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**THE PRIVATISATION PROCESS IN IRAN:
THE ISSUE OF OWNERSHIP IN A LIMITED MARKET
WITHIN AN ISLAMIC TRADITION AND GLOBAL
BOUNDARIES**

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A thesis submitted in partial fulfilment of the requirements of the
Nottingham Trent University for the degree of
Doctor of Philosophy

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Abstract

This thesis explores the issue of privatisation in Iran, seeking an understanding, which combines academic argument and rigorously deployed evidence with practical applicability. That understanding is grounded in four forms of explanation, which are brought together and synthesised in the thesis as a whole. Firstly, the thesis considers the historical and social background to economic development in Iran, and the context of this to initiation of the privatisation process. It argues that this context is absolutely central to any understanding of Iranian economy and society today. Secondly, the thesis argues that ideas drawn from an understanding of Islam are necessary to an appropriate image of development in Iran (taking account of their distinctive forms of Iranian Islam). Thirdly, this challenges us to re-think ideas of development. It implies that we might need a more pragmatic, less self-assured sense that the world is diverse and our knowledge of it is limited and diverse. This sense of the uniqueness and variety of development dilemmas is increasingly common in the relevant literatures, but its implications for Iran –or for the region around Iran- have been little explored. Finally, the attempt to locate an understanding of the prospects and limitations of Iranian development in a pattern leads one to identify a trajectory of state-society-economy relationships, a historical sociology, which helps both to provide comparisons which aid understanding and a loose theoretical context against which the findings of this research can be tested. The thesis draws on these arguments to make a detailed empirical study of privatisation in the past and analysis of the prospects for privatisation in the future in Iran. This original work is the most important contribution the thesis claims to make to our knowledge.

The claim to originality in the thesis therefore lies in its argument about the history and practice of economic development with particular focus on privatisation, emphasising the vulnerability and instability of ownership in the Iranian system. It also stresses the significance of the role of intervention by the state, by the clergy and by international forces in the national economy, itself weak through institutional and management deficiencies. The consequences of this have been a long-term relatively inefficient utilisation of resources, and a weak exploitation of the potential of ownership. This has undermined the efforts of recent governments both to achieve prosperity and to seek legitimacy through effective economic management. It is evidenced in poor or fragmented management, inappropriate choices of economic models, and arrogance of

the state in believing it is a better 'owner' than private owners. Foreign policy and external pressures have been important constraints on economic and social development in Iran. But it would be a mistake to use this as a reason not to hold domestic policy makers to account: many of the problems which the thesis records have been the result of domestic divisions and domestic policy failures which cannot be passed off as the responsibility of external influences. Here, the thesis defends the importance of enlarging the private scope for action in the economy, in the context of providing certainty and stability in the legal and social protection of property rights. The thesis concludes with a set of recommendations for improving the process of privatisation in Iran. This conclusion seeks to strike an appropriate balance between critical analysis, and optimism about the prospects for future development grounded in this careful detailed research, which includes 106 managers, officials and academics who responded to questionnaires, research in about 20 firms, and approximately 30 confidential interviews recorded in a document available to examiners, but not to other readers.

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A number of people have contributed to this thesis, and I wish to acknowledge their contribution with gratitude. I owe particular debt to Christopher Farrands, my principal supervisor, who gladly gave of his time in work (particularly on Wednesday and Thursday afternoons over a cup of coffee) and on summer vacation to guide my research and constructively comment on my writing. I also owe a profound debt to Ali Mohammadi for invaluable critique and practical guidance on my work, and I will remember our in-car debates while travelling between London and Nottingham with affection.

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Chapter One

APPROACHING ECONOMIC DEVELOPMENT AND PRIVATISATION IN IRAN

1.1 Introduction: An Islamic Approach to Development

This dissertation explores the possibility of economic development in a complex and difficult environment. Specifically, as the title says, it analyses the historical experience, present situation and prospects for privatisation in Iran. It does so drawing on original, detailed research, including personal interview evidence and original documentary research. Some of this research has used confidential documentation from companies and government agencies, with the permission of the authors or owners of those sources, to which this author has had unique access. The examiner will find a full record of this material in annotated appendices. Some of this material is confidential. It has therefore, according to established academic convention for confidential or commercially sensitive material, been made available only to examiners and supervisors. Other readers will find only a selection of this material, and some of it will not be available to them.

The thesis aims at the same time to explore how the concept of economic and social development can be better understood. The world today is more than ever interdependent, and ideas and practices pass rapidly from one area to another. Thomas Friedman, in a widely quoted and influential popular study of the global economy, argues that globalisation is an inevitable process which on the whole brings important benefits, but where there are costs they have to be accepted¹. Zygmunt Bauman² defines globalisation as:

'Globalisation' is on everybody's lips; a fad word fast turning into a shibboleth, a magic incantation, a pass-ley meant to unlock the gates to all present and future mysteries. For some, 'globalisation' is what we are bound to do if we wish to be happy; for others 'globalisation' is the cause of our unhappiness. For everybody, though, 'globalisation' is the intractable fate of the world, and irreversible process; it is also a process which affects

¹ T. Friedman, *The Lexus and the Olive Tree*, New York: Harper Collins, 1999.

² Zygmunt Bauman, *Globalisation: The Human Consequences*, Cambridge: Polity Press, 1998, p. 1.

us all in the same measure and in the same way. We are all being 'globalised'-and being 'globalised' means much the same to all who globalised' are

