of Iran it was the executive members of the same firms that were planned to be privatized who tried to seize the opportunity to salvage those firms at a much lower cost, to a very wide margin of profit<sup>238</sup>.

These activities were the basis of turning the new wave of Iranian free market into a monopoly market, where a select few of the elite reaped substantial amounts of profit and the rest of the society were pushed further down in income and living standards<sup>239</sup>.

The rise of neo-liberalism in the west and the programs such as SAPs which were written with that mindset, is said to be the attempts of “finance capital” in the industrial world, especially the U.S. against “manufacturing Capital”<sup>240</sup>, that is to say places like

---

<sup>237</sup>Logan, I. B., & Mengisteab, K. (1993). IMF-World Bank adjustment and structural transformation in sub-Saharan Africa. *Economic Geography*, p.22.

<sup>238</sup>Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.630.

<sup>239</sup>Harris, K. (2013). The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran. *International Journal of Middle East Studies*, 45(01), p.57.

<sup>240</sup>Park, C. S., Duménil, G., & Lévy, D. (2007). *Capital Resurgent: Roots of the Neoliberal Revolution*.

Wall Street tried to take on the Main Street. This is to say that the finance oriented capitalists felt that if the welfare state policies of the after war period continued, the situation would get out of hands as the workers and Labor in general would get too much bargaining power, shifting the manufacturing relationship in their own favor. They also forced the states to provide security for the financial capital, so that the governments take the fall if the markets crashed, not the financial capitalists<sup>241</sup>.

In Iran, after the SAP was put into action, the same group did enjoy vast profit and gains. As was mentioned before, the select elite that had links to the highest positions of the government, engaged in practices that would break down the manufacturing capital of the government into finance capital which then would remain in their hands to gain power and influence the way things would go on, by actions such as outsourcing<sup>242</sup>.

However, the situations in Iran would not let the government to continue those practices for too long and in the end they had to put a stop to the program by 1993. The GDP Deflator inflation rate had risen to 49.9% and by 1993 the consumer goods inflation reached a record 49.7%<sup>243</sup>. This catastrophic inflation rate is in itself a sign of how troubling life had become for the working class and poorer sections in general as the prices of consumer goods rose in a fashion that their income could in no way keep up with. Such high rates of inflation had not been reached even at the worst years of the war with Iraq<sup>244</sup>.

---

<sup>241</sup>Harvey, D. (2011). *The enigma of capital: and the crises of capitalism*. Profile Books. P.10.

<sup>242</sup>Medlen, C. (2010). Free cash, the current account and bubble creation. *Journal of Economic Issues*, 44(2), p.453.

<sup>243</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>244</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

The Rafsanjani government was in charge of Iran's executive branch for eight years and in those years Iran experienced many ups and downs, politically and economically. In the early years, Rafsanjani embarked upon a five-year development plan to bring change to the country.

He wanted to change a ruined state after the longest war of the 20<sup>th</sup> century to a more modern Iran. In the early years, with the foreign loans, oil revenue's increase, and later on the Persian Gulf War of the 1990, the consumption rose to new heights after being repressed for years due to war and revolution<sup>245</sup>. In the very same years a new group of former petit bourgeoisie, close to Rafsanjani began rising in power and wealth, and by the end of his second term in office, already parts of the population was disillusioned with the political system.

During the Rafsanjani period, the World Bank has the Gini I index for the years 1990 (43.6) and 1994(43)<sup>246</sup>. The Rafsanjani administration saw an average Gini coefficient of 0.3977 with 1992 as their best and 1995 as their worst<sup>247</sup>.

The Rafsanjani government had another important outcome over the years of no war or revolutionary turmoil. That was the emergence of a new middle class that began to grow in Iranian society, a class that became more and more dissatisfied with the state of the country under the oligarchy like rule of Rafsanjani<sup>248</sup>. This class was the main force behind the movement that started at the end of

---

<sup>245</sup>Amuzegar, J. (1997). Iran's Economy and the US Sanctions. *The Middle East Journal*, p.194.

<sup>246</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>247</sup>The World Bank. (2016). *World development indicators 2016*. Oxford University Press, USA.

<sup>248</sup>Boroumand, L., & Boroumand, R. (2000). Reform at an Impasse. *Journal of Democracy*, 11(4), p.119.

Rafsanjani's second term, demanding political, social, economic reform, and enforcement of the rule of law. The figure leading this movement was the man who was the minister of culture in Rafsanjani's first government, Mohammad Khatami<sup>249</sup>.

When he started his presidential campaign in 1996, he was massively popular and won the presidential elections with a landslide victory in May 1997, which was on the second day of Khordad (third month in Iranian calendar). Hence his movement was called the Second of Khordad movement.

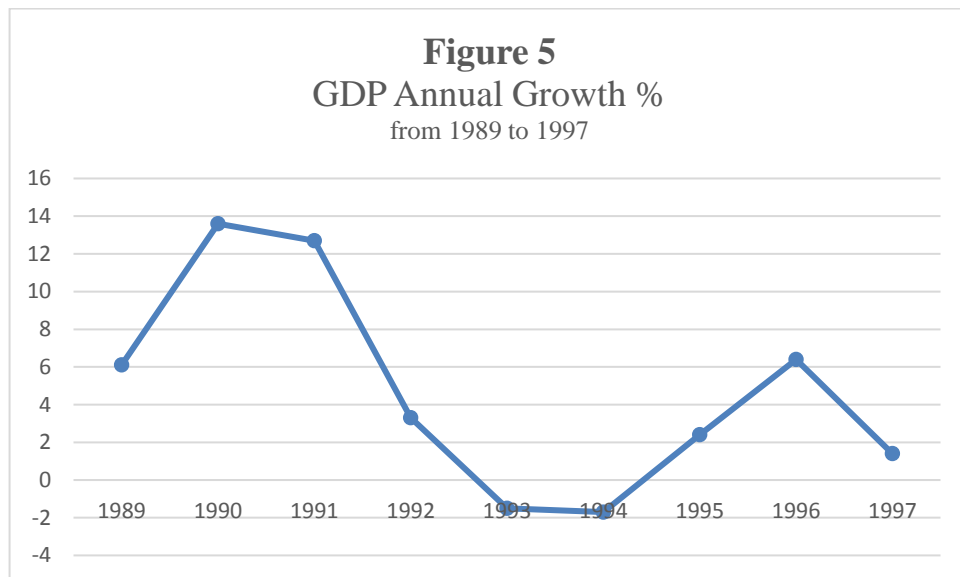


Figure 5. GDP Annual Growth % from 1989 to 1997<sup>250</sup>.

<sup>249</sup>Tazmini, G. (2009). *Khatami's Iran: The Islamic Republic and the turbulent path to reform* (Vol. 12). IB Tauris, p.25.

<sup>250</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.



Figure 6. Gini Index of Inequality from 1989 to 1997<sup>251</sup>.

#### 5.4 Winners and Losers

During the Rafsanjani government, a new bourgeoisie class took shape. These elite were close to the heads of government and they had access to capital and owned industries (especially after the beginning of the privatization of the state owned industries under the SAPs, this class were the winners. The working class and the petite bourgeoisie were the losers, they lived under the great inflation rates and did not enjoy a better share in the profits of the production in Iran.

#### 5.5 Khatami Government 1997-2005

Khatami's government promised to increase freedom in the country and declared that the economy is the main focus of his administration. His government inherited the deep problems that had started to become more visible in the previous government such as privatization and monopolization and the low price of oil that continued to decrease until his second term in office. The policies that Khatami implemented were not as radical as the last two heads of the government. He ran a reform policy of

<sup>251</sup> Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.

incremental change and achieved some very important results. The reform government began a steady but slow pace of policy that would decrease corruption, empower the rule of law, strengthen civil society<sup>252</sup>.

During the war (1980-88), government had to use multiple exchange rates to facilitate different materials that were needed to run the factories and help the war effort. That system continued in the Rafsanjani government until they started a path towards unification (it was part of the stabilizing package of the IMF SAP). They reduced the rates to three different rates and then later unified the three. When the oil revenue dropped and the debts started to pile up, the Rafsanjani government stopped the unified version and returned to two different rates<sup>253</sup>.

Khatami's government saw the unification of exchange rate not only as a means to stabilization, but also as a powerful tool to destroy the center of corruption that was focused around getting the cheaper rate through governmental permits for import and export. Khatami administration managed to put an end to this practice that became a method of rent seeking through its reform<sup>254</sup>.

In the comparatively short history of the Islamic Republic, the government had faced significantly low oil prices twice, once close to the end of the war (1985) and once later in the middle of execution of the SAP<sup>255</sup>. It might not be exaggerating to say that the first case forced the government to accept the ceasefire and the second instance

---

<sup>252</sup>Tazmini, G. (2009). *Khatami's Iran: The Islamic Republic and the turbulent path to reform* (Vol. 12). IB Tauris, p.72.

<sup>253</sup>Amuzegar, J. (1997). Iran's Economy and the US Sanctions. *The Middle East Journal*, p.187.

<sup>254</sup>Amuzegar, J. (1999). Khatami and the Iranian economy at mid-term. *The Middle East Journal*, p.545.

<sup>255</sup> Hamilton, J. D. (2011). Historical oil shocks (No. w16790). *National Bureau of Economic Research*.

forced it to roll back the IMF instructed policies. When the second instance was over, it was the new government's turn to manage an oil dependent economy again and this time, they decided to follow an effort that many other oil based economies around the world had opted to do. The plan was to create a fund to put the extra oil revenue in (the expected income was defined in the third plan for development by the government, following the first and second five year plan). Iran could use this fund later when the prices fell to the level that the expectations set in the yearly budget could not be met. The fund would serve as a means to save the foreign exchange account and. Furthermore, a percentage of the money would be invested through loans to help private small businesses. This new organization was called the Oil Stabilization Fund<sup>256</sup>.

Although one might argue that such a course of action was the prudent path toward further stability in planning the budgets and the development of the country, there exists a crucial criticism. It states that a prudent government (in this case the Khatami government) might be replaced by a government with no long term concerns for the economy. Such a government, in a few years' time would undo all that was done by the prudent government for short term gains<sup>257</sup>. Although it was not known at the time, this is how it turned out in Iran with the Ahmadinejad administration.

During Khatami's second term, the oil prices started to go up and accordingly part of it went to the OSF. Maybe that can explain why with the increase of the national revenue, the inflation rates did not go as high as the worst years of the former

---

<sup>256</sup>Amuzegar, J. (2005). Iran's third development plan: an appraisal. *Middle East Policy*, 12(3), p.55.

<sup>257</sup>Bartsch, U. (2006). *How Much is Enough?: Monte Carlo Simulations of an Oil Stabilization Fund for Nigeria*.



administration. At its worst, Khatami's government experienced a consumer price inflation of 20.1% and GDP deflator inflation of 31.7% in 1999<sup>258</sup>, which is respectively around 30% and 20% lower than Rafsanjani's worst years.

