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Reinforcing a regime: strengthening clientelism in Iran with sanctions

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THESIS

REINFORCING A REGIME: STRENGTHENING CLIENTELISM IN IRAN WITH SANCTIONS

by

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September 2015

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When examining the effects of economic sanctions, the contentious debate over what constitutes success or failure often overlooks the sanctions' externalities. This thesis examines the externalities of sanctions inside Iran in an effort to answer the question: "How have economic sanctions targeting Iran affected domestic Iranian politics, and to what degree have these effects influenced the Iranian regime?" Through extensive research regarding Iran's class, economy, and politics, this thesis examines the characteristics of Iranian class structure, the measurable impact of sanctions on the Iranian economy and resultant economic policy shifts, and how these factors influence political behavior. This research concludes that sanctions have strengthened political clientelism in Iran, and are in turn reinforcing the Iranian regime's hold on power. The implications provide critical context for policy makers working toward a U.S. strategy that will provide Iranian people the necessary resources to exert their political will.

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REINFORCING A REGIME: STRENGTHENING CLIENTELISM IN IRAN WITH SANCTIONS

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ABSTRACT

When examining the effects of economic sanctions, the contentious debate over what constitutes success or failure often overlooks the sanctions' externalities. This thesis examines the externalities of sanctions inside Iran in an effort to answer the question: "How have economic sanctions targeting Iran affected domestic Iranian politics, and to what degree have these effects influenced the Iranian regime?" Through extensive research regarding Iran's class, economy, and politics, this thesis examines the characteristics of Iranian class structure, the measurable impact of sanctions on the Iranian economy and resultant economic policy shifts, and how these factors influence political behavior. This research concludes that sanctions have strengthened political clientelism in Iran, and are in turn reinforcing the Iranian regime's hold on power. The implications provide critical context for policy makers working toward a U.S. strategy that will provide Iranian people the necessary resources to exert their political will.

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LIST OF ACRONYMS AND ABBREVIATIONS

CBI	Central Bank of Iran
CRS	Congressional Research Service
GAO	Government Accountability Office
GDP	Gross Domestic Product
IMF	International Monetary Fund
IRGC	Islamic Revolutionary Guard Corps
IRI	Islamic Republic of Iran
ISA	Iran Sanctions Act
P5+1	United States, United Kingdom, France, China, Russia, plus Germany

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I. INTRODUCTION

This thesis attempts to answer the question: "How have economic sanctions targeting Iran affected domestic Iranian politics, and to what degree have such effects had an influence on the Iranian regime?" Specifically, this thesis addresses how sanctions impact Iranian political actors, influence political behavior, and thus affect the Iranian regime's political interests. These effects are then examined in order to determine if sanctions are producing the intended effect or if they are producing some unanticipated externality.

In assessing the impact of sanctions in Iran, this thesis examines the evolution of Iranian class structures in order to understand the Iranian society's socioeconomic interests. Further, the impact of economic sanctions in the Iranian economy and subsequent reform efforts are illustrated, demonstrating how sanctions have catalyzed changes in domestic policies. Finally, the manner in which such domestic policy changes have impacted the socioeconomic interests of Iranian society is demonstrated, revealing the causal linkage between sanctions and domestic political behavior.

A. THE VALUE OF RESEARCH

Although the field studying economic sanctions is filled with extensive research, it focuses primarily on sanctions' successes or failures. While it is useful to identify factors that may prove predictive, and, thus be of potential value for policy makers,[1] this approach overlooks sanctions' intermediary effects. In short, such an approach overlooks how sanctions influence politicians to act, and eventually—sometimes well after the sanction episode has ended—produce an outcome that can be judged either a success or a failure.

Determining how sanctions against Iran precipitate political behavior promises to yield a great deal of insight into if sanctions are driving the Iranian domestic political system to produce an outcome aligned with the goals set by policy makers. Moreover,

[1] Gary Clyde Hufbauer, Jeffery J. Schott, and Kimberly Ann Elliott, eds. *Economic Sanctions Reconsidered: History and Current Policy*, 2nd ed. (Washington, DC: 1990).

this insight will provide the context required to reveal any unanticipated effect sanctions may be having and offer an opportunity to make a course correction so that the final outcome may be judged a success.

B. HYPOTHESIS

Drawing from the large body of work illustrating how sanctions have directly influenced Iran, it is apparent that sanctions are largely responsible for the majority of its citizens' hardships. Further, this body of work reveals that inflation, growing unemployment, and expanding debt are making it increasingly difficult for the Iranian government to provide their citizens with critical political goods and services. Based on this preliminary research, it is tempting to conclude that sanctions are having the desired impact on the Iranian economy; however, a closer analysis of domestic economic policy reveals that Iran's dire situation may, at least in part, be self-inflicted.

The fact that Iranian economic policy has been fraught with gross mismanagement since the 1979 Islamic Revolution suggests that the government is making policy decisions for purposes other than economic growth. Again, based on preliminary research, this assertion is supported by the evidence of enormous government subsidies and welfare programs. Given the government's increased difficulty in providing political goods and services critical to maintaining legitimacy, research for this thesis began with the following hypothesis: the Iranian regime is using its authority to set economic policy in a manner that redirects economic resources in the form of government assistance in an effort to counteract the delegitimizing effects of sanctions and, thus, ensure its continued retention of power. In short, sanctions are preventing liberalization in Iran by strengthening the patron-client relationships that the Iranian Regime relies on to retain power.

C. LITERATURE REVIEW

The body of work centered on Iran is enormous and contains analyses of a myriad of topics. To review each source that proved valuable in this thesis would be too expansive for an introduction; however, out of this vast body of work, three focuses have proved particularly useful: class, economy, and politics. Each area contains extensive

resources that reflect differing approaches and opposing theories; the most valuable of these were reviewed for this thesis.

Of the scholarship focusing on class, Max Weber's *Economy and Society* served as an excellent starting point in the effort to define Iranian class structures. Emphasizing the mobility of class situations, Weber's theory offered a more robust explanation of the transitory nature of Iranian class types than a Marxian emphasis on class rigidity.[2] Additionally, work by Farhad Nomani and Sohrab Behdad in *Class and Labor in Iran* provided an outstanding analysis of the evolution of class hierarchies within Iran, illustrating Weber's theories.[3] Most valuable in understanding the class dynamics within Iran was Kazem Alamdari's piece for *Third World Quarterly*, titled "The Power Structure of the Islamic Republic of Iran: Transition from Populism to Clientelism, and Militarization of the Government." This work illustrated the clientelistic nature of the Iranian class structure and provided a context in which to evaluate contemporary Iranian class interactions.[4]

Within the vast amount of data available focusing on the impact of sanctions on the Iranian economy, the countless reports completed by the International Monetary Fund (IMF), World Bank, Congressional Research Service (CRS), RAND Corporation, and Government Accountability Office (GAO) all proved invaluable. This body of work provided an excellent illustration of how the Iranian economy has been affected over the most recent three decades, beginning with the first round of sanctions against Iran in 1980. Moreover, these sources demonstrated not only the measurable economic impact sanctions have had, but also the economic policy implications these sanctions have produced within Iran.

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[2] Max Weber, *Economy and Society*, ed. Guenther Roth and Claus Wittich (Berkeley: University of California Press, 1978), 302.

[3] Farhad Nomani and Sohrab Behdad, *Class and Labor in Iran: Did the Revolution Matter?* (Syracuse, NY: Syracuse University Press, 2006).

[4] Kazem Alamdari, "The Power Structure of the Islamic Republic of Iran: Transition from Populism to Clientelism, and Militarization of the Government," *Third World Quarterly* 26, no. 8 (2005), doi:10.1080/01436590500336690.

Finally, research focusing on the political realm within Iran was aided by scholarly articles and books written on Iran's less-than-transparent domestic political processes. Chief among these sources was the book *Going to Tehran*, written by Flynt Leverett and Hillary Mann Leverett. These authors provided an objective, evidence-based evaluation of the Iranian electoral process, shedding light on a murky topic on which many scholars have been able to only speculate.[5] Additionally, A. William Samii's piece titled "Iran's Guardians Council as an Obstacle to Democracy," in *Middle East Journal*, provides a concise and clear illustration of the role played by Iran's unelected leaders within the domestic political realm.[6] Again, work by the RAND proved valuable, revealing the pervasive role of the Islam Revolutionary Guard Corps (IRGC) within Iran in a 2009 report titled *The Rise of the Pasdaran.*[7] Together, these sources revealed the structural framework of Iranian domestic politics, providing the perspective required for evaluating the impact sanctions have had on political behavior in Iran.

D. RESEARCH DESIGN

Relying heavily on government and nongovernmental organization reports and secondary sources, research for this thesis was conducted in three phases. The beginning phase centered on identifying Iranian political actors and the socioeconomic interests that influence their behavior, in order to establish the context in which sanctions are having an effect. The next phase focused on understanding the structural limitations sanctions have imposed on Iran, and the impact those limitations are having. Finally, the third phase of research investigated the political relationship between the government and society of Iran, in an effort to determine how one may influence the other.

Seeking to reveal the political landscape within Iran, initial research for this thesis focused on developing an understanding of Iranian class structure—including class mobility, cross-class associations, and the evolutionary process that produced the

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[5] Flynt Leverett and Hillary Mann Leverett, *Going to Tehran: Why the United States Must Come to Terms with the Islamic Republic of Iran* (New York: Picador, 2013).

[6] A. William Samii, "Iran's Guardians Council as an Obstacle to Democracy," *Middle East Journal* 55, no. 4 (2001), http://www.jstor.org/stable/4329688.

[7] Frederic M. Wehrey et al., *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps* (Santa Monica, CA: RAND Corporation, 2009).

hierarchy observed in the Islamic Republic of Iran (IRI) after 1979. Additionally, this research focused on relationships external to the class hierarchy—namely, the political-military realm of Iranian society. The second phase was split into two main efforts. First, build an understanding of what sanctions are, to what ends they are employed, and how they are structured. Next, determine the measurable economic impact sanctions have had, and reveal whether any subsequent Iranian economic policy decisions are attributable to the impact of sanctions. Based on the findings of phase two, the third phase evolved into an investigation of how sanctions induced policy decisions that have subsequently influenced the political behavior of Iranian society, and to what ends that behavior has impacted the Iranian regime.

E. CHAPTER OVERVIEW

This thesis is organized chronologically according to the research method, comprising five chapters:

Chapter II defines class within Iran, lays out the evolution of Iranian class hierarchy, and illustrates the clientelistic nature of Iranian society.

Chapter III defines sanctions as a coercive tool, establishes the framework of U.S. sanctions against Iran, demonstrates the measurable economic impact of sanctions in the Iranian economy, and reveals the relationship between sanctions and Iranian attempts at economic reform.

Chapter IV examines Iranian attempts at economic reform, illustrates how reform attempts have strengthened clientelism in Iran, demonstrates the effects of clientelism in presidential elections, and reveals the regime's use of clientelism to maintain power.

Chapter V provides a conclusion to tie the findings of this thesis together, presents the implications of these findings, and offers recommendations regarding continued sanctions against Iran.

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II. IRANIAN SOCIETY

To determine how economic sanctions impact domestic Iranian politics, the first step is to understand the socioeconomic system in Iran and identify the actors who are most impacted by the sanctions. The second step identifies the associations within a society that span social classes, and determines whether allegiances within classes or across classes are stronger, in order to understand which factors influence class behavior. This chapter focuses on the evolution of the social hierarchy within Iran, demonstrating the similarity between preindustrial and modern Iranian class structures in order to provide context for examining the social and political implications of economic sanctions against the contemporary IRI. Understanding why Iranian class structures behave in the manner they do provides the basis for explaining unanticipated externalities produced by sanctions against the IRI.