For whereas other liberal writers are more optimistic or ignore the possible costs of global change, the *New York Times Leader* writer says simply that people have no choice but to accept and make the best of the consequences of globalisation, since there is no alternative. This is at least a 'realist's' view. But it is not very reassuring to those who are the objects of these globalising forces, and who may well find them alienating, harmful or dehumanising. But in this thesis, I shall explore how it is possible to make a difference, to resist globalisation or channel it to one's own advantage, albeit perhaps in a small way, and for people to take a measure of control over the ways in which globalisation affects their society. The issue I shall discuss, privatisation, lends itself to this particular enquiry for many reasons discussed below. Privatisation can be defined as 'the sale of government-owned equity in nationalised industries or other commercial enterprises to private investors with or without the loss of government control'.³ The dissertation does not, however, draw on the Western, often neo-liberal, idea of privatisation uncritically. It will argue that privatisation is indeed necessary in Iran, and it will suggest ways in which it could more effectively take place. But it does so whilst drawing on a synthesis of Iranian-rooted, Islamic ideas and practices as well as on Western models, and on examples where privatisation has been adapted to other parts of the Moslem world, especially Egypt and Pakistan. This is an important part of the thesis, not simply for the suggestive power of others' experience, but also because the study as a whole argues that if we want to understand what is practical in economic development policy, then as Manor and others have suggested⁴ we have to pay much more attention than has often been done to the differences between cultures and societies. Mechanistic models of development which neglect cultural and historical differences, it will be argued, are likely to fail, as they have done in the recent past in Iran itself (Chapter Three). We therefore need to consider images and models of development which draw on established ideas and values in society. As writers such as the contributors to Poku and Pettiford⁵ or scholars such as Curley⁶ have argued, the distinctive quality of each society has to be taken fully into account if we are to understand the possibilities and limitations of attempts to achieve economic

³ Penguin Dictionary of Economics, 1983, cited in Bryan Hurl, 'Privatisation Since 1980', in Bryan Hurl (ed.), *Privatisation and the Public Sector*, Oxford: Heinemann Educational Publishers, 1995, p. 1.

⁴ James Manor, *Rethinking Third World Politics*, London: Longman, 1991.

⁵ Nana Poku and Lloyd Pettiford, *Redefining the Third World*, Basingstoke: St. Martin's Press, 1998.

⁶ Melissa Curley and Lloyd Pettiford; with a foreword by Stephen Chan, *Changing Security Agendas and the Third World*, London: Pinter, 1999.

development. Failure to recognise this diversity accounts for at least a significant part of the disappointment experienced in development policy in the last two generations⁷. The thesis argues for an approach to privatisation which is influenced by Western experience but which is grounded in an Islamic account of political economy. That approach, it is claimed, is more 'appropriate' than one drawn from Western experience and applied regardless of local conditions, values and history.

This also suggests that it may be a mistake to make the sharp distinction between 'traditions' and 'modernisation' which remains a feature of much of the development literature at least fifty years after it was proposed. 'Development' is possible, the thesis argues, and not merely an illusion; furthermore, the best prospects for development lie in a search for real change and dynamic growth, not in clinging to traditional images of the past (which are themselves often of relatively recent invention). But, at the same time, they are not to be found in a dash for growth and transformation at any cost, ignoring the legacy of the past and the culture and values of the society in which development might take place, as both 1950s modernisation theory and 1970s structural dependency theory appeared to suggest. The prospects for effective development rest, it is argued here, in an attempt to draw together the traditional values of a society, its strengths in its human capabilities and human capital, and the recognition that growth and change are part of the natural cycles of human life, as the Qur'an itself proposes. In this sense, 'effective' and what has been called 'appropriate' development can overlap⁸. Modernisation and growth on the one hand and tradition and firmly established social values on the other can be combined without the slavish pursuit of either. This requires an overcoming of the often-prevalent fear that any kind of change is a threat to be resisted at any cost. This argument will be made here throughout this study from what will be shown to be an explicit, orthodox Islamic point of view, albeit one not often represented in Western literature on the subject (see especially Chapter Two). The case here is not for a 'compromise' between Islamic thinking and the West, but for a convergence of ideas. Development thinking has drawn extensively on non-Western traditions, including Buddhism, Hinduism⁹ and native North American thought. Perhaps partly because Islam is too often identified in terms of its 'threats' and its

⁷ Jan Nederveen Pieterse, *Development Theory: Deconstructions/Reconstructions*, London: Sage Publications, 2001.

⁸ Nana Poku and Lloyd Pettiford, *op. cit.*

⁹ *Essays on World Religions*, [<http://www.learnersrealm.com.au/com>], 4 April 2000.

fundamentalism, despite the efforts of scholars such as Fred Halliday¹⁰, Islam has generally not been seen in Western writing on political economy as a useful basis for thinking through the project to imagine 'appropriate' development. This thesis makes some attempt to reverse that trend. Privatisation is therefore seen as of enormous importance in itself. It is a critical mechanism of change, as its supporters, and even its opponents, would agree. It provides a basis for freeing resources and opening the path to a level of growth that can meet the needs of people in Iran. But asking questions about privatisation can also represent an intellectual strategy which might be a means to open up the question of how we address wider issues of the building of a stronger, more coherent and yet more humane idea of development. In turn, this can suggest development policies which both take account of peoples' needs and, in recognising the limits on what might be tolerable in a given society, point towards development policies which can be effective without provoking destabilising and counter productive reactions.

The thesis is therefore at once modest and focused, as an account of the specific examples of privatisation past and present in Iran, and ambitious, in attempting to explore an Islamic but post-revolutionary account of Iranian economic development from which a better understanding of development as a whole might evolve. But the reader will already have noted that where the thesis claims something precise, it is explaining the specific strengths and weaknesses of privatisation experience, whereas the language is more cautious and more general where it 'suggests' or 'points towards' 'possible' ways of rethinking 'appropriate' development as a whole. One part of this second, more imaginative and ambitious, purpose is clear, however, and forms part of the thesis' claim to originality as a whole. That is that the thesis introduces into a debate usually dominated by Western economic thinking, an agenda with specific Islamic roots. In doing so, it argues for the relevance of specific writers to a conversation about development, which has normally ignored the value of their writing. However, the main question at issue will continue to be the analysis of privatisation. The thesis includes a study of the history of privatisation in Iran in the context of the historical sociology of the country, which is to say the evolution of state-society-economy power relations over time. And it makes an original comparison between privatisation processes in Britain,

¹⁰ Fred Halliday, *Islam and the Myth of Confrontation: Religion and Politics in the Middle East*, London: I.B. Tauris, 1996.

Pakistan and Egypt compared with the recent experience and prospects for privatisation in Iran.