As early as the first years of Rafsanjani government, a desire to empower private sector in the economy of the Islamic Republic had been stated by the top ranking officials. When the new government came into power, it began to pursue those same goals, although their methods were much more conservative and moderate. In 1997 the government started attempts to create permits for private banks and credit institutes and by 2001 the first private bank was officially opened. The competition that was created by the new private banks brought about services like internet banking and ATMs which were also adopted by national banks. By 2009 these private banks had come a long way and held almost 35% of Iran's long term deposits and a quarter of Iran's short term deposits<sup>259</sup>.

Khatami's government shared many ministers with the Rafsanjani government and they tried to continue the process of liberalization, while bearing in mind lessons they learned from the last attempt at liberalization. That is why the new administration started a process that Meydari called "private sector growth without privatization"<sup>260</sup>. The goal was to encourage and enhance the private capital holders, big or small, by creating a chance for them to compete in the mostly monopolized parts of the economy. A good example of these monopolies is the banking system. The government went even further in its efforts to liberalize the economy by trying to privatize more state

---

<sup>258</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>259</sup>Harris, K. (2013). The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran. *International Journal of Middle East Studies*, 45(01), p.60.

<sup>260</sup>Kouchaksaraei, M. J., & Bustami, M. R. (2012). Structural Review of Rent Government and Its Effect on Democracy Process. *Canadian Social Science*, 8(6), p.33.

owned enterprises. When the Guardian Council objected to these measures, former president Rafsanjani who now was the head of the Expediency Council<sup>261</sup> vetoed against the Guardian Council and the legislation was passed in favor of Khatami's efforts. The article 44 of the constitution of the Islamic Republic of Iran (the article that decides what the state, cooperative and private sector should do in the economy and their limits<sup>262</sup>) was interpreted officially by the Expediency Council. This formal interpretation decided the outcome of this battle between the conservative Guardian Council and the Khatami administration<sup>263</sup>.

Khatami offered a different view of the Islamic Republic. Instead of angry and radical clerics of the past two decades, he was a smiling cleric who promoted liberal ideas and instead of the "Clash of Civilizations", a dialogue between civilizations. His suggestion went on and in 2001 UN announced it to be the year of Dialogue between Civilizations<sup>264</sup>. This new attitude in Iran was faced with a broad welcome both in the region and the world. The government started to improve relations with Arab countries of the region and began building important trade relationships with Japan and the EU<sup>265</sup>. The relationship with the U.S. did get slightly better, however the differences

---

<sup>261</sup>The Expediency Discernment Council of the System, is an experts assembly chosen by the supreme leader that has conciliatory role between the parliament and the Guardian Council, so that when they reach an impasse, it has the final say, this council was added in the amendment of the constitution in 1988, today, its advisory role to the supreme leader is very important. Majd, Hooman, *The Ayatollah Begg to Differ: The Paradox of Modern Iran*, Doubleday, 2008, p.246

<sup>262</sup>The article is as follows: Article 44: The Islamic Republic is not a Communist state as the Islamic scholars fiercely oppose this. Notwithstanding this, pursuant to Article 44, "all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams, and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like" are entirely owned by the government. According to the Article 44 of the Iranian Constitution, the economy of Iran is to consist of three sectors: state, cooperative, and private; and is to be based on systematic and sound planning. This article has been amended in 2004 to allow for the Privatization of the Iranian economy. Algar, H. (2015). *Constitution of the Islamic Republic of Iran*. BookBaby. Chapter IV: Economy and Financial Affairs.

<sup>263</sup>Harris, K. (2013). The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran. *International Journal of Middle East Studies*, 45(01), p.71.

<sup>264</sup>Picco, G. (2001). Dialogue among Civilizations, A. *Seton Hall J. Dipl. & Int'l Rel.*, 2, p.5.

<sup>265</sup>Ehteshami, A., & Zweiri, M. (Eds.). (2011). *Iran's foreign policy: from Khatami to Ahmadinejad*. Sussex Academic Press.

that led to the complete end of diplomatic relationships and deep economic sanctions were much deeper than Khatami's power or ability to overcome.

The importance of the deals with the EU and Japan, plus the other Asian countries that had a demand for Iranian petrol became clear when the U.S. did not add harsher sanctions. This was in response to the European protests at the existing sanctions banning firms and restricting their ability to invest in Iran's oil and gas sectors. Its importance became further clear when those Asian countries began to buy Iranian petrol. By the second term of this government when the oil prices started to go up, the government's income started to rise<sup>266</sup>.

The economic policies that were mentioned and the new legal structure that the reforms created, added to the open arms foreign policy of Khatami administration and led to an increase in foreign investment in many different industrial areas. Most notable among them was the oil and gas industry in the energy sector<sup>267</sup>.

## **5.6 State of Inequality under Khatami Administration**

The policies that were chosen by the Khatami administration, were not very radical. They advocated incremental change and incremental change they did bring. The country's GDP began to grow at a positive rate starting from around 2 % in the early years to around 8 % by 2005. While former governments had experienced positive growth, they also experienced years with negative percentage of growth, one due to war and the other due to radical structural change, both when the oil prices dropped. This government however, did not experience negative growth rate at all, despite low

---

<sup>266</sup>Tazmini, G. (2009). *Khatami's Iran: The Islamic Republic and the turbulent path to reform* (Vol. 12). IB Tauris, p.86.

<sup>267</sup>Siddiqi, A. (2005). Khatami and the Search for Reform in Iran. *Stanford Journal of International Relations*, 6(1).

oil prices during the first administration<sup>268</sup>.

The shape of the economy changed a bit too. By involving the private sector in an isolated and monopolized economy and an increase in the freedom of press especially at his first term in office, Khatami managed to improve the economy slightly. While most fundamental aspects of the economy were still the same, the relationships of power between the capital owners -in case of Iran the people close to high positions of government who enjoyed most oil rent, the para-state owned foundations and other powerful capital owners- and owners of labor did not change dramatically. The scales were slightly turned towards the labor and manufacturing capital, but nothing more than that<sup>269</sup>. On the one hand the changes that were slight did not shake the position of capital owners and they benefited from the rent of increasing oil prices. The improvement in general economy meant more jobs and better pay for the labor. The policies such as exchange rate unification, economic liberalization, the OSF and inviting foreign capital did improve the economy. They created a small chance of competition for the private sector to reduce the reach of those who participated in rent seeking activities. However these activities had been going on for a long time and the effects of these measures were somewhat temporary. When the governments changed hands, the policies that threatened rent seeking activity were dropped in Ahmadinejad government. During Khatami period, the World Bank has the GINI index for the years 1998(44.1) and 2005 (38.3)<sup>270</sup>.

It is unfair to say that Khatami's government did not try to better the economy, yet

---

<sup>268</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>269</sup>Salehi-Isfahani, D. (2008). Growing up in Iran: Tough times for the revolution's children. *Brown J. World Aff.*, 15, p.63.

<sup>270</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

the rather radical notion of democracy (within the theocracy that is Islamic Republic) that Khatami promoted confronted certain obstacles. All the conservatives that held various sources of power felt that Khatami's policies were to disrupt their power and obstructed much of what the government wanted to do regarding reforms.

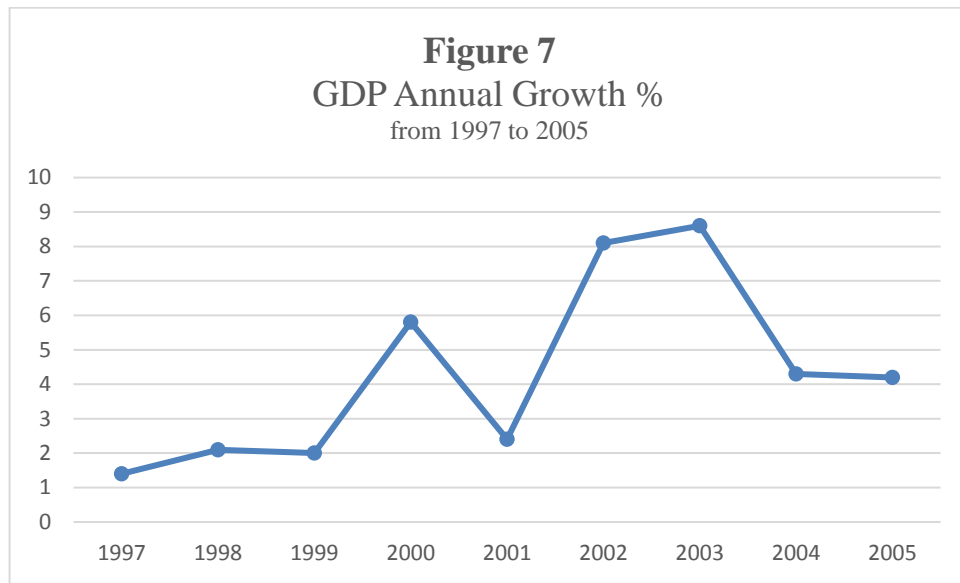


Figure 7. GDP Annual Growth % from 1997 to 2005<sup>271</sup>.



Figure 8. Gini Index of Inequality from 1997 to 2005<sup>272</sup>.

<sup>271</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>272</sup> Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.

## 5.7 Winners and Losers

During the Khatami Administration, despite the general improvement of the economy, the share of the working class and the petite bourgeoisie in the economy did not increase, and inequality continued to grow. That is why the winners were the bourgeoisie, and the losers were the middle and lower classes of society.

## 5.8 Ahmadinejad Government 2005-2013

A new candidate, mayor of Tehran, Mahmoud Ahmadinejad appealed to the conservative establishment with his hardline slogans resembling early years of revolution and appealed to part of public as an outsider and as somebody who would bring the oil money to people's tables. In an election with low voter turnout (around 60% of the eligible voters) in the second round of the election, Ahmadinejad won against former president Rafsanjani and was elected as the next president.

Although he attacked many former officials and criticized almost all of his predecessors, Ahmadinejad enjoyed a strong support by the Supreme Leader throughout his time in office<sup>273</sup>, even in the last year of his presidency that the relationship seemed to have become darkened<sup>274</sup>, the supreme leader still publicly supported him in order to save face for the Islamic Republic.

The Ahmadinejad administration executed a range of policies, with the stated purpose of closing the gap between the wealthy and the poor, redistributing the oil revenues, and fighting with corruption. By the end of Khatami's government, oil prices had started to pick up and they continued to steadily increase. This revenue helped

---

<sup>273</sup>Ganji, A. (2008). The latter-day sultan. *Foreign Affairs*, 87(6), p.49.

<sup>274</sup> Maloney, S. (2013). Why Rouhani Won--And Why Khamenei Let Him. *Foreign Affairs*.

Ahmadinejad to assume an expansionary policy, increasing the budget and forcing the Central Bank of Iran to print more money. During Ahmadinejad's time as president, government's debt to the banks and the private sector rose to 72 billion dollars. At the same time, in this period the annual budget was increased by 4.5 times<sup>275</sup>.