A. CLASS DEFINED

The substantial body of work focusing on Iranian society and class structure provides an equally vast number of similar—albeit nuanced—definitions of class. Many scholars focus specifically on social factors, while others take a strictly economic approach, resulting in a topography that is difficult to navigate when mapping the evolution of Iranian class structure. For the purpose of consistency, evidence presented in this chapter is analyzed within the context of Weber's class theory, permitting the assembly of evidence within a single framework and providing a unified vernacular for analysis.

Weber defined class as "all persons in the same class situation."[8] Further, he defined a class situation as "the typical probability of procuring goods, gaining a position in life, and finding inner satisfactions."[9] He also explained that in this context, probability "derives from the relative control over goods and skills and from their income-producing

[8] Weber, *Economy and Class*, 302.

[9] Ibid.

uses within a given economic order."[10] This is all to say that class is not defined by a rigid position in society. Class situations may change as probabilities change, and thus, a class has mobility along the spectrum of class hierarchy.

Furthermore, Weber identified three common class types: property, commercial, and social.[11] Within the property and commercial class types, Weber explained, there are varying degrees of privilege. Those persons who are positively privileged within the property or commercial class types have—based on possession of capital or skill—the greatest probability of maximizing Weber's class situation criteria, and vice versa.[12] The position of each class type along the spectrum of class hierarchy is the product of relative economic power and, thus, is rigid. Changing class situations may then influence the economic power of a group, resulting in changes to that group's class type, and its corresponding residency along the spectrum.

Finally, Weber outlined four social classes within the social class type: "the working class … the petty bourgeoisie … the propertyless [sic] intelligentsia and specialist … [and] the classes privileged through property and education."[13] These social class types parallel the most commonly understood stratification of class: upper, middle, and lower. The varyingly privileged property and commercial class types fit into Weber's social class type spectrum based on economic activity and, thus, the degree of privilege experienced in each class situation. For example, the negatively privileged property class types fall into the bottom of the spectrum, as they must rely on a degree of skill rather than possession of property to achieve Weber's class situation criteria, whereas the positively privileged property class type falls into the top of the spectrum.

We can apply this to the Iranian setting, where the class structures have shifted tremendously in the past century. The following section delineates the fluidity of Iranian class setting, demonstrating the evolution of class in Iran from the premodern period,

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[10] Weber, *Economy and Class*, 302.

[11] Ibid.

[12] Ibid.

[13] Ibid.

through the twentieth century, to a regression in which the 1979 Islamic Revolution shapes modern Iran. This evolution fits well within Weber's framework.

B. PRE-REVOLUTION SOCIAL STRUCTURE

A comprehensive historical account of the evolution of classes in Iranian society is beyond the scope of this chapter; however, a brief overview is necessary in order to understand modern Iran and the shifts it has experienced. Beginning in the nineteenth century, Iran's nascent social classes evolved into the traditional capitalist model and eventually returned back to the nineteenth century structure following the Islamic Revolution.

In 1981, Ahmad Ashraf described the nineteenth century Iranian social hierarchy as comprising the ruling elite (*ummal*), clergy (*ulama*), and bazaari merchants.[14] Ashraf observed a lack of a bureaucratic apparatus—a premodern setting—during this time, which contributed to the blurring of the line between private and official.[15] This lack of delineation permitted the *ummal* to treat all property within their respective spheres of influence as personal,[16] effectively providing them with Weber's optimal class situation as a positively privileged property class type.[17] Falling below the *ummal* in the social hierarchy, the *ulama* can be classified as a combination of positively privileged property and commercial class types, as they controlled less property than the *ummal*, but their expertise provided substantial power over matters political and economic.[18] The power of the *ulama* rested squarely on their responsibility for Islamic jurisprudence, and thus, their ability to shape the behavior of a society that turned to them for guidance in all matters of life. At the bottom of the hierarchy were the bazaari merchants, who were a hybrid of the neutrally privileged property and commercial class types. This group's power was

[14] Ahmad Ashraf, "The Roots of Emerging Dual Class Structure in Nineteenth-Century Iran," *Iranian Studies* 14, no. 1/2 (1981): 7, http://www.jstor.org/stable/4310351.

[15] Ibid., 8.

[16] Ibid.

[17] Weber, *Economy and Society*, 302–303.

[18] Ibid.

founded in control of the goods and skills required for the myriad of services demanded in an economy.

The constitutional movement of 1906 brought a more clearly delineated social hierarchy within Iranian society.[19] The creation of the new constitution marked a major step in centralizing state power under the shah. Included in the new constitution were six clearly defined subgroups: "(1) princes and other members of the Qajar family; (2) notables; (3) ulama; (4) merchants; (5) masters of artisans and shopkeepers; (6) landowners."[20] Although six separate strata were delineated, regulatory contradictions within various legal instruments ultimately resulted in the elimination of the "notable" category. It was combined with "landowners," resulting in only five categories.[21] These new subgroups would, based on their respective proportion of society, elect representatives to the newly created legislative assembly.[22] Simultaneously, a more robust state apparatus was created by the arrival of foreign economic interests in Iran's oil resources. This new apparatus included a formal bureaucratic process that reduced the blurring of lines between the private and official, and thus removed some of the privilege enjoyed by the *ummal.*

The implementation of the constitution in 1906 formalized the position of the various class situations within the Iranian class structure. However, the new bureaucratic system reduced the ability of the *ummal* to use their position in society to misappropriate capital for personal gain, and it increased the ability of private citizens to acquire and retain capital—thus facilitating the creation of a positively privileged property class that comprised the private sector. In turn, the elimination of control over property changed the *ummal* class situation to that of a positively privileged commercial class type, subjugated to the newly redefined private-sector property class type.

Displaced by the *ummal,* the *ulama* were consequently relocated to the middle classes—adjacent to the bazaari—as a hybrid of the positively and negatively privileged

[19] Ashraf, "Dual Class Structure," 9–10.

[20] Ibid., 11.

[21] Ibid.

[22] Ibid., 10.

commercial class type, whose class situation rested on a degree of expertise in religious matters.[23] The new position of the *ulama* resulted in a redefinition of the middle classes to include both the clergy and bazaari merchants.[24] This allowed the *ulama* to reinforce its political and economic power through cooperation with the bazaari merchants.[25] Mosques served as the center of Islamic communities, where the bazaari and less privileged property and commercial classes gathered routinely for worship and religious guidance. As a result, the *ulama* began leveraging their influence over the commercial and negatively privileged property classes of the bazaari in order to bring about government action.[26] Additionally, the *ulama* relied on the financial support of the bazaari in order to maintain the mosques and religious schools.[27] In return for bazaari financial support, the *ulama* provided a degree of protection for the merchants and workers by advocating mutually beneficial economic policies.[28] This relationship between the *ulama* and bazaari proved incredibly resilient—surviving even the Islamic Revolution—and it still exists in Iranian society to this day.

For Iran, the arrival of the twentieth century brought with it Western business interests that would start the process of building a capitalist market. The opening of the Suez Canal, along with the arrival of steamships and new railways significantly reduced transportation expenses, thus encouraging new foreign investment.[29] The emergence of a fledgling capitalist market space had a stark impact on the social structure within Iran. The arrival of foreign investors provided an opportunity for the positively privileged property class types to increase their stake in the economy. The subsequent industrialization of the economy as a result of capitalist influence also drew labor resources away from the bazaars.[30] The middle classes were now divided between the

[23] Ashraf, "Dual Class Structure," 8–12.

[24] Ibid., 16.

[25] Ibid.

[26] Ibid.

[27] Ibid.

[28] Ibid.

[29] Ibid., 19.

[30] Ibid.

traditional Iranian marketplace and the newly created commercialized shopping centers and factories.[31] The arrival of Western capitalist influences seeking Iranian oil came with interests in colonization by foreign governments. Although Iran was never formally colonized, a dual social structure emerged that was similar to those found in formally colonized states.[32] In twentieth-century Iran, the traditional social structure was subjugated to the new semi-colonial structure, placing the two at odds with one another.[33] This new semi-colonial structure comprised positively privileged entities of the British government and business—entities that began absorbing the traditional positively privileged Iranian class situations. Competing interests between these two social structures would result in the 1979 Islamic Revolution, and ultimately precipitate a complete realignment of the Iranian social structure.

C. POST-1979 SOCIAL STRUCTURE

While a detailed historical analysis of the conditions that resulted in the 1979 Islamic Revolution is also beyond the scope of this chapter, a general overview is necessary. Ostensibly, the nationalization of the Anglo-Iranian Oil Company by the Iranian government signaled the beginning of a process in which the occupants of the traditional Iranian social structure would defeat the more recently developed semi-colonial structure. The new positively privileged property classes were more concerned with a capitalist agenda than with preserving the tenets of a traditional Islamic, Iranian society. The perception of boundless profit-seeking and an apparent abandonment of the precepts of social justice precipitated a desire to rid the nation of Western influences and return to the principles of Islam, which promised to enhance the welfare and well-being of society. The success of the *ulama* in leading the Islamic Revolution resulted in a complete realignment of the social order in accordance with the principles of Islamic economics.

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[31] Ashraf, "Dual Class Structure," 19–20.

[32] Ibid., 19.

[33] Ibid., 22–23.

Since the emergence of the very first Islamic societies, religious leaders have grappled with how to constrain economic activity in a manner that facilitates social justice but also permits economic growth. More recently—in the two decades preceding the 1979 Revolution—Iranian sociologist Ali Shariati began espousing his own idea of an Islamic economic philosophy,[34] although his approach should be considered an extreme interpretation of the balance between Islam and economic activity. Shariati framed his philosophy as the alternative to secular Western-style capitalism.[35] In fact, he traced the origin of his two proposed alternatives back to Cain and Abel, asserting that the murder of the pastoral Abel by the landed Cain marked the beginning of class struggle.[36] Dr. Sohrab Behdad of Denison University succinctly observed: "according to Shariati, societies can only have one of two possible social structures: a classless society, as in primitive and advanced communism, which he calls 'the structure of Abel'; or a class society, as in slavery, feudalism, and capitalism, which he calls 'the structure of Cain.'"[37] Shariati's philosophy highlights the two ends of the spectrum in which modern Iran's economy now falls.

Although Ayatollah Khomeini did not subscribe to Shariati's view on Islam, the language he used certainly echoes Shariati's. Referring to Western powers, Khomeini stated in 1971 that they "have imposed upon us an unjust economic order, and thereby divided our people into two groups: oppressors and oppressed."[38] In Khomeini's view, despite the various class situations experienced by each Iranian class type, all Iranian classes were being oppressed by the Western oppressors. This line of thought essentially created a single new Iranian class that he intended to pit against the positively privileged property classes, which he framed singularly as the oppressors. Further analysis of Khomeini's rhetoric reveals he had a more nuanced view of class within Iran; however,

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[34] Sohrab Behdad, "A Disputed Utopia: Islamic Economics in Revolutionary Iran," *Comparative Studies in Society and History* 36, no. 4 (October 1, 1994): 778–779, http://www.jstor.org/stable/179172.

[35] Ibid.

[36] Ibid.

[37] Ibid., 779.

[38] Ibid., 805.

until he was able to rid the country of Western influences, it would be "the oppressed against the oppressors."

With the ratification of the new Constitution of the Islamic Republic of Iran, the direction of the new government was made clear to the world. Comprising 175 principles, the constitution was at best ambiguous and at worst contradictory, resulting in a great deal of uncertainty regarding the future administration of the country. While it remained to be seen how the power structure would work in practice, the central theme of expelling foreign interests was clear. Principle five requires the "complete expulsion of colonialism, and prevention of foreign influence."[39] Principle forty-three requires "preventing foreign economic domination of [Iran's] economy."[40] Principle forty-nine was perhaps most troubling to foreign investors and domestic elites, as it stipulated that any wealth or property acquired in a manner in conflict with Islam shall be confiscated and "assigned to public use."[41] It was clear to those members of the classes Khomeini considered the oppressors that they were no longer welcome and their property rights would not be respected. The result was a period of divestment and capital flight that precipitated nearly a decade of structural involution.[42]

During the ten years of involution that followed the 1979 Revolution, class situations changed significantly. As the positively privileged property class types—the semi-colonial and traditional—began divesting their holdings and leaving the country, new opportunities were created for the less privileged class types.[43] Following principle forty-nine of the new constitution, the wealth amassed by the shah and his supporters was appropriated to the public sector in the form of Islamic charities (*bonyads),* to be administered by the *ulama* within the religious apparatus of Iran. The *ulama,* which now

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[39] Rouhollah K. Ramazani, "Constitution of the Islamic Republic of Iran," *Middle East Journal* 34, no. 2 (April 1, 1980): 189, http://www.jstor.org/stable/4326018.