Why is this emphasis on privatisation so important? Privatisation is important in itself as a means (at least, if it succeeds) of increasing the efficiency of an economy, improving the possibility of more rapid development, freeing resources for more effective use, and encouraging a more entrepreneurial climate across the economy as a whole. But privatisation also demonstrates the openness of an economy, and might well provide a basis for attracting foreign capital. The balance between the public and private sectors is now widely seen as indicating the potential for further dynamic growth, and as an indicator of the potential for democratisation. For economic openness has come to be seen, especially in major international organisations such as the International Monetary Fund (IMF), as parallel to political openness. For all of these reasons, privatisation assumes an importance as a symptom of wider socio-economic possibilities while at the same time comprising a factor in structural and policy questions in a given society. But there are also important, specifically Iranian reasons why privatisation matters. Iran has a history of attempts at privatisation followed by greater or lesser degrees of re-nationalisation (see Chapter Six). Privatisation offers a possibility of reversing problems inherited from the past. It might enable new processes and new sources of investment to open up the huge, and recently frequently neglected, potential for economic growth (see Chapter Four). As the government has recently argued, the most important basis for growth in the new (third) economic plan is privatisation. Thus enormous hopes and expectations are being attached to privatisation policies, and it becomes all the more important that they can be realistically achieved. These questions are explored throughout the following discussion. They hinge on the question of whether, in its current situation and with the accumulated history of the last century of efforts at development, there is any choice for the Iranian economy but to privatise, and on whether there are choices in the modalities of privatisation. The thesis as a whole advances the case that, in answer to the first question, there appears to be very little choice but to privatise; but that, once that is recognised, there are important choices in the modalities and timing of privatisation strategies which can be constructed in such a way as to fit Iranian needs, culture and social practices. Thus privatisation, once it is recognised to be necessary, does not have to be the imposition of any one specific, inappropriate or externally dictated model. It does not have to follow the dictates or models of external consultants, nor does it have to follow any of the models provided by

other countries. In this sense, the thesis argues, there remains a possibility of a distinctive Iranian path to development.

This idea of an Islamic approach to development is not so original in Islamic literature. There are important discussions of economic questions in Iranian tradition; furthermore, in thinking about this one should emphasise the diversity of views within this tradition, as Chapter Two explores in some detail. Even in literature widely available in English, there is an important body of debate on Islamic ideas on economic development, which put concepts of social justice, charity and the importance of a right ordering of society and economy as preconditions for balanced development at their heart¹¹.

But these varied bodies of writing have had scant effect on Western literature on international political economy. It is not so much that this thesis is original in setting out an Islamic account of economic growth and development. Its originality lies instead in bringing this material (selectively) into dialogue with international political economy.

'The global economy perspective sees the Third World as a residual, marginal factor, a non-entity'¹². But in the case of the Muslim world 'after the failure of all other ideologies of the region, Muslim people want to be ruled by Islam'. In fact, a 'historical perspective is essential to understand what is the Third World (including Muslim countries), because by definition it is at the periphery of the system produced by the expansion of world capital',¹³. It is a common belief in the Muslim world that the West does not understand it properly. The modern Muslim cannot ignore his or her relationship with the origin of Islam and with its culture. They prefer to seek guidance from Islamic teachings for every aspect of life, but contemporary modernisation and Westernisation, and the strategies of development, which arise from them, reject that past and that culture. This creates great ambiguity and uncertainty for the believing

¹¹ S. N. H. Naqvi, *Ethics and Economics: An Islamic Synthesis*, Leicester: Islamic Foundation, 1981; Z. Hasan, 'Distributive Equity in Islam' and M. A. Mannan, 'The Economics of Poverty in Islam', both in M. Iqbal (ed.), *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester: Islamic Foundation, 1988, pp. 35-63 and 305-335, respectively.

¹² Robert Cox, 'Structural Issues in Global Governance: Implications for Europe' in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations*, Cambridge: Cambridge University Press 1993, p. 286, cited in Mustapha Kamal Pasha and Ahmad I. Samatar 'The Resurgence of Islam' in J.H. Mittleman (ed.), *Globalisation: Critical Reflections*, Boulder: Lynne Rienner Publishers, Inc., 1997, p. 187.

¹³ Ismail-Sabri Abdulla, cited in Alan Thomas 'Introduction' in T. Allen, and Allen Thomas (eds.), *Poverty and Development in the 1990s*, Oxford: Oxford University Press, 1992, p. 6.

Muslim. In turn this engenders a sense of alienation, of dislocation in political, spiritual and economic fields.

As the Muslim intellectual Abdu Filali-Ansari says:

How can one be a Muslim today? There is no simple answer. On the one hand, Islam seems to be a compendium of beliefs unchanged over the centuries, on the other, modern life offers us a collection of more up-to-date concepts, more in conformity with contemporary scientific theories and ideas developed by modern man which are in general more satisfying from an intellectual point of view. There is often no compatibility between the two aspects; not just with Islam as a faith but also with Islam as a form in which it is lived in the conscience of millions. Most Muslims live an ambiguous life in which they maintain an attachment to the Muslim community without adhering totally to all the beliefs, which flow from it. Therefore everyday life and belief can be in sharp opposition.¹⁴

Here, in this discussion, it would be appropriate to mention the views of Mujtahid-e-Shabstari, who 'is critical of the present inability of the religious schools to come to terms with the findings of modern science, and with the questions raised in contemporary philosophical discourse. He argues the inability of Iran and other Islamic societies to take their place within international scientific communities, an inability apparently born of their failure to universalise their values and legal system.'¹⁵ While it is fair to add that all of the major monotheistic religions have had particular difficulties in their encounter with science and with modernity more broadly defined, and while it is also clear that there are sometimes close parallels between the conflicts Muslims might have and those experienced by serious Christian or Jewish thinkers, it is also the case that for Islam these conflicts have distinctive features and have produced powerful conflicts in the later twentieth century.

Few Western writers have taken very much notice of the Islamic tradition of thought in political economy. Robert Cox is an exception, notably in his essay on Ibn Kaldun. But in that essay, he uses Ibn Kaldun's travel writing as a basis for a critique of the ontology of more conventional realist writing in international political economy (IPE)¹⁶. This is

¹⁴ Abdu Filali, Ansari, 'Can Modern Rationality Shape a New Religiosity?' cited in Derek Hopwood 'The Culture of Modernity in Islam and the Middle East' in John Cooper, Ronald L. Nettler and Mohammed Mahmud (eds.), *Islam and Modernity: Muslim Intellectuals Respond*, London: I.B. Tauris, 1998. p. 2.

¹⁵ M. Mujtahid-e-Shabstari, 'The Limits of the Scared', cited in John Cooper, 'The Epistemology of Abdul-Karim Soroush', in John Cooper, Ronald Nettler, and Mohamad Mahmood (eds), *op. cit.*, p. 49.