As was shown earlier, in the second era (1989 – 2014), governments tried to privatize the large public sector that had shaped as a result of revolution and the war. In Rafsanjani's time, it led to massive corruption and record breaking inflation, during Khatami administration the rate of privatization was slowed down in a sense and it was not done as extensively as before and it was met with moderately small success. However during the rule of the Ahmadinejad government, the government took a radical position once more and started to privatize the economy.

History started to repeat itself to some degree. Once more the main beneficiaries of privatization programs were the people with good connections with the top executive members of the government, which intensified their rent seeking activities and their hold on the Iranian economy. Among these were not only individuals, but also the para-state run foundations<sup>276</sup>.

During this government, in the index published by Transparency International the Corruption Perception Index, Iran dropped from 88<sup>th</sup> out of 158 countries in 2005 to 168<sup>th</sup> out of 180 countries in 2009<sup>277</sup>.

---

<sup>275</sup> Amuzegar, J. (2013). Ahmadinejad's legacy. *Middle East Policy*, 20(4), p.132.

<sup>276</sup> Coville, T. (2017). The Economic Activities of the Pasdaran. *Revue internationale des études du développement*, (1), p.98.

<sup>277</sup> Transparency International Corruption Index, Transparency International .2005., Transparency International Corruption Index, Transparency International .2009.

Throughout the war period (1980-88), the government, tried to protect the most vulnerable parts of the society, and controlled prices extensively. These price control practices were inherited by all administrations that came after the war. The dream of reforming and lifting the weight of these subsidies off the governments' shoulder was reflected in the declared reform programs of both Rafsanjani and Khatami governments. While in Rafsanjani's government, prices were freed in some cases, when the oil revenue dropped, that agenda was effectively put on hold and when Khatami's government took over, they did not undo the subsidies at all, rather they only let the prices go up slightly.

When it came to Ahmadinejad's government, government dealt with prices in two contrasting approaches. One was the prices of energy sources (oil, natural gas, gasoline) and water, the other was the prices of everyday consumer goods. In terms of the first set of prices, the government decided to go on with full liberalization of those prices. This liberal policy was taken and radically put to action. When faced with all out protests to this program, the government scheduled a stage by stage liberalization of prices program and it started a plan to replace the governmental control of prices by paying the citizens a certain amount of money directly from the oil revenues<sup>278</sup>. For the second set of prices-the consumer goods- the government opted for an open doors import policy to keep steady low prices at the expense of domestic producers.

While the first policy created inflation the second policy controlled the inflation to some extent. If the prices of native made goods rose, especially the agricultural goods, the government was more than happy to increase the supply of those goods via import

---

<sup>278</sup>Harris, K. (2010). The politics of subsidy reform in Iran. *Middle East Report*, (254), p.39.



and that kept the prices in check at the expense of Iranian manufacturers and farmers. However these two policies did not balance each other out, rather one cushioned the effects of the other<sup>279</sup>. As the government increased the prices of energy supplies, most notable among them gasoline, the prices of all sorts of commodities rose in reaction to that increase.

One of the main features of the Ahmadinejad administration was its expansionary policies. Throughout his eight years as president Iran made around 700 billion dollars in oil revenues (all the former administrations after the revolution, put together had around 440 billion).<sup>280</sup> This unprecedented surge in income put him on the path to solve any problem with money, rather wiping out the problem with money. Any member of government, companies and firms run by government, or para-state run companies that protested his spending would be dismissed and replaced. When the Planning and Budget Organization made too many objections to his programs, he reacted by dissolving the organization itself<sup>281</sup>.

Banks were also targeted by Ahmadinejad's policy change. Throughout his terms in office he forced the national banks to maintain a low interest rate. He did that in spite of the actual inflation of the market and economy. Among many high ranking people that were changed during his administration were heads of banks. He even changed the head of the Central Bank of Iran. When they opposed his decisions they were abruptly changed. One of the decisions that angered the banking experts was the forced loaning to governmental and para-state companies and also the para-state owned

---

<sup>279</sup>Habibi, Nader. "The Economic Legacy of Mahmoud Ahmadinejad," *Middle East Brief*, no. 74 (Waltham, MA: Crown Center for Middle East Studies, Brandeis University, June 2013).

<sup>280</sup>Amuzegar, Jahangir. "Ahmadinejad's legacy." *Middle East Policy* 20.4 (2013): p.130.

<sup>281</sup>Habibi, N. (2015). How Ahmadinejad Changed Iran's Economy. *The Journal of Developing Areas*, 49(1), p.311.

foundations. This policy led to an increase of government's debt to banks by four times and the banks in turn became deep in debt to the Central Bank<sup>282</sup>.

Ahmadinejad's other notable banking policy was loosening of the regulations governing the requirements of creating private banks. This policy led to a status change in many Non Benefit Financial Institutions (NBFI), they became private banks<sup>283</sup>.

After the world and Iran's government could not reach a diplomatic agreement about Iran's nuclear program, it turned into one of the biggest crises of Ahmadinejad's administration<sup>284</sup>. The governments tend to change the tone of the foreign policy of the Islamic republic. For example, while Khatami could not reconcile with the U.S., the promotion of the dialogue between civilizations instead of clash of civilizations was due to the government<sup>285</sup>.

When the security council of the UN started to impose sanctions on Iran due to its lack of cooperation with the international community, Ahmadinejad called the sanctions worthless paper<sup>286</sup>. This attitude and the continued lack of cooperation led to further sanctions being imposed by the UN's Security Council. These sanctions were added to the old sanctions that the U.S. had put in place after the hostage crisis, and the sanctions that were unilaterally put in place by the Obama Administration and later the sanctions that the EU, Japan and many other countries enforced in response to the

---

<sup>282</sup>Amuzegar, J. (2007). The Ahmadinejad Era: Preparing for the Apocalypse. *Journal of International Affairs*, p.43.

<sup>283</sup>Habibi, N. (2015). How Ahmadinejad Changed Iran's Economy. *The Journal of Developing Areas*, 49(1), p.309.

<sup>284</sup>Kazemzadeh, M. (2007). Ahmadinejad's foreign policy. *Comparative Studies of South Asia, Africa and the Middle East*, 27(2), p.439.

<sup>285</sup>ALDosari, N. R. (2015). Foreign Policy from Khatami to Ahmadinejad There is One Foreign Policy in Iran, which is Khamenei's Foreign Policy. *World Journal of Social Science Research*, 2(1), p.47.

<sup>286</sup>Follath, E., & Stark, H. (2010). A history of Iran's nuclear ambitions. *Der Spiegel*.

UN's Security Council's resolution. With the last sanctions in place, Iran faced a serious crisis in exporting its oil. The daily production of oil was reduced to less than 1.5 million barrels and with no foreign investment in Iran's economy, especially the energy sector the costs of production were increased.

### **5.9 State of Inequality under Ahmadinejad Administration**

With Ahmadinejad government, it is hard to use official numbers that were given for GDP or yearly inflation or even the balance of the OSF.

Throughout his presidency, the government and its different departments published contrasting data, and even the parliament questioned the validity of those official data<sup>287</sup>. For instance, while the inflation rate that was announced ranged between 20 and 30 %, there were reports and estimates that thought the real rate should be above 50 %. What is more, even with the official data, the annual growth that was achieved during Ahmadinejad administration was lower than that of Khatami administration, while Khatami worked under record low oil prices and Ahmadinejad enjoyed record high prices that even reached 130 dollars a barrel at one time. Furthermore, the OSF that was established in the previous government, and must have been overflowing with reserve foreign currencies to be used when the oil prices dropped, was declared empty in 2012<sup>288</sup>.

The subsidy reform program that was put into action during Ahmadinejad presidency also hit the poorer sections of the society, since the higher earning citizens could afford the higher prices, while the poor could not manage the increased prices of basic

---

<sup>287</sup>Amuzegar, Jahangir. "Ahmadinejad's legacy." *Middle East Policy* 20.4 (2013): p.128.

<sup>288</sup>Atashbar, T. (2013). Iranian Disease: Why a Developing Country's Government Did Not Listen to Economists' Advices. *American Journal of Economics and Sociology*, 72(3), p.753.

needs<sup>289</sup>.

The other factor that had a negative effect on equality was the official exchange rate that was kept high despite the inflation and expansionary policies. When the oil prices stopped going up and sanctions tightened their grip on Iranian economy, the government lost its control over the exchange rate, and Iranian Rial started to depreciate. When the public realized this and also looked at government's inability to pay its substantial debt to the private sector and the banks, they began investing in real estate and foreign currencies. That in turn had two effects: first the Rial depreciated further and second, the prices of real estate went unrealistically high, making it harder for petite bourgeoisie and lower class families to afford housing or renting prices, especially in big cities such as Tehran<sup>290</sup>.

There were times when certain policies helped one part of society to have better living conditions while making it much harder for other parts of society. The open doors for import policy led to an increase in services however, it had an undesirable effect on the manufacturing sector of the economy, leaving workers in worse conditions<sup>291</sup>.

During Ahmadinejad's administration, the World Bank has the GINI index for the years 2009 (42) and 2013 (37.4)<sup>292</sup>.

---

<sup>289</sup>Maghsoudi, N., &TohidyArdahaey, F. (2012). Targeting subsidies considering the applied models in Iran. *International Journal of Business and Social Science*, 3(7).

<sup>290</sup>Knight, J. (2015). Sanctions & Economic Mismanagement. *Fletcher Sec. Rev.*, 2, p.43.

<sup>291</sup>Kandil, M., &Mirzaie, I. A. (2014). Iran's Inflationary Experience: Demand Pressures, External Shocks, and Supply Constraints.

<sup>292</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

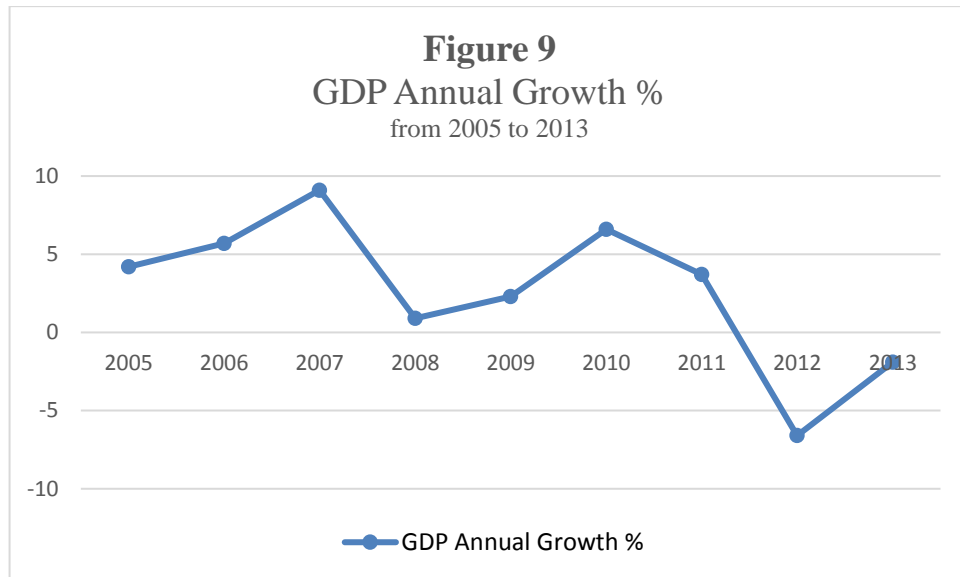


Figure 9. GDP Annual Growth % from 2005 to 2013<sup>293</sup>.