[40] Ibid., 193.

[41] Ibid.

[42] Sohrab Behdad and Farhad Nomani, "What a Revolution! Thirty Years of Social Class Reshuffling in Iran," *Comparative Studies of South Asia, Africa and the Middle East* 29, no. 1 (2009): 85, doi:10.1215/1089201x-2008-046.

[43] Ibid.

controlled the government, had essentially brought the Iranian social structure full circle to the premodern Iranian system, once again blurring the line between private and official. As before, the leadership of Iran moved into the positively privileged property class type position, only this time the *ulama* expanded from straddling the line between positively privileged property and commercial class types. The *ulama* now occupied both the upper- and middle-class positions in society, enabling the leadership to tout Iran as a nation of the middle classes.

An economic study completed by Behdad and Farhad Nomani revealed that the process of involution that occurred in Iran had a greater effect than simply allowing the various class situations in society to change position within the social hierarchy. Their findings, published in 2009 in the journal *Comparative Studies of South Asia, Africa and the Middle East,* reveal that the involution process had a dramatic effect on economic activity within the domestic Iranian economy. The study found that "as capitalist productions shriveled, petty commodity economic activities expanded."[44] Additionally, the data revealed that this trend led "to a de-proletarianization of labor, reflected in the decline in size of the working class and a dramatic expansion of petty bourgeois and redundant service activities in the urban and rural economies."[45] Further, the study showed an increase in peasant landholdings that correlated with increased peasantization of the agricultural sector.[46] The employment statistics for this time period additionally demonstrate a significant increase in the number of public-sector jobs, which correlates with the involution-induced shrinkage of the private-sector working classes.

Behdad and Nomani also demonstrated that the involutionary process was reversed following the death of Khomeini, when the new generation of Iranian leaders undertook liberalization measures.[47] Although only small attempts were made to revitalize the economy through limited privatization and the implementation of a policy encouraging capitalist production, these attempts did have an effect on the composition of

[44] Behdad and Nomani, "What a Revolution," 90.

[45] Ibid.

[46] Ibid.

[47] Ibid., 93.

the classes.[48] The data indicate that during the period of de-involution, defined as 1986–1996, there were limited reversals between the public and private sectors.[49] This reversal trend resulted in a tripling of private-sector employment numbers, while public-sector employment numbers fell dramatically, coincident with the conclusion of the Iran–Iraq War.[50] Although involution ended in 1986 and signs of de-involution emerged, the de-involutionary period did not reverse the effects of the class realignment. The two periods between 1976 and 1996 can be viewed as oscillations, as the new leaders of the Islamic Republic sought a politically viable economic policy for the new state. Contemporary Iran's social hierarchy remains dominated by the *ulama* at the top as a positively privileged property class, followed by a bloated public sector comprising the positively and negatively privileged commercial classes. The class realignment precipitated by the Islamic Revolution has produced an environment in Iran in which traditional class behavior and mobility no longer exists, effectively creating a status quo that inhibits economic development. The new class behavior in Iran closely resembles that of the premodern period, and is the reason sanctions are having an unanticipated effect on modern Iranian domestic politics.

D. TWENTY-FIRST-CENTURY CLIENTELISM

There is much evidence to suggest that Iran is a clientelistic society, in which the function of class structure is effectively eliminated. In such a society, it remains possible to categorize groups based on their class situation in accordance with Weber's theory; however, while class stratification may be observed, classes will not function in the same capacity as a class in a Western capitalist society. Unlike a capitalist society, in which classes obtain the resources for mobility from free-market economic activity, a clientelistic society obtains economic resource from a patron government. As a result, a patron government may regulate the availability of resources, and thus, suppress class mobility in order to retain power and maintain a positively privileged class situation.

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[48] Behdad and Nomani, "What a Revolution," 93.

[49] Ibid.

[50] Ibid.

In an article for *Third World Quarterly*, Kazem Alamdari described in detail the clientelistic nature of Iranian society. He defined clientelism as "a structured relationship between a patron and client."[51] This relationship can exist in many forms—ranging from the most common form of a customer in a business, to the less commonly conceived construct of a citizen exchanging political support for goods or services provided by a member of a government apparatus. Alamdari traces the origin of this type of relationship to Shia Islam—the Islamic sect that predominates the country. He argues that the Shia practice of selecting a clerical leader to emulate (*marja'a taqlid)* has ingrained clientelism into Iranian culture.[52] As evidence for the persistence of this practice in modern Iran, Alamdari cites the common practice of parliament (*Majlis*) representatives seeking approval from the *ulama* before initiating legislation.[53] He argues that this practice has resulted in a situation "in which the elected legislative body takes a subordinate position to an influential clergy and its associates."[54] This phenomenon should not come as a surprise, since Iran is an Islamic society which requires all laws to be in accordance with Islamic jurisprudence, and where only the *ulama* hold the religious authority to make such judgments. As noted previously, clientelism can exist in many contexts and, as such, is not limited to the religious realm in Iran. Alamdari observed three prerequisites for clientelism to exist: "1) inequality of power, status, and wealth; 2) reciprocity in the exchange of goods and services; and 3) the proximity of personal and face-to-face relationships."[55] All three of these requirements can be observed across the spectrum of Iranian society.

With the *ulama* once again—as a result of the revolution—in the position of a positively privileged property class type, they now have a monopoly of power, status, and wealth. The preexisting practice of *marja'a taqlid* constitutes Alamdari's prerequisite two in the religious realm. Additionally, within the political realm, the practice of government

[51] Alamdari, "Power Structure," 1287.

[52] Ibid.

[53] Ibid.

[54] Ibid.

[55] Ibid., 1288.

subsidies constitutes an exchange of goods and services, as it incentivizes the population to continue supporting the politicians who advocate maintaining subsidies. Finally, the requirement for face-to-face proximity is satisfied by the relationship between the mosque and bazaar. Since the initial formation of the nineteenth-century class structure, the situation of mosques as community centers provided the clergy with proximity to the bazaari class.[56] As early as the nineteenth century, the *ulama* were engaged in a clientelistic relationship with society in the political and religious realms. As a result of the revolution and the repositioning of the *ulama* in the social structure, the Iranian regime now has the wealth and power required to exert maximum influence.

The effects of clientelism are readily observable in the expanded role of the state in society since the 1979 Revolution. Since the revolution, the bureaucratic apparatus, the military, and the paramilitary forces all play a pervasive role in the Iranian political and economic realms,[57] once again blurring the lines between public and private that were observed in premodern Iran. The growth of the government has resulted in an oversized public sector, and only serves to reinforce clientelistic relations within the country by positioning the government as not only the largest employer, but also the largest holder of economic resources within Iran.

Created to protect the revolution, the IRGC has emerged as the largest actor in the economic realm. Originally conceptualized during the revolution and solidified in the IRI constitution,[58] the ostensible role of the IRGC is to defend the Iranian revolutionary government from internal threats.[59] However, in the years since, the role of defender has taken many forms, precipitating the evolution of a monopolistic conglomerate comprising the modern IRGC. As one top IRGC official put it in 2007, “the major missions of the IRGC involve defense, security, and cultural issues and its peripheral missions are related to the construction of the country and carrying out relief and rescue operations during

[56] Ashraf, “Dual Class Structure,” 16.

[57] Nomani and Behdad, “Class and Labor in Iran,” 22.

[58] Wehrey et al., “Pasdaran,” 22.

[59] Ibid., 21.

natural disasters."[60] The pervasive role of the IRGC and its affiliates has only contributed to further blurring the lines between the public and private realms, and recreating the conditions observed in premodern Iranian society.

Within the military and paramilitary sects of society, the Revolutionary Guards and its affiliates far outnumber the size of the regular Iranian military forces. Following the Iran–Iraq War, the IRGC was able to consolidate its power, absorbing the smaller vigilante groups known as *komitehs* (committees) and recruiting the same population base to its civilian auxiliary, known as the *Basij*. The growing *Basij* forces took over the role of the *komitehs* as local enforcers of revolutionary ideals and provided the IRGC with what can effectively be described as reserve forces that can be called up for military service as had been done during the Iran–Iraq War. Conceptualized as a twenty-million-man force by Khomeini, the *Basij* grew to what one IRGC commander described as "the 36 million [member] information network."[61] In a country with a population of 70.5 million,[62] there is a ratio of roughly one *Basij* member for every two Iranian citizens. The pervasiveness of the *Basij* network dwarfs that of the East German Stasi during its prime, which had a ratio of only one Stasi member for every sixty-six East Germans.[63]

On one hand, the success of *Basij* recruiting can be attributed to the perception of its role in the "sacred defense" of the Islamic Republic.[64] On the other hand, it can also be attributed to a lack of employment opportunities in a stagnant economy. The human wave tactics employed by Iran during the war with Iraq relied primarily on Basij forces that viewed service through a fervent ideological lens and relished the opportunity to become martyrs for Iran.[65] Today, there is still a portion of the *Basij* that can be

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[60] Wehrey et al., "Pasdaran," 19.

[61] Ibid., 26.

[62] Princeton University, "Iran at a Glance," Princeton University, October 09, 2012, http://www.princeton.edu/irandataportal/socioecon/stats.

[63] John O. Koehler, *Stasi: The Untold Story of the East German Secret Police* (Boulder, CO: Westview Press, 1999), 9.

[64] Wehrey et al., "Pasdaran," 27.

[65] Ibid., 28.

described as ideologues who are attracted to the possibility of martyrdom; however, research from RAND suggests that a significant number of the *Basij* ranks are occupied by "disaffected youths and elderly pensioners," who cannot be accurately described as primarily ideologues.[66] The modern *Basij* has branched out, creating units offering goods and services that would otherwise be unavailable to the targeted recruitment base in exchange for their support. These services include "loans, university scholarships, welfare subsidies, and the like."[67] The RAND report cites one *Basij* member as stating, "the only reason I stay in the *Basij* is for the money … many of my friends in the *Basij* are unhappy with the government."[68] Additionally, in the rural areas of the country, *Basij* units often garner support by providing disaster relief or constructing infrastructure.[69] It is clear that the practices of the IRGC in the military and paramilitary realms of Iranian society support the clientelistic relationships between the people of Iran and the government. The success of the IRGC in recruiting participants and solidifying its position within society is directly attributable to its offer of goods and services in exchange for support.

Although the IRGC began as a military organization, its involvement in modern Iranian society has grown significantly—to include a significant portion of the economic realm beyond the common military-industrial complex. This growth began with the conclusion of the Iran–Iraq War, as the byproduct of government attempts to stimulate the economy. The initial forays of the IRGC were in the form of loans and welfare to veterans of the war with Iraq, and then expanded rapidly in the 1990s under President Rafsanjani in an attempt to increase income levels.[70] Initially, Rafsanjani's attempt at economic stimulation via the IRGC resembled a New Deal–style arrangement in which government-sponsored infrastructure development and construction projects were

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[66] Wehrey et al., "Pasdaran," 28.

[67] Ibid.

[68] Ibid.

[69] Ibid.