¹⁶ Robert Cox, 'Towards a Post-Hegemonic Conceptualisation of World Order: Reflections on the Relevancy of Ibn Khaldun', in J.N. Rosenau and Ernst-Otto. Czempiel, *Governance Without*

fair enough. But it does not amount to the development of a distinctive approach to global political economy beyond the critique, which Cox wants to make of conventional approaches. Cox uses the Arab historian as a leverage point to help imagine the world other than it currently is¹⁷. While it is good to see a distinguished Western scholar drawing on a non-Western source, there is a sense in which this has more than a touch of what Said has called 'orientalism' about it¹⁸, which is to say a drawing on ideas, images or representations so as to simplify and exoticise them and so to diminish and perhaps exploit them. It would have been more interesting, at the least, if in other work Cox had developed his interest in Islamic ideas more fully. But he has not done so. In this thesis, the author hopes to be in a position to explore Islamic economic ideas with a stronger knowledge of their context as well as the diversity. The author does not claim any special authority in the interpretation he offers, but he is at least able to recognise the interaction between ideas and practical policies from the position of study, lived experience and practical business experience. All these shape the interpretation, which follows in the thesis.

This section has not set out an Islamic approach to development in any detail. That task is reserved for Chapter Two and for the subsequent discussion in the thesis. What it has done is to argue the need for an Islamic approach, setting out its relevance and pointing to the unfortunate neglect of Islamic thinking in ideas on development and global political economy. The section also explains the context within which the thesis as a whole should be read. It is not the place of the thesis to write an 'Islamic development theory'. That would be too ambitious both for the writer's limitations and for the conventional form of a PhD thesis. But if what follows can make a contribution to understanding the relevance of Islamic ideas in political economy, and if it can show that Islamic thinking and values might be central in facing some of the dilemmas of development which are urgent in countries like Iran, and not merely questions of academic debate, then it will have achieved one of its main aims.

Government: Order and Change in World Politics, Cambridge: Cambridge University Press, 1992, pp. 132-159.

¹⁷ *Ibid*, pp. 142-147.

¹⁸ Edward, W. Said, *Culture and Imperialism*, London: Chatto and Windus, 1994.

1.2 The Development Paradigm

Political economy offers a wide repertoire of approaches to the understanding of development both as economic change and as a transformation of social relations. These approaches include microeconomic and macroeconomic theories and institutional economics, as well as Marxian and structural theories of international relations. This offers a range of choices to the researcher. One model which is widely used, and which comprises the starting point for this thesis, is the development model. Liberal writers have used the development theory to explain how poor societies might evolve to equal the achievements of industrialised capitalist societies. They draw extensively on observation of the European industrial revolutions in their understanding of the subject. They hold that development can take place if those newly developing economies follow a similar path to those which developed in the past: to grossly simplify, they argue that one industrial revolution is (at least in form and overall substance) like another, that development is an inevitable outcome of modernisation unless powerful forces intervene, and that, whatever incidental troubles there may be in the development process, the final outcome is beneficial both to individuals and to the economy as a whole. Following general usage in literature, I shall call this image 'developmentalism'. In a powerful recent survey of the literature, Pieterse shows how this model has continued to shape the debate on development¹⁹. The liberal paradigm has thus remained powerful in much of the literature. It is especially important in official treatments discourse, and in institutions such as the International Monetary Fund (IMF). It has also been the subject of widespread criticism. In the 1970s, writers such as Frank and Wallerstein, who argued that this conception of development was a capitalist myth, challenged the liberal hegemony of developmentalism. They saw developmentalism as part of an (usually successful) attempt to impose Western values and Western economic and social structures on marginalised societies. As 'interdependence' grew, so 'Third World' societies became more incorporated to the global capitalist system and more subject to their laws²⁰. This model is usually described as 'structuralist'. Like the liberal 'developmentalist' image, it contains a wide variety of positions and debates, especially concerning the strength of the bonds that tie poor countries to the global capitalist

¹⁹ Jan Nederveen Pieterse, *Development Theory: Deconstructions/Reconstructions*, London: SAGE Publication, 2001.

²⁰ Andre Gunder Frank, *Dependent Accumulation and Underdevelopment*, London: Macmillan, 1978; Immanuel Wallerstein, 'World System Analysis', cited in Anthony Didens, Jonathony Giddens and Jonathan H. Turner, *Social Theory Today*, Oxford: Policy Press, 1987, pp. 309-324.

network and also concerning their potential capacity to act autonomously or to gain some measure of real economic or ideological independence. Both the liberal and structuralist arguments have been subject to increasing criticism.²¹ It is this critique, rather than the outdated 1970s debate between liberalism and structuralism, which provides the intellectual starting point for the thesis. As Pieterse demonstrates, the whole debate on development has widened and broadened in the 1990s, and has come to reflect a theoretical pluralism without definitive answers to questions emerging²². This pluralism is reflected, for example, in the work of James Manor and colleagues²³. They set out to criticise the concept of the 'Third World', arguing that it lumps very different societies and experiences together. In the process, they also subvert the conventional idea of 'development'. Poku and Pettiford and their contributors also argue that it is impossible to understand the growth of new security dilemmas in the Third World without taking more account of the context, the complexity, and the distinctive ways in which security is articulated in (for example) Southern Africa as opposed to India or Central America²⁴. In particular, Poku and Pettiford's own contribution calls for a much more specific and careful understanding of the complexity of developing societies, arguing that in the 'state-society-economy' mix the interaction between both state and society with the economy is too often simplified or simply neglected²⁵. Here, the tendency is often to 'regionalise' the development debate²⁶. In other words, instead of making global generalisations, the logic of the argument is to recognise regional differences in history, including especially colonial history, language and regional cultural affinities, and to rest an explanation of development possibilities on the ways in which different regions have achieved different potential. Thus, for example, East Asia can be claimed to have had a distinctly more fortunate economic performance in the last thirty years than Central Africa. A causal explanation in terms of background history, resource allocation, entrepreneurship, the prevalence of civil war and dictatorship or the breakdown of the state in Africa might explain why this picture emerges; or, alternatively, an explanation in terms of the quality of firms in Asia, the virtuous impact

²¹ Gilbert Rist, *The History of Development from Western Origins to Global Faith*, London: Zed Books, 1997; Ankie Hoogvelt, *Globalization and the Postcolonial World: The New Political Economy of Development*, Hampshire: Palgrave, 2001; Biplab Dasgupta, *Structural Adjustment, Global Trade and the New Political Economy of Development*, London: Zed Books, 1998; Jan Knippers Black, *Development in Theory and Practice: Paradigms and Paradoxes*, Boulder, Colorado: Westview Press, 1999.