Figure 10. Gini Index of Inequality from 2005 to 2013<sup>294</sup>.

## 5.9 Winners and Losers

During Ahmadinejad Administration the general situation of the economy got much worse, furthermore, with the huge increase in the oil revenues, the big spending annual budgets helped increase inequality. Those who were close to this administration the

<sup>293</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>294</sup>Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.

bourgeoisie, the big governmental contractors were among the winners. The other parts of the society especially the proletariat were the losers, as the living standards became lower and the national currency lost its value.

## **5.10 Conclusion**

In this chapter, three different administrations that came after the war and after Ayatollah Khomeini were discussed: the Rafsanjani administration, the Khatami administration, and the Ahmadinejad administration. While none of them returned to the strict regulations and controls by the government that were in place during the war (which were created to run the war economy more efficiently and were no longer felt needed), none of them did fully embrace the open market concept advocated by the neo liberal school of economy either. Whenever the open market policies were pursued radically and with a strong force for change, corruption and inflation followed it. Rafsanjani could not continue his structural adjustment policies. Khatami had to manage most of his time in office with very low oil prices. Ahmadinejad, thanks to all time high oil prices could pay the costs keeping up with those policies. By the time his second term in office was about to end, oil prices started to go down and he had deficit in his annual budget in each and every year of his time in office. Ahmadinejad left a legacy of broken manufacturing sector, aging energy sector, international isolation and several hundred international sanctions.<sup>295</sup>

In terms of social inequality, while annual income per capita had a huge drop after the revolution and the war and the massive population growth in the 1980s, throughout these three administrations most indicators of social inequality remained the same. While during Khatami administration annual GDP growth did slightly pick up, the

---

<sup>295</sup>Amuzegar, J. (2013). Ahmadinejad's legacy. *Middle East Policy*, 20(4), p.125.

GINI index of inequality does not change much throughout this time, ranging from 0.38 to 0.44<sup>296</sup>. This goes to suggest that despite all the slogans and talks about Islamic revolution being a movement of social equity, at the end of nearly four decades the changes aren't that noticeable and the Iranian society, after the first decade of war and revolution reached a state of inequality that has not changed much throughout the next two decades.

During the three administrations the losers of the policies that were implemented were the working class and the middle class, however, the degree to which they lost varied according to oil revenue and the administration that was in charge, the best outcome of the three administrations was for Khatami administration, during which, the economy saw steady positive growth, meaning that while the gap was widening between the bourgeoisie and the proletariat and the petite bourgeoisie was thinning, the overall economy worked better with lower rates of inflation<sup>297</sup>. Rafsanjani government had two different phases, the first phase in which foreign loans and capital flowed into the country and the SAPs were implemented, which with the drop of oil prices resulted in record high inflation rates. The second phase was after abandoning the SAPs, in which the rate with which the inequality increased was slowed<sup>298</sup>. The Ahmadinejad government had the worst outcome of the three administrations, so much so that by the end of his second term, Iran had gone through high inflation and then stagflation<sup>299</sup>.

---

<sup>296</sup>Indicators, W. G. (2015). The World Bank Group. *The World Bank Group*.

<sup>297</sup>Amuzegar, J. (2006). Khatami's legacy: Dashed hopes. *The Middle East Journal*, 60(1), p.64.

<sup>298</sup>Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.625.

<sup>299</sup>Amuzegar, J. (2013). Ahmadinejad's legacy. *Middle East Policy*, 20(4), p.125.

Overall, the economy of Iran moved towards the owners of capital, the rent seeker class that has access to power and resources in Iran and the proletariat and middle class were the losers in the conflict.



## Chapter 6

### ANALYSIS OF THE POST 1979 CONTEXT IN IRAN BY USING MARX'S THEORIZATION OF CLASS

#### 6.1 Introduction

This thesis aimed to analyze the political economy of the 1979 Revolution and its aftermath. It engaged itself with answering two research questions: What was the social basis of the Islamic Revolution? Which classes and groups supported the Iranian Revolution? Secondly which class/es, social group/s in the Iranian society benefited from the 1979 revolution and which class/es, social group/s lost as a result of the policies implemented?

#### 6.2 Weber and Marx on Social Inequality

The theoretical framework opted for this study is Marx's critical theory of political economy, wherein he looked at the forces in the economy through the lens of the forces of capital and labor. For Marx all history is history of class struggle and a Marxist analysis looks at the production relationships in a given society in order to get a sense of the dynamics of that society<sup>300</sup>. The production relationship is concerned with how those who own the means of production and the owners of labor negotiate the share of each party in the profit made out of the process of production.

Max Weber, explained differences between classes via three components of income, status, and power. A class that has more income can be easily differentiated from

---

<sup>300</sup> T. B. Bottomore (1991). *A Dictionary of Marxist thought*. Wiley-Blackwell. p. 110.

another class with less, so is the case with status<sup>301</sup>. Classes compete with each other by using their resources of income and status to gain more power<sup>302</sup>.

Weber and Marx viewed class stratification differently. Marx was concerned with the winners and losers of the dialectic production relationships. Weber on the other hand put the emphasis on his three main criteria of income, status, and power, stating that better conditions mean better life chances in the society.

Both Marx and Weber explain society and the conflicts and inequality within it, however, I believe that it is the production relationships that are the most important factor while looking at what creates inequality in a society. These relationships shape classes' income and status, resulting in their overall power. That is why Marx's Critical Theory of Political Economy was chosen for this thesis. The focus of the current thesis is also social inequality, and the best theory to apply is Marx's. So how can we analyze the 1979 Revolution and its aftermath from Marx's perspective on social inequality?

### **6.3 The Political Economy of the 1979 Revolution**

In the third chapter it was shown that as the Shah grew in power and distanced himself from his early supporters in traditional Bazar bourgeoisie class, and started to change the shape of Iranian society into a more modern and western society, He began to lose the support of the clerics as well. Shah's intolerance of different voices being heard in society and his strong alliance with foreign powers, specifically the United States, alienated him from the Marxists and religious intellectuals.

---

<sup>301</sup> Clark, T. N., & Lipset, S. M. (Eds.). (2001). *The breakdown of class politics: A debate on post-industrial stratification*. Woodrow Wilson Center Press. p.42.

<sup>302</sup> Bendix, R., & Lipset, S. M. (Eds.). (1966). *Class, status and power* (pp. 295-307). New York: Free Press.

But the more important changes were those that followed after his massive land reform in which the peasantry was abolished and as his civil projects began to modernize the faces of Iran's major cities, many of the former peasants began to flow toward big cities such as Tehran. Since they couldn't afford to live in those cities, they began to live in slums concentrated around the suburbs of those big cities<sup>303</sup>.

These masses of former peasants who were living in poverty were the main supporters of Ayatollah Khomeini who criticized the Shah for his coronation ceremony and other expensive festivals, his role in the region and his close cooperation with the Americans<sup>304</sup>. Therefore, an alliance of working class, religious intellectuals, liberal intellectuals, Marxist intellectuals, the traditional clergy, and some guerilla groups that engaged in armed hostilities against the regime, and the traditional bourgeoisie of the Bazaar fought with Shah's regime and by February 1979 they overthrew the Pahlavi dynasty and established the Islamic Republic of Iran<sup>305</sup>. Among the groups that actively participated in the process of the Islamic Revolution, many were sidelined or wiped out. Among those were the liberal Muslims, the Marxists and Islamist Marxists who after a period entered into armed conflict with the new Islamic Republic and were either forced to flee the country or were wiped out<sup>306</sup>.

As for the classes that were loyal to the Shah, the most notable supporters of the Shah were the rent seeking bourgeoisie whose main source of income was through their access to the petrodollars that Shah himself distributed as the head of the state. They

---

<sup>303</sup>Amirahmadi, H., & Kiafar, A. (1987). Tehran: growth and contradictions. *Journal of Planning Education and Research*, 6(3), p.171.

<sup>304</sup>Ramazani, R. K. (1982). Who lost America? the case of Iran. *Middle East Journal*, 36(1), 5.

<sup>305</sup>Ashraf, A., & Abrahamian, E. (1983). Ahmad Ashraf: Bazaar and Mosque in Iran's Revolution. *Merip Reports*, (113), 17.

<sup>306</sup>Khosrokhavar, F. (2004). The new intellectuals in Iran. *Social Compass*, 51(2), 200.

of course were the winners of the pre revolution Iran's political economy<sup>307</sup>.

Table 1. Gini Index of Inequality from 1969 to 2013

Year	Gini Index of Inequality	Year	Gini Index of Inequality	Year	Gini index of Inequality	Year	Gini index of Inequality
1969	0.4368	1980	0.3984	1992	0.387	2003	0.4156
1970	0.4429	1982	0.441	1993	0.3976	2004	0.3996
1971	0.4679	1983	0.454	1994	0.3993	2005	0.4023
1972	0.4606	1984	0.4043	1995	0.4074	2006	0.4004
1973	0.4775	1985	0.391	1996	0.391	2007	0.4045
1974	0.4992	1986	0.3944	1997	0.4029	2008	0.3859
1975	0.502	1987	0.4038	1998	0.3965	2009	0.3939
1976	0.4805	1988	0.4043	1999	0.4009	2010	0.3813
1977	0.4584	1989	0.4092	2000	0.3991	2011	0.375
1978	0.436	1990	0.3969	2001	0.3985	2012	0.3834
1979	0.4618	1991	0.3996	2002	0.4191	2013	0.3952

Source: Central Bank of the Islamic Republic of Iran (CBI)<sup>308</sup>.

As can be seen in Table1, Iran experienced an all-time high Gini rate in the 1970s when it reached 0.50, after the revolution, in 1980 it from 0.46 to 0.39, the first era's average Gini coefficient is 0.37579 from 1979 to 1989.

<sup>307</sup>Shawcross, W. (1989). *The Shah's last ride*. Simon and Schuster.p.24.

<sup>308</sup> Central Bank of the Islamic Republic of Iran (CBI), 2014. National Accounts of Iran.

Another tool, used by the thesis to investigate inequality in Iran during the same time period, is inflation rates. As Crowe (2005)<sup>309</sup> puts it, “More inequality means higher inflation”. Throughout the thesis, the policy decisions of different administrations and their consequences have been explored, one of which has been higher or lower inflation rates.