[70] Robert Looney, *The Iranian Economy, The Glass Half Empty*, accessed April 20, 2015, http://www.relooney.com/NS3040/Legatum-Iran.pdf.

designed to provide jobs; however, jobs were not all that it created.[71] The growth of the IRGC's commercial subsidiaries was paralleled by the growth of its economic might. High-ranking retired IRGC and regular military officials can be identified as the leaders of nearly all IRGC commercial entities, providing a robust network for a system of patronage and cronyism.[72] The effect of this network is exemplified by the lucrative position in which the IRGC found itself under President Ahmadinejad—also a former IRGC member.[73] RAND found that under Ahmadinejad, the IRGC enjoyed "lucrative no-bid contracts, especially, in the areas of oil and natural gas extraction, pipeline construction, and large-scale infrastructure development."[74] Furthermore, the IRGC has significant interests in the *bonyads* (Islamic charities), which by some estimates control up to 20 percent of Iran's gross domestic product. At the time of the RAND report on the IRGC, a former defense logistics minister and a former IRGC officer controlled the two largest *bonyads*.[75] In addition to providing substantial wealth to the leaders of the *bonyads*, it is estimated that these organizations provide upward of 50 percent of their revenue to the negatively privileged class types in the form of interest-free loans and welfare-like services.[76] These services undoubtedly create a dependency on the *bonyad* in a staggering economy where the lower classes have no other recourse than to rely on handouts. Once again, the evidence of IRGC involvement in the economic realm of Iranian society demonstrates yet another example of clientelism in Iran. The commercial network of cronies and systems of patronage serve to offer economic power, prestige, and mobility to participants, encouraging the desire to maintain the status quo political system that permits such an enterprise to persist.

The reach of the IRGC and its business affiliates has not only permeated the commercial sector of the Iranian economy, but it has also facilitated the creation of an expansive secondary market. The same networks that permit unregulated IRGC

[71] Ibid.

[72] Looney, "Iranian Economy."

[73] Wehrey, "Pasdaran," 56.

[74] Ibid.

[75] Ibid., 57.

[76] Ibid., 58.

participation in the commercial sector have enabled IRGC entities to engage in expansive smuggling, money laundering, and other illicit activities.[77] One member of the *Majles* estimated that "one third of the imported goods are delivered through the black market, underground economy, or illegal jetties."[78] While empirical evidence is lacking on the exact scope and nature of the Iranian black market, the availability of prohibited items such as alcohol, drugs, and media deemed un-Islamic suggests a robust secondary market where such items are easily acquired.[79] RAND contends that the IRGC's control of necessary port facilities, military equipment, and commercial networks positions it as the prime mover in Iran's secondary market.[80] Yet again, the evidence of the IRGC's contribution to a clientelistic society is substantial. The secondary market undeniably creates a strong incentive for participants to maintain the status quo, particularly for those who are reaping the financial benefits.

This chapter illustrates how class plays a meaningful role in Iranian society despite external notions that Iran is focused primarily on religion. From the premodern era to the post revolutionary period, Iranian class hierarchy has come full circle. Yet, while classes may be discerned, the clientelistic nature of Iranian society has eliminated the primary element of a class: mobility. In a traditional capitalist society where economic development is not restrained, the various classes would have the resources at hand to move within the social hierarchy; however, in Iran this is not the case. Clientelism in Iran has created a dependence on the government and other economic powers that provide the resources required for day-to-day life, creating a strong disincentive for the Iranian people to stop supporting their economic patrons. This is the reason sanctions have unintentionally strengthened the position of the government of Iran. In this type of clientelistic society, increasing resource scarcity via sanctions has only induced a greater dependence of society on the government, and incentivized the people to maintain political support for the hand that feeds them.

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[77] Wehrey, "Pasdaran," 64.

[78] Ibid., 56.

[79] Ibid.

[80] Ibid., 64–65.

III. IMPACTING IRAN'S ECONOMY

The second step in determining how economic sanctions have impacted domestic Iranian politics is an examination of the current body of sanctions targeting Iran, in order to reveal the first- and second-order effects sanctions are having within Iranian society. This chapter will begin with a brief overview of sanctions in general—what they are, and to what ends they are often employed. This will be followed by an examination of the specific U.S. sanctions measures aimed at Iran, revealing the current structural framework of Iran's domestic economy, and illustrating the first-order effects—the immediate economic impacts—of these sanctions. Finally, this chapter will examine what can be described as the externalities of sanctions—the second-order effects—that can be seen in the domestic policies precipitated by the first-order effects of sanctions.

Although considerable scholarship has been dedicated to studying the successes and failures of economic sanctions as a strategic tool in coercing the behavior of a target government, very little has been committed to understanding the externalities implicit to all sanctions. As with any economic policy, the implementation of an incentive or disincentive scheme results in economic behavior not anticipated by policy architects. Because little is understood about the externalities of sanctions, the nature of unintended political behavior within Iran remains largely a mystery. In an effort to unravel this mystery, this chapter will illustrate not only the measurable impact sanctions are having on the Iranian economy, but also the reciprocal economic policies adopted by the Iranian government. These will then be further considered in the next chapter, within the context of the clientelistic nature of Iranian society.

A. SANCTIONS: A COERCIVE TOOL

As defined in the introduction to *Economic Sanctions Reconsidered*, edited by Gary Clyde Hufbauer, Jeffery J. Schott, and Kimberly Ann Elliott, sanctions are "a tool for coercing target governments into particular avenues of response."[81] Depending on

[81] Gary Clyde Hufbauer, Jeffrey J. Shot, and Kimberly Ann Elliott, eds., *Economic Sanctions Reconsidered*, 2nd ed. (Washington, DC, 1990), 10.

which avenue a sender government may desire the target government to traverse, the intent behind a sanctions episode will vary. Hufbauer, Schott, and Elliott identify three common motives behind a sanctions episode. The "demonstration of resolve" is an episode imposed to signal the sender government's dissatisfaction, in principal, with the target government's behavior.[82] The "deterrence" episode is imposed by the sender government in the hope that sanctions will either dissuade certain behaviors or impede a certain capability of the target government.[83] Hufbauer, Schott, and Elliott do not assign a name to the third type; however, this chapter will refer to it as the "middle road." In this instance, political conditions may demand a response to a target government's behavior that is more robust than a "demonstration of resolve" but still short of armed force—a response that combines "demonstration of resolve" and robust "deterrence" measures.[84] As there are varying motives behind sanctions episodes, so too are there varying types of sanctions a sender government may impose.

There are two overarching categories of sanctions: trade and financial.[85] Hufbauer, Schott, and Elliott observe that a combination of these two sanction types are often employed in order to "inflict costs on [the] target: by limiting exports, by restricting imports, and by impeding finance, including the reduction of aid."[86] Based on the study in Hufbauer, Schott, and Elliott's book, they conclude that sender governments strive to inflict costs on target governments in an attempt to accomplish at least one of the following objectives:

- "Change target-country policies in a relatively modest way (modest in the scale of national goals, but often of burning importance to participants in the episode); this type of goal is illustrated by human rights, terrorism, and nuclear nonproliferation cases."[87]

[82] Hufbauer, Schott, Elliott, "Sanctions Revisited," 11.

[83] Ibid.

[84] Ibid.

[85] Ibid., 36.

[86] Ibid.

[87] Ibid., 38.

- "Destabilize the target government (including, as an ancillary goal, changing the target country's policies)."[88]
- "Disrupt a minor military adventure."[89]
- "Impair military potential of the target country."[90]
- "Change target-country policies in a major way (including the surrender of territory)."[91]

Implicit to the infliction of costs on a target government is the infliction of costs on the society of a target state—comprising consumers and firms that play a role within the political environment. These implicit costs often take the form of inhibiting economic growth, devaluing currency, and increasing the difficulty consumers have acquiring critical goods and services. The main precipitate of these increased costs is government action designed to sate the political demands of consumers facing the sudden stagnation of their economic environment. Examining the sanctions measures in place against the Iranian economy reveals the structural limitations consumers and firms are facing and provides a basis for understanding what has catalyzed the economic hardships currently faced in Iran.

B. U.S. SANCTIONS EFFORTS

Since 1979, the United States has wielded sanctions against Iran in one form or another in response to behavior deemed unacceptable on the international stage. Since 1995, in response to increased nuclear development efforts and mounting evidence of terrorism sponsorship, the United States has undertaken a new series of sanctions that can be classified in aggregate as a "middle road" coercive tool. Individually, the various measures can be classified as either "demonstrations of resolve" or "deterrence" measures; however, in whole the body of sanctions since 1995 are a significant demonstration of resolve aimed at deterring abnormal Iranian behavior through denial of access to financial resources. Examining sanctions measures since 1995 reveals the

[88] Hufbauer, Schott, Elliott, "Sanctions Revisited," 38.

[89] Ibid.

[90] Ibid.

[91] Ibid.

methodology adopted denying Iran access to the resources required for continued abnormal behavior, and illustrates the architecture of the enormous framework currently in place isolating Iran from the global financial system. This isolation has been reached by three primary strategies of the sanctions: the inhibition of trade, the freezing of assets, and the denial of access to global financial systems.

The measures in place for inhibiting trade take many forms, ranging from blocking investment to restraining the exchange of goods and services. Beginning in 1995, Executive Order 12957 blocked U.S. investment in the Iranian petroleum industry,[92] effectively isolating it from capital available in the U.S. financial system. That same year, Executive Order 12959 prohibited importing or exporting Iranian goods and services or financing the exporting of any goods and services to Iran.[93] Additionally, this executive order banned any transaction by a U.S. person involving goods of Iranian origin, and any investment in Iran or in Iranian property.[94] This order effectively eliminated any U.S. demand signals for Iranian goods or services.

In addition to inhibiting trade, U.S. sanctions have authorized the seizure of assets belonging to both Iranian entities and the entities with which they transact. The first measure to authorize asset seizure was Executive Order 13224. This order blocked all assets under USG jurisdiction, of any person determined to "have committed, or pose a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals or the national security, foreign policy, or economy of the U.S."[95] Executive Order 13382 expanded the authorization to block assets to include any entity determined to have contributed to the proliferation of weapons of mass destruction.[96] Further, Executive Order 13522 directed the seizure of assets belonging to specific individuals within the Iranian government who were determined to have contributed to serious

[92] Exec. Order No. 12957, 3 C.F.R. 14615 (1995).

[93] Exec. Order No. 12959, 3 C.F.R. 24755 (1995).

[94] Exec. Order No. 12959, 3 C.F.R. 24755 (1995).

[95] Exec. Order No. 13224, 3 C.F.R. 786 (2001).

[96] Exec. Order No. 13382, 3 C.F.R. 170 (2006).

human rights abuses of Iranian citizens.[97] Under the National Defense Authorization Act of 2012, the USG was authorized to seize all assets owned or controlled by the Iranian banking sector.[98] Executive Order 13599 expanded that authorization to include any entity transacting with, or acting on behalf of, the Iranian banking industry.[99] Executive Order 13628 expanded authorization to seize the assets of any individual determined to have contributed to media censorship, and to block any sanctioned person from immigrating to the United States.[100] Executive Order 13645 authorized the seizure of assets of any financial institute holding or transacting in rial-denominated currency.[101] The aggregate effect of asset seizure has denied the Iranian government, petroleum industry, and banking sector access to vast resources held by sanctionable firms. Additionally, the authority to seize assets has created a strong disincentive, encouraging firms to avoid transacting with Iranian entities.

The most significant effect of U.S. sanctions stems from its ability to prohibit access to the global financial system. Beginning with the Antiterrorism and Effective Death Penalty Act of 1996, any financial transaction by a U.S. person with any Iranian entity was made illegal. Designed to further isolate Iran from the global financial system, the Iran Sanctions Act of 1996, as amended 50 U.S.C. § 1701, (ISA), expanded USG authority to penalize both U.S. and foreign financial firms violating sanctions measures.[102] Further, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 had the added effect of expanding the penalties under ISA. Under the new legislation, sanctionable entities can be denied any of the following services: "export-import bank loans, credits, or credit guarantees for U.S. exports…licenses for the export of military technology…U.S. bank loans exceeding $10 million in one year," and

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[97] Exec. Order No. 13553, 3 C.F.R. 60567 (2010).