²² Jan Nederveen Pieterse, *op. cit.*

²³ James Manor, *Rethinking Third World Politics*, London: Longman, 1991.

²⁴ Nana Poku and Lloyd Pettiford, *Redefining the Third World*, London: Macmillan Press Ltd., 1998.

²⁵ *Ibid.*

²⁶ Bjorn Hettne, *Globalism, Regionalism and the New Third World*, cited in Nana Poku and Lloyd Pettiford, *op. cit.*

of Cold War-fuelled inward investment, and the quality of individual management in societies driven by Confucian mythologies of wealth accumulation and family authority, might explain why East Asian countries have generally performed so well.

There are at least two problems with this. One is that it ignores the force of the criticism in Manor *et al.*, which directs us towards a sense that there is no explanation of development, and that (apparently) any attempt to theorise development in terms of causal explanations of economic processes must fail. The concept of 'development' itself is, this implies, flawed, ethnocentric and laden with the values of post-colonial power. This argument also directs us towards the distinction between explanation and understanding developed in many sources, including Hollis and Smith²⁷. Post-modern and post-colonial scholars emphasise the importance of interpretative understanding of their subject, and reject the idea of causal explanation altogether. However this is a view emphatically rejected in this thesis. The argument that we cannot 'explain' development is problematical for four reasons. It assumes that because we might perhaps have to distinguish between explanation and interpretative understanding, we have to choose one over the other. But that is not Hollis and Smith's argument. They say simply that there are two modes of understanding, each with their own philosophical basis, which should not be confused. Also, the (largely post-modern) assumption that interpretation trumps causal explanation neglects the importance of causal understanding in development (and other practical fields), which is an urgent field from the point of view of anyone actually involved in the practice of development. Arturo Escobar's recent but already classic study *Encountering Development*²⁸, stands as a model of post-modern development thinking which one can take as a marking point in this argument. But Escobar, for all his concern to deconstruct Western discourses and rhetoric about development, does not suggest that it can therefore be a subject for mere play. Escobar shows how the narratives and stories of people in developing countries might form an indispensable part of a discussion of what should count as development if we are not merely to impose an idea from outside. But it would be a mistake to conclude from this that he rejects the concept of development altogether. What Escobar argues, and this point also forms a starting point for this thesis, is that we cannot impose external ideas of development on a society, and that we need to derive ideas of development from the stories, experiences and needs of particular peoples and societies. There is no 'universal

²⁷ Martin Hollis and Steve Smith, *Explaining and Understanding International Relations*, Oxford: Clarendon, 1990.

²⁸ Arturo Escobar, *Encountering Development: the Making and Unmaking of the Third World*, Princeton, NJ: Princeton University Press, 1985.

narrative' of development, he claims. But it is a huge, and unjustified leap from this position to the claim that there is no such thing as development at all, and this is not his claim. Curley recognised this in her own PhD thesis²⁹, which concentrated on the development experience on Laotian and Vietnamese women. But neither Curley nor Escobar dismiss development just because they problematise the concept. Escobar points towards certain valid ways of 'reading' development discourses. But his work quite emphatically does not justify a rejection of a pursuit of development of any kind, especially where, as in the case of this thesis, the researcher is (at least attempting to be) a self-aware citizen of the society whose development is at issue, rather than an outsider seeking to impose more or less inappropriate ideas from outside. Escobar stands as a powerful, and for this writer largely correct, critic of both the liberal and the structural schools of development. He too holds out the hope of a more complex and human-centred idea of development. This argument is one entirely compatible with an Islamic conception of development, of which the Latin American specialist Escobar seems to be ignorant.

Of course, this personal involvement on the part of this author is itself a source of other potential problems in research; these are discussed shortly below. But it does not follow from Escobar's work that the urgent problems of relative economic decline, of falling incomes, of crippling debt, and of a yet further reduced influence in the world economy, which is the experience of many developing societies, and not only of Iran, can be best managed by a contemplation of 'discourses'. Discourse analysis is fine, useful even. But it is insufficient if it is unaccompanied by guidelines for practical action. And that requires a causal analysis of the kind this thesis seeks to explore. So the impact of post-modern or post-colonial theory on this kind of study is important in so far as it gives a more sensitive critical edge to the research. But it cannot, and will not, and need not, prevent this kind of critical empirical study from going ahead.

The second problem with the idea of 'regionalisation' is however taken more seriously here. That is that, although we may find regional affinities, and although the experiences of some countries have a great deal in common, it is often a weakness to generalise even across quite a small region (and sometimes even within a country). For example, the South and Latin American countries experienced Spanish colonialism in common, have

²⁹ Melissa G. Curley, *Participation, Empowerment and Micro Security: Implication for the Security Debates in International Relations*, Ph.D. Thesis 1999, The Nottingham Trent University.

a Hispanic cultural heritage alongside their indigenous cultures, and had similar histories of slavery and land ownership. Even so, there are important differences between Columbia and Peru or Brazil and Argentina which make explanatory generalisations hard to sustain unless they are treated as 'indicative' rather than definitive explanations of development patterns. In the case of this thesis, Iran has a distinctive history; it is not an Arab society; its language and major religion are different, its history of urbanisation is unique and its popular culture is self-aware of this past. Iran was never colonised, although at several periods, including during and just after the Second World War, it came under powerful external influences. It was overwhelmed by Turkish and Mongol invasions, and bullied by British and Russian pressure. But it was never a colony. Iran also has a unique mix of natural resources (coal, minerals, precious stones, rich agriculture, as well as oil and natural gas) which have helped the Iranian economy to develop with some relative measure of autonomy compared to other countries in the South West Asian region. In short, one can develop both a general argument in favour of treating the particular case of each developing country as unique and a specific argument, which suggests that Iran in particular needs to be understood on its own terms if we want to make sense of its development history. In short, a single case focus, it is argued here, provides a better basis at least for the study of development in Iran than a comparative focus even if it is at the regional level.