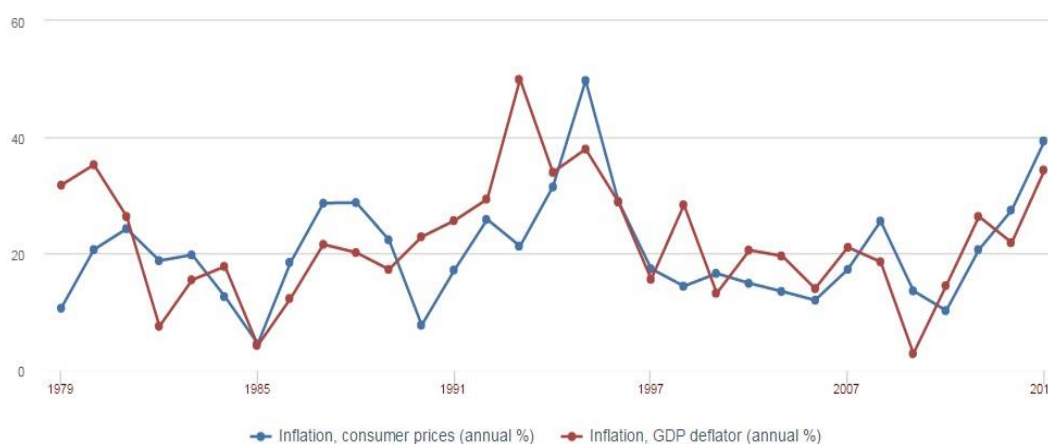


Figure 11. Inflation rates of Iran, 1979-2013  
Source: World Development Indicators<sup>310</sup>.

A quick glance at Figure 1 reveals that the lowest rates of inflation belongs to Mousavi administration with 1985 as their best year and the highest rates are for Rafsanjani administration with two years of 50% inflation rates 1993 and 1995. Khatami administration kept a relatively low rate of inflation and Ahmadinejad administration gets close to the rates experienced in Rafsanjani era with 2013 as their worst year.

## 6.4 Winners and losers: 1979-1989

The thesis looks into the administrations of Iran after the Islamic Revolution and divided the period after the revolution into two distinct eras:

<sup>309</sup>Crowe, C. 2005. *Inflation, Inequality and Social Conflict*. Centre for Economic Performance London School of Economics and Political Science. London.

<sup>310</sup>The World Bank. (2016). *World development indicators 2016*. Oxford University Press, USA.

First era is marked by revolutionary ideas, protectionism, and state intervention into economy, price control, rationing and the long eight year war with the neighbour country, Iraq.

The temporary government introduced a new labor law and increased the minimum wage 2.7 times, from 210 to 567 rials<sup>311</sup> and as was shown in its specific chapter, the Mousavi administration conducted massive policy changes. The properties of many big capital owners were seized by the state, some of which owed a great deal to the banking system. Many industries were nationalized and the government continued with Shah's efforts for land reform, enforced many redistribution policies, controlled prices for the most important goods, limited the distribution of foreign exchange, and introduced rationing in order to protect the country against the effects of war. The government facilitated what was called the "construction Jihad", a program to build rural infrastructure and help modernize the old systems of agriculture in Iran, and provide healthcare for out of reach villages. Another important aspect of this era was the emphasis on cooperatives that were meant to replace the big capital owners in the new Islamic Republic<sup>312</sup>.

The effect that these policies had was somehow reduced by the foundations. These foundations represented new capitalists that became the owners of many of the seized properties and assets left by capitalists of the former regime, who had run away from the country in the wake of the revolution or were executed or imprisoned by the new regime. These foundations were not responsible to the government, their heads

---

<sup>311</sup>Behdad, S. (1989). Winners and Losers of the Iranian revolution: A study in Income Distribution. *International Journal of Middle East Studies*, 21(03), p.3340.

<sup>312</sup>Amuzegar, J. (1997). *Iran's economy under the Islamic Republic*. IB Tauris. P.45.

answered only to the supreme leader who appointed them.

The rationing and limit on import policy of the government led to the emergence of a black market. The brokers of this black market were among the few winners of this era.

While the war raged on, these policies did change the economic face of Iran. The Gini coefficient of close to 0.50 at the end of Pahlavi dynasty was replaced by an average of 0.37, which is the lowest average of income inequality achieved in all of the timespan of the thesis. The more amazing feature achieved by that administration is its record low inflation rates that reached 4% in 1985. This was at the same time that the government was fighting the longest war of the 20<sup>th</sup> century with Iraq.

This goes to suggest that during the time that Mousavi administration was in power, the production relations in Iran changed a lot in favor of the working classes and lower income classes. At the same time it is important to notice that due to massive drop in oil revenues and an ever increasing population, the general material wellbeing of the Iranians fell as private consumption per capita in real terms fell from 153,000 rials in 1977/8 to 125,000 rials in 1990/1 period<sup>313</sup>. The long war and the limitations it imposed upon the society made the 1980s a harsh decade for the Iranians. In this first era of the Islamic Republic therefore the winners were the foundations (that represented the new bourgeoisie, with industries and capital that were given to them) and the brokers of the black market and the losers were the big capital owners and the elite that were close to the Shah and his court. For the working class and the low income parts of the

---

<sup>313</sup> Indicators, W. G. (2015). The World Bank Group. The World Bank Group.

population this was also a good era.

## **6.5 Winners and losers: 1989-2013**

Second was the era of the administrations after the War and the death of the founder and the First Supreme Leader of the Islamic Revolution, Ayatollah Khomeini. This era saw liberalization of the economy and privatization, specifically in the form of policy packages recommended by the international organizations that gave Iran loans during the Rafsanjani administration.

The Khatami administration followed an agenda of reform and international reconciliation. Khatami's policies can be defined as a continuation of Rafsanjani's policies on liberalization in a much more controlled and slower pace.

The last administration that the thesis looked into was that of Mahmoud Ahmadinejad. The oil boom and the massive price liberalization of energy products such as gasoline were the results of his domestic policies. The extreme international sanctions were a result of adventurous foreign policy of his government and the nuclear program of the Islamic republic.

The second era began by the Structural Adjustment policies, the well criticized and documented program recommended by the international organizations that gave loans to Iran. This policy package was supported by the increasing oil revenue but did not show the expected effects. When the oil prices began to drop the government could not sustain its foreign debts and could not finance its debt due to increased US sanctions. Thus they dropped the policies and returned to a more protectionist and interventionist model. The vast privatization policy of this era led to the creation of a new elite who were close to the heads of the government and enjoyed the rent of



information and very low prices in acquiring state owned firms. This era saw a return towards the more open market approaches of the Pahlavi era and it showed its effects in an increased overall Gini coefficient of 0.39 and record high inflation rates of close to 50%. The winners in this period were the elite close to the government heads, the brokers and the foundations. The working class and poorer sections of the society went through a harsh time due to high inflation and an increase in income inequality.

The next government was the reformist government of Khatami who promised civil liberties and reconciliatory foreign policies. Khatami's cabinet consisted mostly of former ministers of Rafsanjani government and therefore the policy lines did not shift greatly in his time. He did manage to keep inflation rather low and throughout his administration Iran saw positive growth rates every single year. The weak part of Khatami's administration was his inability to reduce the gap between the wealthy and the poor as the average Gini coefficient in this period was 0.40<sup>314</sup>. The winners of this period were similar to Rafsanjani's period, in which the elite, the foundations and the brokers won. However, the working class and the low income sections of the society experienced a better situation compared to Rafsanjani era, as the inflation rates did not go very high and the economy was experiencing a positive annual growth.

The last administration of the second era is that of Ahmadinejad. In his time Ahmadinejad enforced many policies that liberalized the prices rapidly, forced the banking system to hand out loans, started many civil projects with on the spot decision making, experienced record high oil prices and yet failed to achieve positive growth rates for all of the years of his government. His foreign policy of adventurism cost Iran

---

<sup>314</sup> Indicators, W. G. (2015). The World Bank Group. The World Bank Group.

a great many sanctions that had an immense negative effect on Iranian economy. In general his era is considered to be an era of vast mismanagement. During the years of Ahmadinejad administration Iran experienced a new wave of capital flight<sup>315</sup> and brain drain<sup>316</sup>Phenomena suggest the reason to his better score on Gini coefficient to be something other than an improvement on income inequality, but rather a response to losing the top percentages of capital, both material and human. During the Ahmadinejad years, Iranian capital and Iranian scientists left the country in ever increasing rates. The average Gini coefficient for his administration is 0.39 which is lower than that of Khatami administration; however the inflation rates suggest that inequality did not decrease as he came close to the record inflations of the Rafsanjani period. The winners of the Ahmadinejad administration were the new elite, who came to control many state owned enterprises and became part of the bourgeoisie of Iran. These elite were close to this government, the brokers, even the brokers of foreign currencies as the Iranian currency lost its value and created a black market for other currencies. The losers of this era were the petit bourgeoisie, the working class and the lower income parts of the society as the liberation of prices and the paying of the cash subsidies that could not keep up with inflation and increased the expenses of living.

To sum up, the general direction of the policies of the second era was much different from those of the first, more towards a free market society with privatized firms and increased consumerism. While the gap between the rich and the poor did drop when compared to the Pahlavi era, it did not fall compared to the Mousavi administration's period. While the petite bourgeoisie grew during this era of peace and stability, it did not flourish as expected and the economic mismanagements of the Ahmadinejad

---

<sup>315</sup>Amuzegar, J. (2013). Ahmadinejad's legacy. *Middle East Policy*, 20(4), p.132.

<sup>316</sup>Stone, R. (2015). Unsanctioned science. *Science*, 349(6252), p.1040.

administration may well have set those expectations back.

## **6.6 Conclusion**

This chapter's aim was to bring together the theoretical and the empirical parts of the thesis together. How can we observe and analyze the political economy of the Iranian Revolution of 1979 and its aftermath? Which classes gained and which classes lost due the economic policies implemented? The current thesis looks at the classes behind the revolution and during the first and the second eras (1979-1989, and 1989-2014).

It was shown that during the Pahlavi Era, the bourgeoisie were the winners of the production relationships. The big importers, the heads of the state sponsored industries, the bankers and the likes of them, with close ties to the royal court and the Shah himself, enjoyed the profits of production. After the revolution, the first era, saw a change in that pattern. Most people with close ties to the royal court had fled from the country and many of those who remained lost their hold on Iran's economy and some lost their capital. The redistributive policies of this era, along with the rural infrastructure projects, among other policies, put the proletariat and the petite bourgeoisie at the winning side of the production relationship. Throughout the next three administrations, the gap between those who own the means of production and the owners of labor increased and as a result inequality increased. The different administrations tried to implement different sets of policies while the main source of income for the country fluctuated greatly.

The policies of structural adjustment programs, with their trickle-down economics mindset, turned the balance towards a new rent seeking bourgeoisie class that was formed among the revolutionaries. This new bourgeoisie class enjoyed a share in the

annual budget, had a preference in privatization programs and received the state led economic projects. That is why, after four decades of Islamic republic, the winners of the conflict between owners of capital and owners of labour are the bourgeoisie class and the proletariat and the petite bourgeoisie are the losers.

The proletariat and the petite bourgeoisie, lost in the conflict of interests. Their share of the national income grew less and less while generally the country spent these years in high inflation. At the end of Ahmadinejad government, the country entered a state of isolation and stagflation due to excessive expansionary budgets and overwhelming international sanctions.