[98] Public Law 112–81—DEC. 31, 2011, SEC. 1245. Imposition of Sanctions with Respect to the Financial Sector of Iran.

[99] Exec. Order No. 13599, 3 C.F.R. 6659 (2012).

[100] Ibid.

[101] Ibid.

[102] Kenneth Katzman, *Iran Sanctions* (CRS Report No. RS20871) (Washington, DC: Congressional Research Service, 2014): 9, https://www.fas.org/sgp/crs/mideast/RS20871.pdf.

"service as a primary dealer in U.S. government bonds."[103] Moreover, sanctionable entities are prohibited from serving as a repository for U.S. government funds or serving as a procurement source for the U.S. government and from acquiring, holding, or trading any U.S.-based property.[104] Furthermore, sanctionable entities face import, foreign exchange, and payment restrictions, all of which severely limit access to U.S. financial institutions.[105] Executive Order 13574 further expanded the penalties under ISA by prohibiting sanctioned entities from:

- receiving loans or credits from U.S. financial institutions[106]
- engaging in any foreign-exchange transactions under the jurisdiction of the United States[107]
- transferring any credits or payments through financial institutions under U.S. jurisdiction[108]
- accessing any property interests under U.S. government jurisdiction[109]
- importing goods, technology, or services into the United States[110]

This order also reinforced the disincentive scheme aimed at dissuading individuals from transacting with Iran, further shrinking the pool of resources available to Iranian firms. Under Executive Order 13590, additional punitive measures were authorized against the Iranian petroleum industry—to accompany those already aimed at the banking industry.[111] Executive Order 13622 expanded these financial sanctions against the petroleum industry to include any entity transacting with Iranian oil companies.[112] The Iran Freedom and Counter-Proliferation Act of 2012 then solidified

[103] Katzman, Iran Sanctions, 15.

[104] Ibid.,16.

[105] Ibid.

[106] Ibid.

[107] Exec. Order No. 13574, 3 C.F.R. 30505 (2011).

[108] Ibid.

[109] Ibid.

[110] Ibid.

[111] Exec. Order No. 13590, 3 C.F.R. 3821 (2011).

[112] Ibid.

into U.S. law all sanctions measures imposed by executive order.[113] All of these sanctions measures, designed to prohibit access to financial systems around the world, created a robust disincentive scheme dissuading entities from transacting with Iran.

When considered in whole, these sanctions measures comprise an enormous and sweeping framework isolating Iran from the global economy. Under less sweeping sanctions, comprehensive access to the U.S. financial system would not be denied; however, under the current framework the United States is able to coerce unprecedented international support by denying access to the world reserve currency—the U.S. dollar—to any entity that does not comply. The potential loss a financial institution faces for violating sanctions constitutes a greater risk than the financial loss from ceasing transactions with Iran. Undeniably, this body of sanctions has had a devastating impact on the Iranian economy. This impact is what constitutes first-order effects, all of which are readily observable in Iran's oil industry, economic growth indicators, and banking sector.

C. ECONOMIC EFFECTS

The extensive body of scholarship attempting to assess the success or failure of sanctions has done an outstanding job isolating the evidence indicating their first-order effects in an economy occluded with rampant corruption and economic mismanagement.[114] Out of this body of work, organizations such as the IMF, CRS, GAO, and RAND provide detailed accounting of the measurable impact sanctions have had on the Iranian economy.

The most readily observable evidence of the impact that sanctions are having resides within the Iranian oil industry. As early as February 2013, the GAO published findings—based on a comparative study of Iran and twenty-three peer economies—

[113] National Defense Authorization Act for Fiscal Year 2013, Pulic Law 112–239—JAN. 2, 2013 Subtitle D—Iran Sanctions SEC. 1241.

[114] Looney, "Iranian Economy."

indicating that Iranian oil production declined 26 percent more than expected.[115] Additionally, Iranian oil revenues fell about 18 percent between 2010 and 2012, while peer revenues rose 50 percent during that same time period.[116] IMF findings indicate that "oil export receipts have declined by over 50 percent since mid-2012, mostly reflecting a decline in oil export volume."[117] The GAO attributed this decline to the increased difficulty the Iranian shipping industry faced in finding insurance for shipments as a result of potential U.S. sanctions against entities insuring or underwriting transactions with Iran.[118] The IMF observed, "Oil production fell to a 20-year low, oil-export proceeds declined by more than half (by about 15 percent of GDP),"[119] indicating that isolating the Iranian oil sector effectively suppressed the global demand signal for Iranian oil.

As a direct result of declining oil revenues, Iranian gross domestic product (GDP) growth contracted sharply, and inflation began rising again. Based on the same study of 23 peer economies, the GAO determined that Iran's GDP "grew by 1.9 percent in 2011 and shrank by 1.4 percent in 2012," while "Iran's median peer economy grew by 4.2 percent in both 2011 and 2012."[120] During this same period, inflation in Iran "increased from almost 8 percent in 2010 to 27 percent in late 2012."[121] The GAO attributes this rapid inflation to increased transaction costs for imports resulting from Iran's isolation from U.S. financial institutions.[122] Assessing the impact of additional sanctions implemented in 2011, the IMF determined that increased isolation from the global financial system resulted in a 25 percent depreciation of the Iranian parallel market

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[115] *U.S. and International Sanctions Have Adversely Affected the Iranian Economy* (GAO 13–326) (Washington, DC: U.S. Government Accountability Office, 2013), 28, http://www.gao.gov/products/GAO-13-326.

[116] Ibid.

[117] Alfred Kammer and Taline Koranchelian, "2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for the Islamic Republic of Iran," IMF Country Report 14/93 (April 2014): 7, http://www.imf.org/external/pubs/ft/scr/2014/cr1493.pdf.

[118] Ibid.

[119] Ibid.

[120] Ibid., 29–30.

[121] Ibid., 33.

[122] Ibid., 34.

exchange rate.[123] In September 2012, following a shock brought on by the European Union oil embargo, the parallel market exchange rate depreciated again by 30 percent.[124] During the following month—October 2012—the rial depreciated again by 8.5 percent, driving the Iranian government to establish a foreign exchange center in order to stabilize currency valuation.[125] The IMF assessed that "these shocks imparted significant contractionary effects on the economy, with real GDP declining by almost 6 percent in 2012/13. During the first half of 2013/14, real GDP is estimated to have declined by about 2.5 percent, compared with the same period in the previous year."[126]

The effect of sanctions on the Iranian oil industry—and the resultant impact on GDP growth—has had a significant impact on the Iranian banking and industrial sectors. The CRS assesses that "many Iranian businesses have failed, the number of nonperforming loans held by Iranian banks increased to about 15–30 percent, and many employees in the private sector have gone unpaid or underpaid."[127] According to IMF estimates, nonperforming loans in 2012–2013 placed at nearly 10 percent of Iran's nonoil GDP—as a result of waning cash flows in the private and public sectors.[128] The IMF asserts that the inability to access foreign-held assets is inhibiting access to hard currency, and that this is directly contributing to rising arrears in the Iranian economy.[129]

The CRS points out that sanctions can be credited with decreasing Iran's oil revenue "from $100 billion in 2011 to about $35 billion in 2013."[130] Compounding the effects of these dire economic conditions is the fact that sanctions have rendered the majority of Iran's hard currency reserves inaccessible, since they are held in foreign banks subject to U.S. sanctions measures.[131] Even more troubling for Iran is that

[123] Kammer and Koranchelian, IMF Country Report 14/93, 9.

[124] Ibid.

[125] Ibid., 10.

[126] Ibid., 7.

[127] Ibid.

[128] Ibid., 10.

[129] Ibid., 10.

[130] Katzman, Iran Sanctions, 50.

[131] Kammer and Koranchelian, IMF Country Report 14/93, 10.

sanctions have resulted in the devaluation of the rial, assessed to have induced an inflation rate of 50 percent to 70 percent.[132] The CRS cites that "Secretary of the Treasury for Terrorism and Financial Intelligence David Cohen testified before the Senate Foreign Relations Committee on January 21, 2015, that Iran's economy is 15–20 percent smaller than it would have been had sanctions not been imposed."[133] The evidence of first-order effects of U.S. sanctions on the Iranian economy is clear, and the cumulative impact of these sanctions is producing a second-order effect: a response from Iranian economic policy makers.

D. IRANIAN RESPONSE

At the beginning of 2010, facing more stringent sanctions and a stagnating economy, the Iranian government undertook a process of subsidy reforms. This reform was designed to diminish the effects of declining oil revenues, and the certainty of continued declines—which were directly attributable to the effects of sanctions.[134] Preceding the implementation of reforms, the government artificially controlled price structures of critical resources such as gasoline, electricity, and food, in the form of subsidies valued at approximately $100 billion.[135] The objective of the reform was to remove subsidies, incrementally raise prices, and offset the effects of these increases with cash handouts to qualifying households. Ultimately, the combination of subsidy reform and new sanctions produced severe negative shocks to the Iranian economy and, most significantly, increased the costs of production.[136] The inability of Iranian firms to access capital in the international financial system exacerbated the negative impact of increased

[132] Kammer and Koranchelian, "IMF Country Report 14/93," 9.

[133] Kenneth Katzman, *Iran Sanctions* (CRS Report No. RS20871) (Washington, D.C.: Congressional Research Service, 2015), 50, https://www.fas.org/sgp/crs/mideast/RS20871.pdf.

[134] Dominique Guillaume, Roman Zytek, and Mohammad Reza Farzin, *Iran-The Chronicles of the Subsidy Reform*, IMF working paper no. WP/11/167, July 2011, 3–8, http://www.imf.org/external/pubs/ft/wp/2011/wp11167.pdf.

[135] Alireza Nader, "Iran Overhauls Subsidies in the Face of Sanctions," The RAND Blog, January 13, 2011, http://www.rand.org/blog/2011/01/iran-overhauls-subsidies-in-the-face-of-sanctions.html.

[136] Ozgur Demirkol et al., Islamic Republic of Iran: Selected Issues Paper. IMF Country Report no. 14/94 (March 18, 2014), 24, http://www.imf.org/external/pubs/ft/scr/2014/cr1494.pdf.

production costs.[137] Subsequently, the Iranian government halted price increases, but continued providing cash payments to consumers—producing a significant inflationary effect. The IMF assessed that sanctions had "impaired the CBI's ability to transact in dollars, [and] the CBI, therefore, did not intervene on a large scale in the foreign exchange market to sterilize the large liquidity injections throughout the year."[138] These effects of sanctions—subsidy reform, cash handouts, and increasing inflation—had a dramatic influence upon Iranian society. This influence has produced a unique political behavior that constitutes the main externality of economic sanctions against Iran: the strengthening of political clientelism in Iran.

[137] Demirkol, IMF Country Report 14/94, 24

[138] Ibid.

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IV. ANALYSIS

Analysis of sanctions in the preceding chapter revealed that U.S. sanctions targeting Iran are designed to accomplish the first of the five objectives that Hufbauer, Schott, and Elliott's identified: "change target-country policies in a relatively modest way."[139] And indeed, Iran has been pressured to make policy changes; however, those changes remain primarily confined to domestic policy. The incredible pressures that these sanctions placed on Iran precipitated the attempted effort to reinvigorate the Iranian economy with subsidy reforms.[140] While efforts to mitigate the effects of sanctions are not in themselves abnormal, and should not be considered an externality, the domestic reform measures are producing unanticipated political and economic behavior in Iranian society.

Manifesting in 2010 under the *Targeted Subsidies Reform* program, Iran's internal policy changes exhibit all the characteristics of a clientelistic arrangement on a national scale. The implementation of the program has only served to strengthen the patron–client relationship between the government and people of Iran—in what was already a strongly clientelistic society. The evidence is clear that sanctions have strengthened Iranian clientelism in a manner that reinforces the regime's monopoly on power, as well as its resistance to liberalization efforts. The bottom line is that sanctions have been so effective preventing economic development that they have denied the Iranian people access to the resources required for class mobility. As a result, the Iranian Regime has positioned itself as the primary provider of economic resources, inducing society's dependence on the state. Through this dependence, the Regime has managed to defeat liberalization not through fraudulent elections, but through patron-client relations indicating that the public's support for the state is a rational choice and not determined by cultural factors.