'Development' is, therefore, contested.³⁰ But it is not a useless idea. It is important to recognise that knowledge may be provisional and subject to change but at the same time counts as knowledge. The starting point for debate has usually been the rejection of the idea that development has a simple or single measure. This is usually taken to be gross national product (GNP), or perhaps gross national product *per capita*. Developmentalist theory has stressed the use of a single measure, while structural theory tended also to be monofactoral, concentrating on the single issue of dependence vs. autonomy, although generally not trying to quantify it. More recent work has drawn on both to try to produce indices such as the UNDP's human development index, which recognises the importance of both human development and measurable economic growth³¹. A similar mixed-motive game model is proposed in the Brundtland Report, which argues for a

³⁰ W.B. Gallie, 'Essentially Contested Concepts', *Proceedings of the Aristotelian Society*, Vol. 56, 1956, pp. 167-198.

³¹ See, UNDP, *Human Development Report, 1992*, New York: Oxford University Press, 1992; *Ibid.*, *Human Development Report 1996, op. cit.*, 1996.

mixture of environmental, human social development and economic development goals in Third World development³².

It is also important to recognise that knowledge may be critical and yet have a practical purpose. The contributors to a forthcoming edited volume by Abbott and Worth, especially that by Farrands³³, point to the importance of combining critical and practical knowledge, rejecting the distinction that is sometimes made between the two forms of knowledge by some critical theorists. The core argument is that the distinction made by Habermas³⁴, drawing on earlier work by critical theorists such as Adorno and Horkheimer,³⁵ between knowledge used for practical purposes which accepts the *status quo* and often implicitly if not explicitly endorses it, as against knowledge which explicitly seeks a critical purpose in questioning power structures and forms of knowledge which endorse them by whatever means is useful, but only in a particular context. All knowledge is used for particular interests, Habermas claims; but much practical knowledge may also be critical, that is it may be directed for a critical goal. But the distinction between practical and critical knowledge cannot be absolute for two reasons. Firstly, as Farrands also argues, the emancipatory goal of critical knowledge is often very poorly specified³⁶. Secondly, to eschew practical knowledge in favour of theorising is likely to leave poor people no better off, cruel governments in power, and corrupt societies no nearer change. 'Pure theorising' in the context of questions of development is likely to be as conservative, in a negative sense, as anything else. Practical knowledge is essential, and problem solving is important. This thesis is intended to be practical in this sense; but it is also critical in the sense that Habermas, and most of the contributors to Abbott and Worth's book, would argue. Again, taking Curley's work as a model³⁷, it is neither very original nor very surprising to claim that a study of development practice can be at once critical and practical - but the point is worth making both to refute a possible criticism and to situate the study, which follows more precisely.

³² World Commission in Environment and Development, *Our Common Future*, Oxford: Oxford University Press, 1987; Brundland and South Commission Report cited in Jan Netherveen Pieterse, *op. cit.*, p. 48.

³³ Christopher Farrands, 'Being Critical about "Being Critical"', in J. P. Abbott and O. Worth (eds.), *Knowledge, Critique Emancipation: Critical Theories in International Political Economy*, Basingstoke: Palgrave, 2002 (forthcoming).

³⁴ J., Habermas, *Knowledge and Human Interests*, Cambridge: Polity, 1984.

³⁵ T. Adorno and M. Horkheimer, *Dialectic of Enlightenment*, London: Verso, 1997.

³⁶ Christopher Farrands, *op. cit.*

³⁷ Melissa Curley and Lloyd Pettiford (with a foreword by Stephen Chan), *Changing Security Agendas and the Third World*, London: Pinter, 1999.

1.2.1 Ideas and Development

One key question in this literature is that concerning the role of ideas in development. In the international relations literature, structural writers and realist theorists have agreed that ideas played little central role in change in general and in development in particular. This view has always been treated with scepticism by liberal authors. But it was challenged especially by a group of writers on US trade and economic policy at the start of the 1990s. Keohane and Goldstein³⁸ challenged the conventional image that structural factors and power politics dominated the definition and execution of US trade policy. Subsequently, writers such as Smith (1994)³⁹ and Mercado (1997)⁴⁰ have taken these ideas outside the context of US policy, establishing a more general sense that to understand policy-making one needed to give a specific emphasis to the ideas of policy makers, and to ideas embedded in institutional procedures and practices. In a major study of development in Brazil and Argentina, Sikkink argues that development practice is shaped by the specific ideas held in bureaucratic elites, pressure groups and political power brokers.⁴¹ This is not a particularly 'democratic' image of policy-making processes. But it is important insofar as it explains not only why some ideas come forward as policy while others remain only as ideas; for Sikkink, it also explains why some policies become more effectively implemented and others remain either as legislative proposals or as unenacted laws sleeping on officials' desks. The role of 'ideas embedded in institutions' is a central theme of the so-called 'neo-liberal institutionalist' school, which Goldstein is often seen as having founded. In the Iranian context, this is an attractive conception: as the thesis will suggest (see especially chapters two, six and seven), the Iranian context of an interacting bureaucracy, clergy and pressure group activity is very distinctive, and in order to understand why particular initiatives succeed or fail we need to address the peculiar question of how the government, the state, and those outside the government but with real stakes (and real power) in the state operate. We also need to explore the role of ideas in this context, and the ways in which language works, and how ideas and language play a role in the way

³⁸ Judith Goldstein and Robert O. Keohane, *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change*, London: Cornell University Press, 1993.

³⁹ Michael Smith, *The European Community: Testing the Boundaries of Foreign Economic Policy* cited in Richard Stubbs and Geoffrey R.D. Underhill, *Political Economy and the Changing Global Order*, London: The Macmillan Press Ltd., 1994, pp. 453-468.

⁴⁰ S.A.Mercado, *Trade Policy and Governance in the European Union: A New International Approach*, Ph.D. Thesis, 1997, The Nottingham Trent University.

⁴¹ Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, NY: Cornell University Press, 1991.

that pressure groups, sometimes with very direct financial interests in policy outcomes, intervene in economic policy decisions.