## Chapter 7

### CONCLUSION

This chapter's aim was to find an answer to the research question set out in the beginning and summarize the main findings of the thesis. The main aim of the current thesis is analyzing the political economy of the Islamic Revolution and its aftermath. It focused on the classes that supported the Islamic Revolution, the classes that won the power struggle after the revolution and the classes that benefited and lost during each of the administrations that were studied.

Iran has a long history of being analyzed as a rentier state. It all began with Mahdavi's work in the 1970 where he introduced the concept of rentierism and its effect on Iranian political economy<sup>317</sup> and Iran is still being analyzed as a rentier state<sup>318</sup>. The problem with such analysis is that by putting the emphasis and focus on the revenue and rent of the natural resources, the social relations that make those revenues so important in the Iranian society and are involved with those rents, are ignored. This thesis aimed to use an alternative framework to analyze the political economy of Iran by drawing on Marx's conceptualization of class.

To reiterate, Marx's conceptualization of class was used to analyze the beneficiaries and losers of the economic policies implemented after the Islamic Revolution. Marx

---

<sup>317</sup>Mahdavy, H. (1970). The patterns and problems of economic development in rentier states: The case of Iran. *Iranian Studies*, 1000(1).

<sup>318</sup>Maloney, S. (2015). *Iran's political economy since the revolution*. Cambridge University Press.

conceptualized classes in three groups on the basis of their position in the production process: the working class, the petite bourgeoisie and the capitalist class.

After the revolution, Iran saw many changes. Many of the capitalists loyal to the Shah had to flee the country. Most industries became nationalized along with foreign trade. A new cooperative sector was introduced to improve the living standards of petite bourgeoisie and the proletariat. Along with these, in the first decade after the revolution, many redistributive policies were employed, so much so that in this first decade, the winners were the proletariat and the petite bourgeoisie.

After the War and death of Ayatollah Khomeini, the governments that came changed the isolationist nature of Iran's economic policies that prioritized redistribution. The Rafsanjani government employed liberalization under the suggested program of IMF and The World Bank, the Khatami administration followed slow and steady reforms and Ahmadinejad government liberalized the economy further while leaving a legacy of great deficits in annual budget and international sanctions. During this second era of the Islamic Revolution, the winners of the conflict of interest between owners of capital and owners of labor were the owners of capital. A new capitalist class emerged, close to the centers of power, such as the administrations, the Foundations (the heads of which were among the revolutionaries with close ties to the leadership of the revolution, which themselves originated from the former proletariat and petite bourgeoisie) and other revolutionary institutes to form the new bourgeoisie class of Iran. These were the winners of this second era, while the working class and the petite bourgeoisie grew thinner and thinner.

As this thesis examined a society with many contradictory narrations, of a revolution with many goals of social equality, it employed document analysis and used a few empirical data in order to provide some understanding between the narrations and the quantitative outcome of the economic policies of the Islamic Republic.

The thesis divided the administrations after the revolution by two groups. The idealistic administration of the first decade that employed an isolated system with price-fixing and import controls. These were the administrations that came to power after the War. They tried to liberalize the Iranian economy by adopting the IMF's structural adjustment programs.

The current thesis tried to answer the following questions: Which classes and groups supported the Iranian Revolution? Secondly, what has been the impact of economic policies implemented in Iran since the 1979 revolution on social inequality? (1979-2014). Which classes benefited from the revolution, which classes lost as a result of the policies implemented?

It was shown that the bourgeoisie of the Pahlavi era supported the monarchy whereas the petite bourgeoisie and the proletariat were the classes that participated in the revolution. From 1979 to 1989, the petite bourgeoisie and the proletariat were the winners and the bourgeoisie were the losers. During the next two decades, it was the bourgeoisie that won and the petite bourgeoisie and the working class were the losers.

Iran's experience has shown that the issues of inequality cannot be solved by using

structural adjustment policies<sup>319</sup>. If anything, the problems of inequality were worsened after Iran liberalized its economy in 1989. Consequently, this thesis proposes to redistribute the productive possessions, as was done in the first era. It was by giving priority to such policies that in the first era that the gap between the rich and poor was reduced and one indicator of that reduction was the decrease of the Gini coefficient from 0.50 to an average of 0.37. Obviously, implementing such policies is not easy after 1989 as Iran increasingly became part of an integrated international economic system.

The clear policy suggestion of the current thesis would be an emphasis on policies that invest more on employment. Employment is a systemic variable and the government should encourage and motivate employment. In particular, it should implement wiser education strategies that would improve the level of Iranian skilled labor. Also, the state should encourage research and development analysis by investing further in them so that it can improve production facility in factories. All these plans must be accompanied with an anti-corruption plan that focuses on prevention rather than individual punishments so that Iran can move further towards a more transparent economy and attract foreign investments that many of its key industries are in need of.

---

<sup>319</sup>Griffin, K., & James, J. (1981). *Transition to Egalitarian Development*. Springer.



## REFERENCES

- Abrahamian, E. (1974). Oriental despotism: The case of Qajar Iran. *International Journal of Middle East Studies*, 5(01), p.21.
- Abrahamian, E. (1979). *Iran in Revolution: The Opposition Forces*. MERIP Reports, (75/76).
- Abrahamian, E. (1982). *Iran between two revolutions*. Princeton University Press. p.76
- Abrahamian, E. (2013). *The coup : 1953, the CIA, and the roots of modern U.S. Iranian relations*. New York: New Press, The. p. 36
- Abrahamian, E. (2008). *A History of Modern Iran*. Cambridge University Press. July 28.
- Afary, Janet. "The Iranian constitutional revolution, 1906-1911." New York (1996): p.63.
- Afshar, H. (1985). Women, state and ideology in Iran. *Third World Quarterly*, 7(2), p.268.
- Akhavi, S. (1987). Institutionalizing the new order in Iran. *Current history*, 86(517), p.53.

- ALDosari, N. R. (2015). Foreign Policy from Khatami to Ahmadinejad There is One Foreign Policy in Iran, which is Khamenei's Foreign Policy. *World Journal of Social Science Research*, 2(1), p.47.
- Allan, K. (2005). *Explorations in classical sociological theory: Seeing the social world*. Pine Forge Press. p.162.
- Alnasrawi, A. (1986). Economic consequences of the Iraq-Iran war\*. *Third World Quarterly*, 8(3), p.876.
- Amirahmadi, H. (1990). Economic reconstruction of Iran: Costing the war damage. *Third World Quarterly*, 12(1), p.33.
- Amirahmadi, H. (2012). *The Political Economy of Iran under the Qajars: Society, Politics, Economics and Foreign Relations 1796-1936 (Vol. 30)*. IB Tauris.
- Amuzegar, J. (1992). The Iranian economy before and after the revolution. *Middle East Journal*, 46(3), p.418.
- Amuzegar, J. (1997). Iran's Economy and the US Sanctions. *The Middle East Journal*, p.194.
- Amuzegar, J. (1999). Khatami and the Iranian economy at mid-term. *The Middle East Journal*.

Amuzegar, J. (2000). A perspective on Iran's post-revolution political economy. A lecture delivered at the Foundation for Iranian Studies, March, 24.

Amuzegar, J. (2005). Iran's third development plan: an appraisal. *Middle East Policy*, 12(3).

Amuzegar, J. (2007). The Ahmadinejad Era: Preparing for the Apocalypse. *Journal of International Affairs*, p.43.

Amuzegar, J. (2013). Ahmadinejad's legacy. *Middle East Policy*, 20(4), p.132.

Anderson, J. (1999). *German unification and the union of Europe: the domestic politics of integration policy*. Cambridge University Press.

Arfa Hassan, (1965). *Under Five Shahs*. W. Morrow. P.91.

Arjomand, S. A. (1981). Shi'ite Islam and the Revolution in Iran. *Government and Opposition*, 16(3), p.316.

Arjomand, S. A. (1981). The Ulama's traditionalist opposition to parliamentarianism: 1907–1909. *Middle Eastern Studies*, 17(2), p.180.

Arjomand, S. A. (1986). Iran's Islamic Revolution in comparative perspective. *World Politics*, 38(03), p.394.

Atashbar, T. (2013). Iranian Disease: Why a Developing Country's Government Did Not Listen to Economists' Advices. *American Journal of Economics and Sociology*, 72(3), p.753.

Avery, P., G. R. G. Hambly C. Melville, 2008. The Cambridge history of Iran Volume, 7- from Nadir Shah to the Islamic Republic. Cambridge University Press, P.179

Banani, A. 1961. Modernisation of Iran,1921- 1941, p.41.

Bartsch, U. (2006). How Much is Enough?: Monte Carlo Simulations of an Oil Stabilization Fund for Nigeria.

Behdad, S. (1989). Winners and Losers of the Iranian revolution: A study in Income Distribution. *International Journal of Middle East Studies*, 21(03), p.3340.

Bendix, R. (1974). Inequality and social structure: a comparison of Marx and Weber. *American Sociological Review*.

Bendix, R., & Lipset, S. M. (Eds.). (1966). Class, status and power (pp. 295-307). New York: Free Press.

Blackbourn, D. (1998). *The Long Nineteenth Century: A History of Germany, 1780 1918*. Oxford University Press, USA. p. 258.

Bloomfield Jr., Lincoln. "Mujahedin-e Khalq (MEK/PMOI) and the Search for Ground Truth About its Activities and Nature" The House Committee on Foreign Affairs.

Bottomore, T. B. (1991). *A Dictionary of Marxist thought*. Wiley-Blackwell. p. 110.

Bowden, M. (2007). *Guests of the Ayatollah: The Iran Hostage Crisis: The First Battle in America's War with Militant Islam*. Grove/Atlantic, Inc. p.93.

Breiger, R. L. (1981). The social class structure of occupational mobility. *American Journal of Sociology*, p.586.

Bryson, S. B. (2007). *A Very British Coup: How Reza Shah Won and Lost His Throne*. World Policy Journal, p. 93.

Calhoun, C. (2012). *Classical sociological theory*. John Wiley & Sons. p.122.

Carver, T. (1975). Marx's commodity fetishism. *Inquiry*, 18(1), p.61.

Central Bank of the Islamic Republic of Iran (CBI), 2014. *National Accounts of Iran*.

Chehabi, H. E. (1991). Religion and politics in Iran: how theocratic is the Islamic Republic?. *Daedalus*. p. 81.

Clark, T. N., & Lipset, S. M. (Eds.). (2001). *The breakdown of class politics: A debate on post-industrial stratification*. Woodrow Wilson Center Press. p.42.