[139] Hufbauer, Schott, Elliott, "Sanctions Revisited," 38.

[140] Guillaume, Zytek, and Farzin, "Subsidy Reform," 8.

A. SUBSIDY REFORM

RAND's Alireza Nader assessed that following the first implementation of subsidies after the war with Iraq in the 1980s, "subsidies have become a major burden, consuming as much as 25% of Iran's gross GDP."[141] In a 2011 working paper published by the IMF, Dominique Guillaume, Roman Zytek, and Mohammad Reza Farzin, observed that Iran's energy subsidies had grown to the highest of any country.[142] They also noted that these subsidies had driven a significant increase in energy consumption, making Iran "one of the most energy-intensive economies in the world."[143] Over the years preceding the adoption of the *Targeted Subsidy Reform* program, subsidies grew to nearly $100 billion annually, consuming a significant amount of government revenue.[144] Guillaume et al. assert that the objective of the Iranian government was to use subsidy reform as a method to reduce energy usage and encourage consumption,[145] ostensibly to offset the effects of declining economic growth in the wake of sanctions. In order to encourage economic growth, the *Majlis* began the reform with a three-pronged approach: halting subsidies, incrementally raising energy prices to reflect true market values, and offsetting the effects of increased prices with cash handouts.[146] As an added benefit, consumption levels would increase as consumers spent the cash handouts on other goods, in addition to energy purchases.

In practice, subsidy reform has not accomplished the goals envisioned by Iranian policy makers. Unanticipated inflation and foreign exchange market volatility resulted in the suspension of the program following the commencement of handouts, but prior to the second round of price increases.[147] This decision ultimately reinforced the patron–client relationship between the people and government of Iran by perpetuating the three

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[141] Nader, "Iran Overhauls Subsidies."

[142] Guillaume, Zytek, and Farzin, "Subsidy Reform," 5.

[143] Ibid., 5–6.

[144] Nader, "Iran Overhauls Subsidies."

[145] Guillaume, Zytek, and Farzin, "Subsidy Reform," 6.

[146] Ibid.

[147] Demirkol, IMF Country Report 14/94, 7.

requirements for clientelism: “inequality of power, status, and wealth; reciprocity in exchange of goods and services; and the proximity of personal and face-to-face relationships.”[148]

1. Inequality

Since the practice of subsidizing energy, electricity, and food began in Iran, social inequalities relating to power and status have continued to grow. Although the subsidies were designed to grant negatively privileged class situations access to markets they previously were priced out of, in reality the subsidies rendered such class situations dependent on artificially controlled prices. Further, despite expanding access to previously priced-out consumers, the benefits of subsidies were still not accessible to the least privileged Iranian classes—those that were too poor to afford cars or appliances requiring energy consumption.

Following the implementation of subsidies, energy consumption increased,[149] indicating that consumption patterns within Iran adjusted to the new artificial pricing structures. Under the new consumption patterns, any price increase would negatively impact economic activity. While subsidization resulted in lower prices and increased consumer access to markets, artificial pricing rendered consumers dependent on the officials responsible for maintaining subsidies—the same officials who were not themselves affected by the conditions subsidies were designed to alleviate.[150] Subsidies recreated the conditions of preindustrial Iran; the least privileged Iranian class situations were again dependent on the positively privileged classes running the government.

The implementation of the *Targeted Subsidy Reform* program was intended to reverse the effects of artificial prices controls, but this proved difficult, given the body of sanctions already in place and the political intransigence within Iran. As a result of the 2011 *Majlis* decision to halt the reform program, subsidized price levels remained

[148] Alamdari, “Power Structure,” 1288.

[149] James Dobbins, “Iran Sanctions: Options, Opportunities, and Consequences,” testimony presented before the House Oversight and Government Reform Committee, Subcommittee on National Security and Foreign Affairs on December 15, 2009.

[150] Ibid.

relatively unchanged, but allowed even the poorest Iranian to continue benefiting from artificially low prices. The large liquidity injection of cash handouts, combined with the continuation of artificially low pricing, resulted in yet another significant adjustment of consumption patterns. Figures published in the IMF Country Report 14/94 indicate that beginning in quarter four of 2010, the private consumption growth rate began a period of increase, rising from 0 percent in 2010Q4 to about 15 percent in 2011Q3.[151] Ultimately, by halting the reform program before raising prices, the government increased the percentage of the population dependent on government assistance. Subsidy reform did not improve the economic conditions for the least privileged class situations; rather, reform increased dependence on government assistance provided by officials who enjoyed the most privileged class situations.

2. Reciprocity

In addition to growing inequality and dependence on government handouts, subsidy reform strengthened reciprocity in the exchange of goods and services inherent in a patron–client relationship. The goods and services being exchanged in this case are government monies in exchange for political support. During the period of product subsidization, the government supported a policy directly benefiting the average Iranian consumer, who provided political support for leaders that advocated for continued assistance in exchange for continued subsidies. Such support takes the form of votes cast in favor of pro-subsidy candidates in elections, and the continued acceptance of the legitimacy of Iran's unelected leaders. The prospect of eliminating subsidies was troubling for both the government and the people of Iran, for the reason that Guillaume et al. observed: "historically, in most countries, the elimination of subsidies to staple products results in loss of real income that disproportionately affects poorer households."[152] Additionally, Guillaume et al. argued that "for this reason, the Iranian authorities emphasized from the outset that the reforms were not about eliminating subsidies, but switching subsidies from products to households. The reform would

[151] Demirkol, IMF Country Report 14/94, 18.

[152] Guillaume, Zytek, and Farzin, "Subsidy Reform," 6.

therefore benefit poor households, who would receive cash benefits, while in the past they were not benefitting much from cheap energy that was mostly consumed by the richer groups."[153]

Addressing the likelihood of strengthening domestic support for new cash handouts, Guillaume et al. estimated that "for the poor who benefited little from cheap domestic energy prices, the compensation would represent a large share of their income, lifting virtually every Iranian out of poverty. This gave the government a powerful public relations and moral argument in support of the reform."[154] The IMF assessed that "transfers for families were, on average, more than increased expenditures on utility and energy related items, notwithstanding the increase in prices of other items in the consumption basket."[155] Cash handouts were valued by the IMF at "445,000 rials (about US$ 45 when the reform was launched) per person," representing "about 15 percent of the average income of a median family of four in 2011."[156] The expanded scope of government assistance in the form of handouts increased the number of individual Iranians receiving government assistance and subsequently increased the percentage of the population dependent on artificial market controls—thus making them more likely to cast votes in favor of candidates advocating continued assistance. The government officials attempting subsidy reform knew they had to walk a fine line—implementing reform measures in order to maintain public support, and at the same time improving the economy. This balancing act is evident in the *Majlis* decision to halt incremental price increases after external shocks to the economy effectively negated the positive effects of the reform. The political leaders of Iran ran the risk of increasing economic hardship for the average Iranian citizen if they continued the process of subsidies they had started. Striving to maintain the support elicited from government handouts, the 2011 *Majlis* decision—while it halted the reform program—ensured continuation of the handouts.

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153 Guillaume, Zytek, and Farzin, "Subsidy Reform," 17.

154 Ibid., 8.

155 Demirkol, IMF Country Report 14/94, 9–10.

156 Ibid.

3. Relationships

A face-to-face relationship between patron and client is a central factor of basic clientelism. Conventionally, this is illustrated by a merchant–customer relationship in which the patron is a merchant controlling some good that is traded for some other good held by a client. This type of transaction may occur face-to-face in a place of business, but may also take place in an electronic setting absent any direct human interaction. What is important in this transaction is that the patron holding the good or service being sought and the client offering another good or service as payment are both known to the other, and that there is high certainty of reciprocity in the exchange of these goods and services. Transactions of this nature—where patron and client are known to one another—create a sense of obligation between the transacting entities, further solidifying the contractual nature of such exchanges. Transpose these characteristics over the process of distributing cash handouts to the citizens of Iran, and it becomes clear that the relationship requirement for political clientelism is fulfilled.

In the case of Iran's government assistance programs, the sense of contractual obligation induced by the relationship between the patron government and client society has varied. With the implementation of subsidies in the 1980s, the patron government was certainly known by the client-society, but behind the scenes subsidization was easily overlooked in the daily life of the average Iranian. As such, the sense of contractual obligation for reciprocity incurred from subsidies was weak relative to the sense of obligation induced from direct cash handouts. The formation of the new, stronger patron-client relationships based on handouts began with an application process that was open to nearly every Iranian citizen. The IMF observed that "[Iranian] officials reported an exceptionally high approval rate for all applicants of 98 percent."[157] By the time the handouts were accessible for the first time, 61 million Iranians had signed up.[158] This meant that in a population of approximately 75 million, about 80 percent were receiving government handouts.[159] Even after the handouts were available to consumers, the

[157] Guillaume, Zytek, and Farzin, "Subsidy Reform," 14.

[158] Ibid.

[159] Ibid.

government made it clear that applications were still being accepted for those who had not yet signed up, and that late applicants would receive retroactive payments.[160]

In the months preceding implementation of the *Targeted Subsidy Reform* program, the public relations campaign conducted by the Iranian government revealed how important it was for officials to make sure that Iranian citizens were aware of the role the government was playing in providing the new handouts. The IMF observed that, "to ensure publicity of the process, the Iranian mass media reported daily on the progress made in distributing the compensatory deposits."[161] Thrusting the government's action into the media ensured every citizen was aware of who the patron was, and reinforced the clientelistic relationship between handout recipients and politicians who facilitated them.

Additionally, the government chose to use banks throughout the country to distribute the new cash handouts to eligible households.[162] The IMF asserts that in addition to alleviating the logistical burden of distributing large amounts of cash, creating bank accounts for households in advance "allowed the government to let all the recipients see the transfers received well in advance of the actual price increase."[163] Moreover, the IMF assessed that "this consideration was very important in gaining the public's buy-in for the reform, and making it virtually irreversible, as many Iranian households would eagerly await the price increases that would give them access to the deposits."[164] The process of distributing cash electronically to individual bank accounts constituted the formation of direct patron–client relationships between the government and its citizens.

B. REINFORCING THE REGIME

RAND's Alireza Nader predicted that "an overhaul of the subsidies system would enable Iran's increasingly militarized government to better resist U.S. and international

[160] Guillaume, Zytek, and Farzin, "Subsidy Reform," 14.

[161] Ibid.

[162] Ibid., 16.

[163] Ibid.

[164] Ibid.

pressures,"[165] and it is evident that the *Targeted Subsidy Reform* program has done just that by strengthening political clientelism. Subsidy reform has increased the inequality gap in Iran between powerful government officials and weaker, less privileged classes. The heightened inequality has increased the average Iranian's dependence on the government, and thus, served to reinforce the reciprocity in exchange of government assistance for political support. The transition from subsidies to cash handouts expanded the number of individuals benefiting from the new compensation, and it had the added effect of creating a daily reminder of the role played by the government in their economic viability. In testimony before the Committee on Oversight and Government Reform Subcommittee on National Security and Foreign Affairs in the U.S. House of Representatives, James Dobbins stated that sanctions have historically "bolstered the targeted regimes domestic political support" and, as such, "have both moderated and perpetuated the threat such regimes present."[166] The outcomes of the 2005, 2009, and 2013 Iranian presidential elections confirm the validity of Dobbins's observation.[167]

When Iranian voters went to the polls in 2005, the ballot contained six names: three reformists and three principlists.[168] Of the reformists, former president Akbar Hashemi Rafsanjani emerged as the main contender against the front-running conservative principlist Mahmoud Ahmadinejad. Since his name was associated with accusations of corruption and misappropriation of oil revenues,[169] Rafsanjani was widely perceived as a holdover from a troubled period in the short history of the Islamic Republic. Farhang Morady argued in a 2010 article for *Capital & Class* that most Iranians blamed former President Rafsanjani "for all their economic difficulties, not to mention great political and social injustices."[170] Born into a middle-class family, the son

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165 Nader, "Iran Overhauls Subsidies."