1.3 The distinctiveness of Iranian experience

The chapter has already indicated how important the distinctiveness of Iranian experience is in an understanding of the development processes in the country. We can only make sense of the ways in which privatisation policies have been implemented in the context of the short and long term history of the relationship between the state, the economy and society in Iran. During the last years of the Pahlavi Dynasty, before the revolution of 1979, huge cash inflows, mainly from oil sales, enriched but also distorted the economy. During that time, many opportunities were available to local and foreign investors through the implementation of liberal economic policies, which borrowed heavily on the then current US and international institutional thinking as Mechanistic models of development. The basic infrastructure of the country developed very rapidly. But these efforts proved unsustainable, cutting across both the socio-cultural and the economic capacity of the country to absorb such change. Ultimately in ways I shall describe in chapters three and four, these changes came to threaten the property rights of individuals as well as the stability of the economic system and of the state. It was in this context that the Islamic revolution took place. The revolution's economic model was mainly based on Islamic social welfare thought. This had not been tried (at least, not so systematically) anywhere else in the modern world. While introducing the model, the Islamic elite then in power turned their backs on the demands of the modern world, and the new model failed to attract investment or to produce the expected growth (as discussed in chapters two and four). It thus failed the demands of the great mass of people as well as the requirements of the new national constitution. The author of this thesis was himself a senior manager in a leading Iranian company during this time, one that was mainly run by foreign experts. At the time of the Revolution, the experts were forced to leave the country⁴² and there was a substantial shortage of expertise and entrepreneurial capability, which the domestic elite was unable to replace effectively. One dimension of the continuing economic and social insecurity was that private property rights continued to be uncertain, leading to capital flight as well as a reluctance

⁴² This exodus of trained personnel was driven by self-choice, the ideological views of the Revolution, and the opportunists in the new regime.

to invest or to cooperate with those privatisation schemes which the government then sought to implement (see chapters four, six and seven).

In a broader context, the process of modernisation in Iran can be divided into two phases, one extending from the start of the twentieth century to the overthrow of the Shah, and the other after the Islamic Revolution. Iran entered into the twentieth century with its traditional values, historical name (Persia), a tribal society (similar to present-day Afghanistan), and with a weak economic and institutional background. During 1905 to 1911, as the country was under the informal imperial influence of Britain, a small Westernised segment tried to introduce some institutional changes along Western lines. Their main emphasis was to reform the political system of the country, formulate a constitution, and give significant powers to the *Majlis*.⁴³ It is note-worthy that during the time of Raza Shah (1928-41), an infrastructure was established to provide a basis for the process of socio-economic development. He also initiated various developmental projects and tried to further modernise the country on Western lines⁴⁴.

In 1941, Mohammed Reza Shah succeeded his father and continued the on-going process of modernisation with external help. However in 1953, Prime Minister Mohammed Mussaddiq demanded the nationalisation of the country's oil assets⁴⁵. He strongly believed in democracy and argued that the national development should be based on the self-reliant model rather than an imported *cliché* one⁴⁶. Throughout his career Mussaddiq was implacably opposed to the views of the Pahlavi regime and of the foreign powers such as Britain and Russia⁴⁷. The rise of Western secular thoughts led to a reduction in the power of the religious intellectuals and of nationalistic thoughts, while Mussaddiq's difference with the Shah and with these intellectuals was based solely on his nationalistic model for development. Because of these open differences, Mussaddiq was thrown out of power by national forces but the main orchestration was by international external forces.⁴⁸ In the course of the 1970s, Shah increasingly used the

⁴³ Parliament.

⁴⁴ Ebrahim Razaghi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publication, 1996.

⁴⁵ Ervand Abrahamian, *Khomeinism: Essay on the Islamic Republic*, Berkeley: University of California Press, 1993.

⁴⁶ Hamid Ahmadi, *Coup d'Etat Secrets: Secret Documents of CIA about Over-Throwing the Mussaddiq*, Tehran: Nashr-e Nei, 2000; Text of Madeleine Albright Speech addressed to the American-Iranian Council, on 17th March 2000 as provided by Federal Document Clearing House cited in AOL-17th of March 2000 by the Associated Press; Mohammad Ali Movahed, *Disclosed and Undisclosed: Analysis of Secret Operation of CIA in 1953 Iran Coup*, Tehran: Nashre Karnameh, 2001.

⁴⁷ Donald N. Wilber *Adventures in the Middle East*, Princeton, NJ: Darwin Press, 1986.

⁴⁸ See: Richard W. Coattam, *Nationalism in Iran*, Pittsburgh, PA: University of Pittsburgh Press, 1964; Kermit Roosevelt, *Counter Coup*, New York: McGraw-Hill, 1979; C.M. Woodhouse, *Something Ventured*, London: Granada, 1982.

revenue from the oil industry to further develop his Western model of modernisation. In spite of initiating huge economic development projects, he faced a militant alliance of Islamic clerics with the support of various other factions of the society - many of them not believing in Shah's brand of modernisation. In February 1979, due to this internal opposition, external factors and his weak health, he was overthrown in one of the twentieth century's great revolutions. The Shah's model of development can be seen as a classic example of the Western model of the nation-state. This process led to an extremely rapid rate of urbanisation and social dislocation - ignoring the indigenous socio-cultural values – based on liberal theories of modernisation, geared to a wider global strategy of containment. In Iranian society democracy was not emerging through the natural political process but, rather, by the imposition of the regime itself.

After the Islamic revolution, the Iranian economy underwent a series of radical changes, which in reality was a process of transformation towards revolutionary Islamic ideology. As interpreted by Ayatullah Khomeini, this ideology was bent on creating an Islamic society that was economically egalitarian, puritanical, and self-reliant, and politically independent, non-aligned and anti-imperialist. These ideal objectives were established without realisation of the actual capacity of the country. From the very beginning, this ideological, authoritarian developmental approach was also totally based on the revenue from the oil industry, for which the Shah was criticised. In terms of national revenue, this approach was not different from the previous one; in the context that it was also a Western dependent development approach as the decision to buy or not to buy oil from Iran rested in the hands of major global players.⁴⁹ In ignoring the role of private sector and global organisations in the national economy, this unrealistic self-reliant and self-created situation of over-confidence on the revenue side and over-expectations on the part of the general public introduced another chapter in the country's history. This new situation in the modern era is an example of imposing unrealistic change on the society by ignoring the real beliefs and the capacity of the general masses within the country to absorb these changes, and the realisation of this by the external world.