- Clawson, P., & Sassanpour, C. (1987). Adjustment to a Foreign Exchange Shock: Iran, 1951–1953. *International Journal of Middle East Studies*, 19(01), P.12.
- Cohen, G. A. (1974). Marx's dialectic of labor. *Philosophy & Public Affairs*, p.252.
- Congress, U. S. (1776). Declaration of independence.
- Coox, A. D. (1973). Meiji 1868: Revolution and Counter-Revolution in Japan: Akamatsu, Paul:(Translated from the French by Miriam Kochan) New York: Harper & Row. p. 298.
- Cordesman, A. H. (2005). Iran's developing military capabilities. CSIS. p. 18.
- Cottam, R. W. (1981). Revolutionary Iran and the War with Iraq. *Current History*, 80(462), p.5.
- Coville, T. (2017). The Economic Activities of the Pasdaran. *Revue internationale des études du développement*, (1), p.98.
- Cox, O. C. (1950). Max Weber on social stratification: A critique. *American Sociological Review*, p.224.
- Crowe, C. 2005. Inflation, Inequality and Social Conflict. Centre for Economic Performance London School of Economics and Political Science. London.
- Dallmayr, F. (2002). *Dialogue among civilizations: some exemplary voices*(Vol. 21). Macmillan.

- De Nys, M., 1978, July. Marx's Historical Materialism. In *Proceedings of the American Catholic Philosophical Association* (Vol. 52, p. 183).
- Deutschmann, M. (2015). *Iran and Russian Imperialism: The Ideal Anarchists, 1800-1914*. Routledge. p.158.
- Dollar, D., & Svensson, J. (2000). What explains the success or failure of structural adjustment programmes?. *The Economic Journal*, 110(466), p.911.
- Dow, T. E. (1969). The theory of charisma. *The Sociological Quarterly*, 10(3), p.311.
- Ehteshami, A. "After Khomeini" London. Routledge. 1995
- Ehteshami, A., & Zweiri, M. (Eds.). (2011). *Iran's foreign policy: from Khatami to Ahmadinejad*. Sussex Academic Press.
- Elm, M. (1994). *Oil, power, and principle: Iran's oil nationalization and its aftermath*. Syracuse University Press. p. 283.
- Farmanfarma, A. (1954). Constitutional Law of Iran. *The American Journal of Comparative Law*, p.246.
- Farzanegan, M. R. (2011). Oil revenue shocks and government spending behavior in Iran. *Energy Economics*, 33(6), pp.1055-1069.
- Fatemi, K.. (1982). Leadership by Distrust: The Shah's Modus Operandi. *Middle East Journal*, 36(1), p.51.

- Fischer, M. M. (2003). *Iran: from religious dispute to revolution*. Univ of Wisconsin Press.
- Floor, W. M. (2009). *Guilds, merchants, and Ulama in nineteenth-century Iran*. Mage Pub.
- Algar, H. (1980). *Religion and state in Iran, 1785-1906: the role of the ulama in the Qajar period* (No. 17). Univ of California Press. p.165.
- Follath, E., & Stark, H. (2010). *A history of Iran's nuclear ambitions*. *Der Spiegel*.
- Foran, J. *Fragile Resistance: Social Transformation in Iran from 1500 to the Revolution*. Westview Pr (Short Disc). . January 1993.
- Foran, J., & Goodwin, J. (1993). *Revolutionary outcomes in Iran and Nicaragua: Coalition fragmentation, war, and the limits of social transformation*. *Theory and Society*, 22(2).
- Frank, A. G. (1989). *The development of underdevelopment-From Volume 18, 1966, Monthly Review reprint*. *Monthly review*.
- Fritsch-Bournazel, R. (1992). *Europe and German unification*. Bloomsbury Academic.p.166.
- Ganji, A. (2008). *The latter-day sultan*. *Foreign Affairs*, 87(6), p.49.
- Gasiorowski, M. J. (1987). *The 1953 coup d'etat in Iran*. *International Journal of MiddleEast Studies*, 19(03), P.273.



- Gately, D., Adelman, M. A., & Griffin, J. M. (1986). Lessons from the 1986 oil price collapse. *Brookings Papers on Economic Activity*, 1986(2), p.243.
- Geiss, I. (2013). *The Question of German Unification: 1806-1996*. Routledge. p.36.
- Gerschenkron, A. (1966). *Bread and democracy in Germany*. Cornell University Press. p.49.
- Ghods, M. R. (1991). Iranian Nationalism and Reza Shah. *Middle Eastern Studies*, 27(1), p.39.
- Gleave, R. (Ed.). (2004). *Religion and society in Qajar Iran*. Routledge. p.25.
- Habibi, N. (2015). How Ahmadinejad Changed Iran's Economy. *The Journal of Developing Areas*, 49(1), p.311.
- Habibi, N. The Economic Legacy of Mahmoud Ahmadinejad. *Middle East Brief*. June 2013.
- Hamilton, J. D. (2011). Historical oil shocks (No. w16790). National Bureau of Economic Research.
- Harris, K. (2010). The politics of subsidy reform in Iran. *Middle East Report*, (254), p.39.

- Harris, K. (2013). The rise of the subcontractor state: Politics of pseudo-privatization in the Islamic Republic of Iran. *International Journal of Middle East Studies*, 45(01), p.46.
- Hegel, G. W. F. (1991). The encyclopaedia logic. Trans. TF Geraets, WA Suchting, and HS Harris. Indianapolis: Hackett. p.371.
- Henderson, W. O. (1975). *The rise of German industrial power, 1834-1914*. University of California Press. p.155.
- Hooglund, E. (1987). Iran and the Gulf War. *Middle East Report*, p.16.
- Hooglund, E., & Royce, W. (1985). The Shi'i clergy of Iran and the conception of an Islamic state. *State, Culture, and Society*, P.115.
- Houghton, D. P. (2001). US foreign policy and the Iran hostage crisis (Vol. 75). Cambridge University Press. p.109.
- Hoveyda, F. (2003). *Shah and the Ayatollah, The: Iranian Mythology and Islamic Revolution: Iranian Mythology and Islamic Revolution*. ABC-CLIO
- Indicators, W. G. (2015). The World Bank Group. The World Bank Group
- Jakubowski, F. (1976). *Ideology and superstructure in historical materialism*. St. Martin's Press. p. 19.
- Jameson, F. (2009). *Valences of the Dialectic*.

- Jihad-e-Sazandegi, & External Liason Section. (1983). An Introduction to Jihad-e Sazandegi. External Liason Section, Jihad-e-Sazandegi.
- Jones, B. (1975). Max Weber and the Concept of Social Class. *The Sociological Review*, 23(4), p.740.
- Judson, P. M. (1996). *Exclusive Revolutionaries: Liberal Politics, Social Experience, and National Identity in the Austrian Empire, 1848-1914*. p. 4. University of Michigan Press.
- Kandil, M., & Mirzaie, I. A. (2014). Iran's Inflationary Experience: Demand Pressures, External Shocks, and Supply Constraints.
- Kapuscinski, R. (1992). *Shah of Shahs*, trans. William R. Brand and Katarzyna Mroczkowska-Brand (New York: Vintage, 1992), p.62.
- Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, p.621.
- Karsh, E. (2009). *The Iran-Iraq War*. The Rosen Publishing Group. p.78.
- Katouzian, H. Hossein Shahidi, 2007. *Iran in the 21st Century: Politics, Economics & Conflict*, P.44
- Katouzian, H. *The Political Economy of Modern Iran: Despotism and Pseudo Modernism, 1926-1979*. New York University Press. April 1, 1981.

- Katouzian, H. (2000). *State and Society in Iran: The Eclipse of the Qajars and the Emergence of the Pahlavis..* P.63
- Kaufmann, W. A. (1966). *Hegel, a reinterpretation.* P.156.
- Kazemzadeh, F. (1968). *Russia and Britain in Persia, 1864-1914: A Study in Imperialism (Vol. 6).* Yale University Press.
- Kazemzadeh, M. (2007). Ahmadinejad's foreign policy. *Comparative Studies of South Asia, Africa and the Middle East*, 27(2), p.439.
- Keddie, N. R. (1968). The Iranian village before and after land reform. *Journal of Contemporary History*, 3(3), p.75.
- Keshavarzian, A. (2003). Turban or hat, seminarian or soldier: State building and clergy building in Reza Shah's Iran. *Journal of Church and State*, p.111.
- Khajepour, B. (2000). Domestic political reforms and private sector activity in Iran. *Social Research*.
- Knight, J. (2015). Sanctions & Economic Mismanagement. *Fletcher Sec. Rev.*, 2, p.43.
- Kosoy, N., &Corbera, E. (2010). Payments for ecosystem services as commodity fetishism. *Ecological economics*, 69(6), p.1231.

- Kouchaksaraei, M. J., & Bustami, M. R. (2012). Structural Review of Rent Government and Its Effect on Democracy Process. *Canadian Social Science*, 8(6), p.33.
- Langsam, W. C. (1930). *The Napoleonic wars and German nationalism in Austria* (No. 324). New York: Columbia University Press; London: PS King & son, Limited.
- Larner, W. (2006). Neoliberalism: Policy, ideology, governmentality. In *International political economy and poststructural politics* (p. 205). Palgrave Macmillan UK.
- Lenczowski, G. (1978). *Iran under the Pahlavis* (No. 164). Hoover Institution Press.
- Lenczowski, G. (1990). *American presidents and the Middle East*. Duke University Press. p. 9.
- Lob, E. S. (2013). *An Institutional History of the Iranian Construction Jihad: From Inception to Institutionalization (1979-2011)*.
- Logan, I. B., & Mengisteab, K. (1993). IMF-World Bank adjustment and structural transformation in sub-Saharan Africa. *Economic Geography*, p.22.
- Maghsoudi, N., & Tohid Ardahaey, F. (2012). Targeting subsidies considering the applied models in Iran. *International Journal of Business and Social Science*, 3(7).

- Mahdavy, H. (1970). The patterns and problems of economic development in rentier states: The case of Iran. *life*, 1000(1).
- Majd, M. G. (2000). *Resistance to the Shah: landowners and ulama in Iran*. University Press of Florida. p.12.
- Majd, M. G. (2001). *Great Britain and Reza Shah*. University Press of Florida. p.267.
- Majd, M. G. (2013). *The Great Famine & Genocide in Iran: 1917-1919*. University Press of America.
- Malek, M. H. (1991). *Iran After Khomeini: Perpetual Crisis Or Opportunity?*(No. 237). Research Institute for the Study of Conflict and Terrorism.
- Maloney, S. (2013). *Why Rouhani Won--And Why Khamenei Let Him*. Foreign Affairs.
- Mann, M. (1984). The autonomous power of the state: its origins, mechanisms and results. *European journal of sociology*, 25(02), p.201.
- Marashi, A. (2011). *Nationalizing Iran: culture, power, and the state, 1870-1940*. University of Washington Press. p.111.
- Marsh, S. (2001). HMG, AIOC and the Anglo-Iranian oil crisis: In defence of Anglo-Iranian. *Diplomacy and Statecraft*, 12(4), P.158.
- Marx, K. (1867). *Capital*, volume I. p.287.