166 Dobbins, "Iran Sanctions."

167 Ibid.

168 Leverett and Leverett, *Going to Tehran*, 220–223.

169 Ervand Abrahamian, *A History of Modern Iran* (Cambridge, UK: Cambridge University Press, 2008), 194.

170 Farhang Morady, "Who Rules Iran? The June 2009 Election and Political Turmoil," *Capital & Class* 35, no. 1 (2010): 50, doi:10.1177/0309816810393940.

of a blacksmith,[171] Ahmadinejad appeared as the antithesis to the wealthy Rafsanjani. As mayor of Tehran, Ahmadinejad mastered his common-man image wearing nondescript clothing and avoiding the opulence often associated with the ruling elite. During his time as mayor, he introduced "a program of low-interest loans that gave young men the funds to start a household."[172] During his campaign for president, he advocated the creation of similar programs on a national scale,[173] gaining widespread support from the less privileged classes. Further, running on a populist platform supporting economic relief for the average Iranian, Ahmadinejad promised to put the country's oil money back into the hands of the citizens.[174] Winning in a run-off election with 62 percent of the vote, Ahmadinejad delivered on his promises by lowering interest rates on loans, raising the minimum wage, and supporting pensions for civil servants.[175] Emphasizing the strength of domestic support for the new president, Flynt Leverett and Hillary Mann Leverett observed that "[Ahmadinejad's] initiatives were popular with the constituencies that supported him; if, in some cases, they did not achieve their stated objectives, these constituents tended to blame the corrupt interests against whom the president continued to rail."[176] Ahmadinejad's 2005 election demonstrated the Iranian people's desire for a better economic future—and in this case, that future was dependent on government assistance that would ultimately create dependence rather than prosperity.

When the polls opened for the 2009 presidential election, the Iranian people were again faced with a choice between a candidate associated with economic hardship and a candidate with a populist track record who promised greener pastures. This time the ballot contained four names: two reformists and two principlists.[177] Of the reformist candidates, Mir-Hossein Mousavi emerged as the primary contender for the incumbent conservative Ahmadinejad. As the voice of the less conservative and liberal left-wing

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[171] Abrahamian, "Modern Iran," 194.

[172] Leverett and Leverett, *Going to Tehran,* 222.

[173] Ibid.

[174] Marody, "Who Rules Iran?" 50.

[175] Leverett and Leverett, *Going to Tehran,* 223.

[176] Ibid.

[177] Ibid., 228

Iranians, Mousavi advocated a platform focused on limited democratization measures designed to roll government and religious authority back to the limits defined in the Iranian constitution.[178] The Mousavi camp primarily comprised positively privileged classes of financially stable and well-educated elites,[179] indicating that issues of democratization were only of concern to those citizens who were not dependent on government assistance. Moreover, Mousavi's earlier track record as prime minister revealed that he was not an adept economic policy maker. Leverett and Leverett pointed out that his policies as prime minister were "widely judged to have exacerbated wartime shortages of food and other essential commodities"[180] during the Iran–Iraq War. Further, Leverett and Leverett argued that "Ahmadinejad was particularly effective in linking Mousavi to Rafsanjani, and, by extension, to Rafsanjani's son, who had been publicly accused of Corruption."[181] As a result of these assertions, Mousavi experienced popular sentiments similar to those that hampered Rafsanjani in the 2005 election. Moreover, Morady points out that incumbent "Ahmadinejad had the support of Khomeini, different state foundations, the IRGC and a section of the bazaar, as well as that of the right-wing clergy in Qom."[182] It is clear that Ahmadinejad held the support of both the client-society and traditional Iranian patrons.

Two front-runners emerged from the six contenders in the 2013 presidential election: Mohammad Galibaf and Hassan Rouhani. Considering Galibaf's poor economic track record—including rising levels of poverty in Tehran while he was mayor[183]—it is little wonder that he did not win the support of a population in a stagnant economy. This election marked a change of political course for Iran, moving from Ahmadinejad's conservative administration to Rouhani's more progressive approach. Yet, despite the

[178] Victor Sundquist, "Iranian Democratization Part I: A Historical Case Study of the Iranian Green Movement," *Journal of Strategic Security* 6, no. 1 (2013): 29, doi:10.5038/1944-0472.6.1.2.

[179] Leverett and Leverett, *Going to Tehran,* 239.

[180] Ibid., 238.

[181] Ibid., 241.

[182] Marody, "Who Rules Iran?" 52.

[183] Jason Rezaian, "Among Tehran's Religious Poor, Hope Wanes," *The Washington Post*, June 1, 2013, Proquest ID 1357172644.

new rhetoric of reform and thawing relations with the West, Rouhani's campaign did not indicate a departure from status quo economic policies. Although Rouhani's campaign rhetoric featured criticism of Ahmadinejad's tenure as president and worsening economic conditions,[184] Rouhani did not run on promises of rolling back subsidy reform. Since his election, his methodology looks very similar to that of his predecessor. Rouhani's continued support for government assistance programs indicates that he is a slave to clientelism just as much as Ahmadinejad was. In fact, the government of Iran declared that it is still spending about $1.2 billon a month on cash handouts.[185] In April 2014, Iranian officials announced the resumption of reform measures under the *Targeted Subsidy Reform* program, confirming the Rouhani administration's commitment to the reciprocal exchange of government assistance for political support.

C. DEMOCRATIC ELECTIONS

The reciprocity created in a patron–client relationship requires a client's continued desire for what a patron is offering. If that desire ends, the relationship is dissolved. Following this logic, the assertion that political clientelism is strengthening the Iranian regime requires that the client-society have autonomy of choice in its selection of political leaders, in order to demonstrate the desire to continue a patron–client relationship. Many observers of the Iranian election process argue that elections are predetermined and outcomes are rigged—and as a result, the Iranian people do not actually have autonomy of choice in the electoral process. The validity of this argument rests squarely on the assertion that Iranian elections are fraudulent; however, this approach is not supported by evidence, and it overlooks the fine nuances of the regime's cunning coercion of voters.

To begin with, the assertion that the Iranian regime has a monopoly of power is valid; however, this monopoly is not maintained by removing autonomy of choice—but rather by ensuring voters do have the freedom to choose. The regime's power originates

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[184] Clifton W. Sherrill, "Why Hassan Rouhani Won Iran's 2013 Presidential Election," *Middle East Policy* 21, no. 2 (2014): 72–3, doi:10.1111/mepo.12071.

[185] "IRAN: Investment Is Key to Economic Recovery Plans," *Oxford Analytica Daily Brief Service*, December 4, 2014, http://search.proquest.com/docview/1465010576?accountid=12702.

in the organization of the government under the Iranian Constitution, which authorizes Ayatollah Khameini to function as not only supreme leader but also supreme patron. Under the convoluted system of theoretical checks and balances created in the IRI constitution, the supreme leader retains his monopoly through enormous influence in the selection of the Guardian Council. This influence begins with the authority to directly appoint six members of the twelve-member council.[186] The remaining six members are nominated by the head of the judiciary—a position that is also directly appointed by the supreme leader.[187] The six nominated individuals then go before the *Majlis*—a legislative body comprising individuals whose candidacy and subsequent election was approved by the Guardian Council.[188] Furthermore, the Guardian Council, owing all of its power to the supreme leader, approves the candidacy and subsequent election of all members of the Assembly of Experts—the only body holding the power to remove the supreme leader from power.[189] Supporters of the fraud narrative cite the clearly conflicted interests of the Guardian Council and point to the role the council plays in vetting prospective candidates as evidence Iranian elections are not democratic; however, this approach is inconclusive. The fraud narrative can only be validated by evidence that somehow indicates autonomy of choice has been stolen from the Iranian voter. However, the evidence does not indicate that this is the case. Instead, the evidence indicates that the Guardian Council indeed uses its authority to engineer elections, but does so in a manner guaranteeing that the final outcome is the result of votes cast by Iranian voters, thus ensuring that autonomy of choice is maintained.

The Guardian Council's practice of vetting candidates before any ballot is compiled is no secret, and is generally accepted by Iranian citizens. In a 2001 article for the *Middle East Journal*, A. William Samii pointed out that "the Guardians Council has regularly used its constitutional power of 'approbatory supervision' (*nizarat-e estisvabi*)

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[186] William O. Beeman, "Elections and Governmental Structure in Iran: Reform Lurks Under the Flaws," *Brown Journal of World Affairs* 11, no. 1 (2004): 61, https://apps.cla.umn.edu/directory/items/publication/278126.pdf.

[187] Ibid., 59.

[188] Ibid., 59–61.

[189] Ibid.

over elections to make sure that only candidates who meet its standards actually serve in public office."[190] Based on the candidates who have been permitted to stand for election in the past, it is clear that the Council's standards require loyalty and support for the Islamic Republic.[191] In reference to the individuals deemed unsuitable to stand for election, Samii noted that "many candidates were rejected on the basis of Article 28 of the election law, which calls for 'belief in and practical commitment to Islam and the Islamic Republic system' and loyalty to the Constitution and the *Vilayat-e Faqih* (Guardianship of the Supreme Jurisconsult)."[192] Additionally, candidates must espouse a platform falling within the precepts of the Islamic republic; however, a candidate's possession of these characteristics hardly ensures permission to run for president. Samii pointed out that as early as 1997 the Guardian Council exerted its power to vet presidential candidates, when it only approved four of 238 applicants for candidacy.[193] This phenomenon was not only limited to presidential elections; in 1998, the Council disqualified more than half of 396 applicants for the Assembly of Experts election.[194] Observing this vetting process, the first president of the Guardian Council—Ayatollah Hossein 'Ali Montazeri-Najafabadi—stated that "the Guardian Council's decisions were motivated by factional political interests, and candidates with impeccable credentials regarding devotion to Islam and services to the people were rejected with no legal justification."[195] In an attempt to rationalize the use of approbatory supervision to vet prospective political candidates, former Guardians Council Secretary Ayatollah Jannati has stated that "the people are considered orphans, and the religious scholars are the custodians and guardians of their affairs. They are in charge of all the affairs of the people."[196] While this evidence clearly suggests that the Iranian regime does not trust the people to choose leaders who will not challenge the power of the supreme patron, it does

[190] Samii, "Iran's Guardian Council," 644.

[191] Leverett and Leverett, *Going to Tehran*, 219.

[192] Samii, "Iran's Guardian Council," 650.

[193] Ibid., 648.

[194] Ibid.

[195] Ibid., 646.

[196] Ibid., 647.

not indicate that the Iranian voter has been deprived of the opportunity to choose once a ballot has been assembled.

Given that the regime is fearful of a political challenge to its power, it is logical to conclude the regime is equally fearful of a challenge to power born out of a loss of legitimacy. It is for this reason the Guardian Council limits its use of authority to control the outcome of elections by arranging a ballot in a manner that gives the appearance of fairness in order to maintain the public perception of legitimacy. This appearance of legitimacy begins by ensuring the spectrum of the Iranian political environment is represented on the ballot. As seen in the last three presidential elections, ballots were balanced with an equal number of conservatives and reformists. However, despite the spectrum of platforms represented on the ballots, the elections examined in this chapter suggest that candidates were approved along political fissures ensuring that only one candidate—the one desired by the regime—could achieve a majority vote to win.[197] Moreover, the fact that the winning candidate in each election was also advocating continued government assistance indicates that the regime has been using the effects of clientelism to its advantage. The regime is maintaining the perception of legitimacy by providing Iranian voters with autonomy to choose—albeit, the regime already knows the choice.