- Marx, K., & Engels, F. (1902). Wage-labor and capital. New York Labor News Company. P.9.
- Marx, K., & Engels, F. (1967). The communist manifesto (1848). *Trans. AJP Taylor*. London: Penguin. P.25.
- Marx, K., & Engels, F. (1970). *The german ideology* (Vol. 1). International Publishers Co. p. 9.
- Marx, K., & Engels, F. (1973). *Karl Marx on Society and Social Change: With Selections by Friedrich Engels*. University of Chicago Press. p. 20.
- Marx, K., & Engels, F. (2009). The economic and philosophic manuscripts of 1844 and the Communist manifesto. Prometheus Books. p.5.
- Marx, K., & Engels, F. (2012). *On religion*. Courier Corporation. p.95.
- Marx, K., Easton, L. D., &Guddat, K. H. (1997). *Writings of the young Marx on philosophy and society*. Hackett Publishing. p. 325.
- Marx, K., Engels, F., & Moore, S. (1937). *Manifesto of the communist party*(p. 6). International Book Shop.
- McLellan, D. (2006). Karl Marx: his life and thought. Palgrave Macmillan. p. 137.
- McNaugher, T. L. (1990). Ballistic missiles and chemical weapons: The legacy of the Iran-Iraq war. *International Security*, 15(2), p.6.

Mehran, G. (1990). Ideology and education in the Islamic Republic of Iran. Compare, 20(1).

Mikaberidze, A. (Ed.). (2011). Conflict and Conquest in the Islamic World: A Historical Encyclopedia. ABC-CLIO. p.517.

Milani, M. M. (1988). The making of Iran's Islamic revolution: from monarchy to Islamic republic. Westview Pr.

Millspough A. Chester. (1925).The American task in Persia, New York & London: The Century co.

Millspough. A. C. (1946). Americans in Persia., Washington,D.C: Brookings Institution. p. 26.

MironRezun. Brill Archive, Jan 1, 1981 - Political Science. The Soviet Union and the Iran: Soviet Policy in Iran from the Beginnings of the Pahlavi Dynasty Until the Soviet Invasion in 1941. P.44.

Molavi, A. (2005). The Soul of Iran. p. 197.

Mooers, C. (1991). The making of bourgeois Europe: absolutism, revolution, and the rise of capitalism in England, France, and Germany. Verso. P.138.

Moslem, M. (2002). Factional politics in post-Khomeini Iran. Syracuse University Press. p.92.



- Mostowfi, A. (1997). *The Administrative and Social History of the Qajar Period [The Story of My Life]: From Mozaffared-Din Shah to Vosuq od-Dowleh's Anglo Persian Agreement*, trans. NayerMostofi Glenn, 3.
- Mousavi, N. (1992). The obscure limits of freedom. *Index on Censorship*, 21(3), p.18.
- Najmabadi, A. (1987). Iran's turn to Islam: From modernism to a moral order. *The Middle East Journal*, p.213.
- Nashat, Guity. *The Origins of Modern Reform in Iran, 1870-80*. Univ of Illinois Pr,1982.
- Nikazmerad, N. M. (1980). A chronological survey of the Iranian revolution. *Iranian Studies*, 13(1-4), p.343.
- Nowshirvani, V. F., & Clawson, P. (1994). *The State and Social Equity in PostrevolutionaryIran. The politics of social transformation in Afghanistan, Iran, and Pakistan*, p.133.
- Padover, S. K. (1978). *Karl Marx, an intimate biography*. McGraw-Hill Companies, p.32.
- Pahlavi, M. R. (1980). *The Shah's story*. Michael Joseph.
- Paine, C., & Schoenberger, E. (1975). Iranian Nationalism and the Great Powers: 1872 1954. *MERIP Reports*, (37), p.6.

- Park, C. S., Duménil, G., & Lévy, D. (2007). *Capital Resurgent: Roots of the Neoliberal Revolution*.
- Peabody, J. W. (1996). Economic reform and health sector policy: lessons from structural adjustment programs. *Social Science & Medicine*, 43(5), p.830.
- Pesaran, M. H. (1982). The system of dependent capitalism in pre-and post revolutionary Iran. *International Journal of Middle East Studies*, 14(04), p.514.
- Pesaran, M.H."Economic Development and Revolutionary Upheavals in Iran" in Haleh Afshar(ed)Iran:A Revolution in Turmoil,The MacMillan press LTD 1985.
- Pesaran E.. 2011. *Iran's Struggle for Economic Independence*. Routledge London,p.25
- Pfau, R. (1977). Containment in Iran, 1946: The Shift to an Active Policy.*Diplomatic History*, 1(4) P.365.
- Picco, G. (2001). Dialogue among Civilizations, A. *Seton Hall J. Dipl. & Int'l Rel.*, 2, p.5.
- Pierenkemper, T., & Tilly, R. H. (2004). *The German economy during the nineteenth century*. Berghahn Books. p. 20.
- Rabiee, F., & Geissler, C. A. (1990). Rationing and wartime food policies in Iran. *Proc Nutr Soc*, 49, p.46.

- Ramazani, R. K. (1982). Who Lost America? The Case of Iran. *Middle East Journal*, 36(1), 5.
- Robinson, R. V., & Kelley, J. (1979). Class as conceived by Marx and Dahrendorf: Effects on income inequality and politics in the United States and Great Britain. *American Sociological Review*, p.45.
- Rodman, P. W. (1981). The Hostage Crisis: How Not to Negotiate. *Washington Quarterly*, 4(3).
- Rosen, M. (1984). *Hegel's Dialectic and its Criticism*. Cambridge University Press. p.69.
- Rossow, R. (1956). The Battle of Azerbaijan, 1946. *Middle East Journal*, 10(1), p.29.
- Rubin, B. (1999). The Persian Gulf After the Cold War: Old Pattern; New Era. *Middle East*, 3(2), 64.
- Rudé, G. (1991). *The French Revolution*. Grove Press. p.9.
- Salehi-Isfahani, D. (2008). Growing up in Iran: Tough times for the revolution's children. *Brown J. World Aff.*, 15, p.63.
- Salehi-Isfahani, D. (2009). Poverty, inequality, and populist politics in Iran. *The Journal of Economic Inequality*, 7(1), p.17.
- Salomon, A., & BENDIX, R. (1960). Max Weber: An Intellectual Portrait. p.87.

- Schadler, S., &Bredenkamp, H. (1997). *The ESAF at ten years: economic adjustment and reform in low-income countries* (Vol. 156). International Monetary Fund.
- Schatz, S. P. (1994). Structural adjustment in Africa: a failing grade so far.*Journal of Modern African Studies*, 32, p.679.
- Schroeder, P. W. (1996). *The transformation of European politics, 1763-1848*. Oxford University Press. p.308.
- Security Council Resolution 598, The situation between Iran and Iraq, S/RES/598 (16 January 1987), available from [undocs.org/S/RES/598\(1987\)](http://undocs.org/S/RES/598(1987)).
- Sherman, H. J. (1995). *Reinventing Marxism*. JHU Press. p.5.
- Siddiqi, A. Khatami and the Search for Reform in Iran. *Stanford Journal of International Relations*. Vol. 6(1). 2005.
- Siemann, W. (1998). *The German revolution of 1848-49*. Macmillan Press. p. 86.
- Simon, W. M. (1968). *Germany in the Age of Bismarck* (Vol. 2), p.56. Routledge.
- Skocpol, T. (1982). Rentier state and Shi'a Islam in the Iranian Revolution. *Theory and society*, 11(3), p.273.
- Smith, C. (2005). *Karl Marx and the Future of the Human*. Lexington Books. p.118.
- Stewart, J. (1996). *Hegel Myths and Legends*. Northwestern University Press. p.301.

Stone, R. (2015). Unsanctioned science. *Science*, 349(6252), p.1040.

Surber, J. O. N. (2012). Hegel and language. SUNY Press. p.238.

Swidler, A. (1986). Culture in action: Symbols and strategies. *American sociological review*, p.272.

Tabataba'i, M. H.,. Al-Mizan - An Exegesis of the Qur'an. Translated by: Akhtar Rizvi, S., Vol 5, p.116.

Takeyh, R. (2014). What really Happened in Iran: The CIA, the Ouster of Mosaddeq, and the Restoration of the Shah. *Foreign Aff.*, 93, 2.

Tazmini, G. (2009). *Khatami's Iran: The Islamic Republic and the turbulent path to reform* (Vol.12). IB Tauris,

Tehrani, S., &Halliday, F. (1981). Eyewitness from Iran:" Signs of Civil War". MERIP Reports, (98), p.9.

Terray, E. (1972). *Marxism and" primitive" societies: two studies*. Monthly Review Pr.

Tolman, C. (1981). Karl Marx, alienation, and the mastery of nature. *Environmental Ethics*, 3(1), p.64.

- Transparency International Corruption Index, Transparency International .2005.,  
Transparency International Corruption Index, Transparency International  
.2009.
- Tripp, C. (1989). The Consequences of the Iran-Iraq War for Iraqi Politics. In *The Iran  
Iraq War*, Palgrave Macmillan UK.
- Uphoff, N. (1989). Distinguishing power, authority & legitimacy: Taking Max Weber  
at his word by using resources-exchange analysis. *Polity*, p.307.
- Vejdani, F. August 2012, Appropriating the Masses: Folklore Studies, Ethnography,  
and Interwar Iranian Nationalism. *International Journal of Middle East Studies*,  
Volume 44, Issue 3, pp. 523.
- Waters, T., & Waters, D. (2015). The Distribution of Power Within the Gemeinschaft:  
Classes, Stände, Parties. In *Weber's Rationalism and Modern Society*. p.69.  
Palgrave Macmillan US.
- Webb, S. B. (1980). Tariffs, cartels, technology, and growth in the German steel  
industry, 1879 to 1914. *The Journal of Economic History*, 40(02), p.318.
- Weber, M. (1958). The Protestant ethic and the spirit of capitalism, trans. *Talcott  
Parsons (New York: Charles Scribner's Sons, 1958)*, pp. 7.
- Weber, M. (2009). *From Max Weber: essays in sociology*. Routledge. p.61.

Weber, M., & Zohn, H. (1988). *Max Weber: a biography*. Transaction Publishers, p. 35.

Wege, C. A. (1997). Iranian intelligence organizations. *International Journal of Intelligence and Counter Intelligence*, 10(3), p.289.

William L Cleveland, Martin Bunton, (December 2, 2008). *A History of the Modern Middle East, Fourth Edition 4th Edition*. Westview Press; 4<sup>th</sup> edition. P.190.

Wolmar, C.(2010). *Blood, Iron and Gold: How the Railways Transformed the World*. p.96.

Wright, Edwin M.. 1942. Iran as a Gateway to Russia. *Foreign Affairs* 20 (2). Council on Foreign Relations. p. 370.

Zarafshani, K., Rostamitabar, F., Hosseininia, G. H., Akbari, M., & Azadi, H. (2010). Are agricultural production cooperatives successful? A case study in Western Iran. *American-Eurasian Journal of Agricultural and Environmental Science*, 8(4), p.483.

Zirinsky, M. P. (1992). Imperial Power and Dictatorship: Britain and the Rise of Reza Shah, 1921–1926. *International Journal of Middle East Studies*, 24(04), p.653.

Zucker, A. E. (Ed.). (1950). *The Forty-Eighters: Political Refugees of the German Revolution of 1848*. Columbia University Press.