Supporters of the fraud narrative often point to the 2009 Iranian presidential election and the subsequent Green Movement as evidence of electoral fraud; however, no hard evidence of fraud has ever been produced. Many supporters of this narrative point to voter intimidation and ballot box stuffing as the main form of fraud, but the available evidence indicates that any known instances of intimidation or stuffing had little to no impact on the outcome of the election. Although reliable Iranian polling data is scarce, the closely monitored 2009 presidential election attracted the attention of several Western polling organizations who published their findings. The findings indicate that despite raucous accusations of fraud by the defeated Mousavi campaign, Ahmadinejad's election in 2009 was the result of votes cast by the Iranian people. Leverett and Leverett observed

[197] Sherril, "Hassan Rouhani," 73.

that the "methodologically sound" polling conducted in Iran confirms the plausibility of Ahmadinejad's election.[198] They define "methodologically sound" as surveys, "drawing on samples that are both sufficiently large and random to minimize sampling error and using clear and neutrally worded questions."[199] They identify three Western organizations that met the standards for sound polling: Terror Free Tomorrow, Globe-Scan, and World Public Opinion.[200] All of the surveys conducted by these organizations confirmed a consistent base of support for Ahmadinejad, large enough to produce his margin of victory in the 2009 election.[201] Based on Ahmadinejad's populist platform and support for continued government assistance in exchange for the support of the Iranian people, it makes sense that the clientelistic Iranian society would respond by electing its patron. Ahmadinejad's defeat of Mousavi was political clientelism in action.

D. BEYOND THE POLITICAL ARENA

The effects of clientelism in Iran are not restricted to the political realm. As demonstrated in Chapter II, cultural and class characteristics of Iranian society predispose it to clientelistic relationships. As a result, clientelism strengthened by sanctions has also strengthened the position of the IRGC in the economic realm—namely, in the cooperative sector of the Iranian economy. By virtue of overlapping private and public financial interests, the cooperative sector gives way to deeply conflicting interests. Designed to strengthen the domestic economy and benefit society, cooperative sector enterprises are ideal entities for business leaders to fill personal coffers with government funds. Controlling an overwhelming share of public sector business interests, the IRGC has been the largest economic benefactor of strengthened clientelism.

As outlined in Chapter II, the IRGC obtained a firm position in the domestic economy following the Iran–Iraq War and has managed to maintain its financial interests ever since. This position has been reinforced by IRGC-controlled *bonyads* providing

198 Leverett and Leverett, *Going to Tehran*, 238.

199 Ibid.

200 Ibid.

201 Ibid.

handouts to society, and by IRGC control of secondary markets encouraged by trade restrictions imposed by sanctions.[202] The election of President Ahmadinejad marked the beginning of a period characterized by the unprecedented growth of IRGC financial interests.[203] As a well-connected former member of the *Basij*, Ahmadinejad enjoyed the combined benefit of possessing both the political ideology of the IRGC[204] and access to its vast network of cronies. Under Ahmadinejad's process of privatizing public-sector interests, many businesses were transferred to the cooperative sector. Writing in the *Middle East Journal*, Roozebeh Safshekan and Farzan Sabet observed that "privatization has meant transferring state assets to the IRGC or to affiliated organizations and individuals."[205] Further, writing on IRGC expansion precipitated by privatization, Safshekan and Sabet noted that "the *Khatim al-Abiya' Headquarters*, the IRGC's most visible economic arm, [since 2006] has gone from being a major government contractor to being the single largest recipient of government contracts, often bypassing the bidding process completely."[206] In a 2009 report, RAND highlighted that the Iranian Oil Ministry awarded *Khatim al-Abiya'* "a number of no-bid contracts … worth billions of dollars."[207] RAND reports that Iranian officials rationalize bypassing the bidding process by arguing that such contracts are for the benefit of underdeveloped regions of the country, and that the bidding process would delay delivery of the benefits such projects are envisioned to provide.[208] Ostensibly, IRGC and government officials are aware that a public benefiting from such an arrangement is unlikely to raise much concern about conflicting interests.

Not only has the IRGC reaped the benefits of expanded interests in the primary markets through increased political influence under Ahmadinejad, but it has also strengthened its hold on secondary markets. Safshekan and Sabet pointed out that one of

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[202] Wehrey, "Pasdaran," 56–65.

[203] Roozbeh Safshekan and Farzan Sabet, "The Ayatollah's Praetorians: The Islamic Revolutionary Guard Corps and the 2009 Election Crisis," *The Middle East Journal* 64, no. 4 (2010): 554, doi:10.3751/64.4.12.

[204] Ibid., 550.

[205] Ibid., 553.

[206] Ibid., 555.

[207] Wehrey, "Pasdaran," 61.

[208] Ibid., 62.

the first achievements of the IRGC under Ahmadinejad was that "they cemented their role as the IRI's premier security institution."[209] Part and parcel to this cementing was improved control of the country's entry and exit points. Safshekan and Sabet argued this gave the IRGC "control over border posts and port facilities, allowing it to enter the lucrative business of importing duty-free consumer goods and smuggling."[210] RAND cited an unnamed member of the *Majlis* who speculated that IRGC secondary market activity may be up to $12 billion a year.[211] Of course, by the nature of secondary markets, there is very little data available to prove where such vast amounts of money are going; however, following RAND's logical conclusions, it is safe to say that black market money is providing a strong financial incentive to maintain the status quo.[212]

[209] Safshekan and Sabet, "Ayatollah's Praetorians," 548.

[210] Ibid.

[211] Wehrey, "Pasdaran," 65.

[212] Ibid., 66.

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V. CONCLUSION

Throughout the preceding chapters, the effects of sanctions in strengthening the Iranian regime's hold on power have become apparent. Based on the evolution of class structures within Iran—from premodern to industrial and back to premodern—the predisposition for clientelism in Iranian society is evident. Compounding that predisposition with the damaging effects of sanctions has precipitated failed attempts at economic reform, which has in turn catalyzed the strengthening of political clientelism. Through this newly strengthened clientelism, the regime has retained its legitimacy and reinforced its resistance to liberalization. While it appears that counterproductive sanctions have created a truly bleak situation in Iran, all is not lost. Rather, a roadmap can be derived from the evolutionary process observed throughout this thesis that offers a way forward in which a responsible and well-behaved Iran may still be possible. In order to achieve this outcome, Western political powers must cultivate an Iranian stake in the international political arena that will constrain the IRI's desire to engage in the provocative practices characteristic of the most recent three decades.

Without a doubt, the current situation in Iran is directly attributable to the imposition of sanctions that have further depressed an economy already stagnating from the effects of the Islamic Revolution. The isolation induced by sanctions has deprived the Iranian economy of capital required to encourage development, and has resulted in increasingly dire conditions for the citizens of Iran. Seeking to alleviate such conditions, the government's failed attempt at subsidy reform did not revitalize the economy, but rather reinforced political clientelism in the country. Replacing subsidies with cash handouts increased the disparity of power and wealth in the country, inducing society's increased dependence on the government. This increased dependence, in turn, increased political support for the politicians advocating government assistance programs, further reinforcing the regime's hold on power.

The starting point for reversing the effects of clientelism and achieving a responsible Iranian state resides in the similarities between premodern and post-1979 Iran. In both of these periods, clientelism is strong and plays a central role in maintaining

the blurred lines between the public and private realms. This blurring of lines has enabled the Iranian regime to exert undue control over resources and, thus, limit access to the economic resources required for class mobility. This denial of resources has led to the Iranian society's dependence on government assistance and has encouraged class rigidity, resulting in the inability to challenge government authority—for fear of biting the hand that feeds. The clientelistic premodern Iran was transformed into a modern industrializing nation at the beginning of the twentieth century through the introduction of foreign investment. Seeing that sanctions have effectively reproduced a heavily clientelistic society closely mirroring that of premodern Iran, it is then logical to conclude the same process that ended the premodern period would also end the post-1979 period of clientelism. The first step in achieving a modern, responsible Iran is encouraging economic interdependence through foreign investment and participation in global markets that can only occur through the easing of sanctions.

The easing of sanctions will facilitate the economic development necessary to provide the Iranian people with the resources required to increase class mobility and reduce their dependence on government assistance. Under this eventuality, the choice of Iranian voters will no longer be constrained to the candidate favored by the regime—who also, conveniently, advocates continued handouts. Providing the Iranian people with the means to acquire economic resources from sources other than government handouts will end the clientelistic relationship between the patron-government and client-society. The government will no longer be able to rely on reciprocity in the exchange of cash handouts for political support. Most importantly, freeing the Iranian people from the stranglehold of clientelism will lessen the influence of the supreme leader and the Guardian Council.

Of course, the outcome of lifting sanctions is neither certain nor absent risk. It is true that the inflow of revenue that will follow the easing of sanctions may be used for nefarious purposes; however, this is unlikely in the near future. Moreover, the Iranian government is highly unlikely to adopt a policy of rapidly dumping newly accessed capital into already inflated markets, given the government's decades-long battle against inflation. Further, with annual oil revenues more than halved by sanctions, and government welfare expenses topping $12 billion annually, there has been little money

left for developing and maintaining infrastructure. In order to meet the increased demand for Iranian petroleum and other products that will inevitably result from easing sanctions, the government will be forced to divert the majority of its newfound wealth to revitalizing outdated infrastructure.

Even riskier than easing sanctions is the option of maintaining the status quo. Continued sanctions will only further depress the Iranian economy, creating ever more dire conditions for the Iranian people. As conditions worsen, the regime is likely to suffer a loss of legitimacy and proceed down the path toward a failed state. Such conditions are likely to precipitate the use of violence to maintain state control and result in a humanitarian crisis that will lead to the dissolution of international support for continued sanctions. This possible eventuality is the worst-case scenario, in which two outcomes are possible: 1) The regime is able to retain control in a humanitarian crisis; or, 2) the Iranian state fails, resulting in civil war or revolution, adding to the volatility of an already unstable Middle East. Given these possibilities, easing sanctions is the only pragmatic approach.

Increasing access to the economic resources required for class mobility is the only way to free the Iranian people from the stranglehold of clientelism. This approach encourages continued stability in Iran by increasing the ability of society to acquire the required goods and services to sate political demands. Maintaining stability minimizes the likelihood of humanitarian abuses originating from a failing regime's violent last-ditch efforts to retain control. Moreover, mobile classes—free from the effects of clientelism—will have the ability to more effectively assert their political will upon the course of the Islamic Republic.

The bottom line is that economic development has once before transformed a premodern Iranian class structure into a capitalist structure that sought integration in the nascent global economy of the early twentieth century. Lifting sanctions is the only way to restart this process in the twenty-first century; however, this time, the pace of economic development in Iran must be set by the Iranian people. Liberalization and development must occur in a manner respecting the societal values of Iran, and only the citizens of Iran can decide the best course for their country.

In light of the July 14, 2015 nuclear agreement reached between the countries of the P5+1 and Iran, it appears that the people of Iran may indeed soon have the ability to begin the arduous process of defeating clientelism. While there is wide debate regarding the efficacy of the deal, the fact remains that ratification of the deal will result in the easing of sanctions and catalyze a significant inflow of capital into the Iranian economy. Many economic actors within Iran will undoubtedly reap enormous personal profit; however, this capital inflow will also strengthen the domestic economy, facilitating greater ease of access to the goods and services traditionally monopolized by a patron-government. Wider availability of resources promises to eliminate the reciprocity between patron and client, effectively dissolving the stranglehold of clientelism on the Iranian people.

Regardless of the implications this deal has for Iran's nuclear program, the United States has reached the point of no return. Ratification of the agreement by all members of the P5+1 except the United States will result in the dissolution of continued Western support that is vital to the effectiveness of sanctions. It is important to recognize that the July nuclear agreement has signified Iran's willingness to make concessions in exchange for the easing of sanctions—and has resulted in an arrangement better than the status quo. The United States must now make the choice to support a nuclear agreement that both slows a previously unrestrained nuclear program and also creates the conditions required to defeat the regime's hold on power through clientelism. The alternative is to walk away from this deal, losing the support of the international community and further reinforcing the Iranian regime's distrust of the United States.

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