The above discussion highlights the basic differences in the philosophies underlying the approaches adopted during the pre- and post-Revolution regimes. The Shah's model was mainly a fast and vast process of modernisation that ignored traditional religio-cultural

⁴⁹Personal interview with an individual (D) identified in Appendix 3.

boundaries, in which a rapidly changing strategy was imposed on a nation, which had been stagnant; partly kept isolated by the external powers for their own interest, and partly due to its internal inability to play a role in global activities. The society either did not like, or could not cope with, the speed of modernisation. In addition, while ignoring external forces and without carrying his nationals along with him, the Shah himself set unrealistic objectives.⁵⁰ On the other hand, after the Revolution, the ruling religious elite also set unrealistic targets, but in another form. Although the regime's national economic plan called for substantial growth of output, and its brand of state capitalism was geared to optimum production, uncertainty about issues such as property rights, and government ownership of large enterprises, and a distrust of private sector and foreign investment cut into the potential of the economy to produce sufficient consumer goods. They also ignored the inability of the economy to provide a realistic cradle-to-grave welfare system by underestimating the resistance of Iranian culture to such changes in day-to-day life, which created social unrest.⁵¹

'Interest groups' have a central role in the thesis, and it is important to note that when this term is used, it is used very loosely to cover a number of different kinds of organisations. In Iran, the state-society-economy nexus of power is complex and disorganised, as chapters two and seven explain. Before the 1979 Revolution, a formal constitution vested power in certain key institutions but reserved much influence for the Shah and the court. In practice, a deeply corrupt system evolved around the private avenues to economic power. But at the same time, the possibility of an independent, critical, but democratic civil society emerging was snuffed out by the control of government, court and secret police, which reached far into the economy. Pre-revolutionary Iran paid lip service to the market but was a highly controlled society. Since the Revolution, the constitution has reserved powers in very different ways for the clergy and for groups around key figures in the clergy, and sometimes for their families. Although the system is very different, the role of groups with special interests of their own which potentially undermine both the possibility of democratisation and the possibility of an effective market mechanism is in some respects comparable. The thesis explores this role of special interests throughout. The phrase 'interest group' is thus used with little of the usual connotation of a pluralistic constitutional space or an open civil society as it is in Western political science literature. Instead, it is used to refer to

⁵⁰ Personal interview with an individual (F) identified in Appendix 3.

⁵¹ Personal interview with an individual (D) identified in Appendix 3.

any powerful group with special interests to pursue. Very often, the phrase implies a group with what would in many societies be called a corrupt vested interest, but which in Iran is not 'corrupt' in the technical sense that its activities are sanctioned by legitimate authority and facilitated by the operation of the power structure. But some interest groups are only doing business, which would be lawful in any market economy, and most of them exist to lobby political interests and ministries. They are distinguished by rent-seeking behaviour, by their use of special access to knowledge which their position wins them, and by their crossing of established constitutional boundaries between the political and business worlds and between government and civil society. They may sometimes appear to act corruptly, and some actions may be corrupt; but they are not distinguished by corruption as such. However, it can be claimed that they act as an important drag on the search both for efficiency and for more effective democracy in the country, a point I shall return to in the conclusions of the thesis.

1.4 What is this research about?

The above discussion reflects an overall picture of an authoritarian state system within Iran. Within this system the country made efforts to achieve the objective of development. However, whether it was a pre-revolutionary secular approach or post-revolutionary Islamic ideology, the question may still be asked why these approaches could not yield fruit as desired by the ruling authorities and the general masses? Was it mainly due to the imbalanced economic model in a semi-peripheral infrastructure along with the ambiguity in ownership? Or was it due to the traditional and historical background of the country, which resisted modernity? Was it the low capital formation which hindered the development, or was the lack of an appropriate technological base and poor management skills to be blamed? Was it the neo-colonialism and then the globalisation, which did not allow the country to grow according to the expectations, or was it the mixture of various internal and external factors, which have been the obstacles? It is noteworthy that to overcome the problem of underdevelopment in the country, privatisation was introduced as a part of the structural adjustment plan⁵². But

⁵² 'Structural adjustment' is the name of a set of policies designed by the World Bank and the IMF. These international financial institutions and the General Agreement of Trade and Tariffs (GATT) are known as the Bretton Woods institutions. The stated goals of structural adjustment are: to combat inflation; to re-establish the equilibrium of the balance of payments of debtor countries; and to prepare the ground for relaunching economic growth, 'sustained' growth is seen as the primary, long-term objective of

the process of privatisation is not an indigenously evolved model in 'third-world' countries; rather it is an imported strategy imposed on developing countries irrespective of their historico-cultural backgrounds and other barriers. Therefore, the success of privatisation in these countries is still in question. This research is an attempt to analyse various dimensions of privatisation in Iran with some specific objectives as mentioned in the following paragraphs.

Privatisation of government-owned equity in nationalised industries or other commercial enterprises to private investors, with or without the loss of government control of the organisation,⁵³ are crucial issues and an influential factor in the Iranian economy. Both supporters and opponents of this process see it as a critical mechanism of change. The primary purpose of this research as a whole is to look at arguments and policies about privatisation in the Iranian economy. This research focuses on the theoretical and practical aspects of privatisation in Iran keeping in view the pre-revolution economic model and the place of private ownership in the country's economic system, with particular reference to the huge cash inflow from oil sales during the last decade of the Pahlavi Regime. During that time many opportunities were provided to local and foreign investors with the implementation of liberal economic policies and development of the basic infrastructure for industrialisation. However, in spite of all these efforts, the indigenous culture and socio-economic system of the country could not absorb the quick changes brought about by the imported Western model, which created imbalances in the socio-economic framework of the country. Thus, in spite of overall economic progress, this fast process of modernisation caused inequitable distribution of wealth and benefits between various segments of the society (i.e., it neglected clergy who were widely popular among the masses). This imbalance created an environment of revenge during the post-Revolution era, which ultimately threatened proprietary rights at micro and macro levels. Resultantly, this situation caused social unrest and instability in the country and brought an Islamic revolution. The post-revolution economic model, based mainly on Islamic social welfare thought, had not been tried elsewhere in the modern world. While introducing this model the

adjustment programmes. The Bank and the Fund identify development with sustained economic growth which is to be promoted by the market with no interference from the state, its engine being the private sector. This concept can be summed up by the term 'market centred, profit-oriented' development See: Marcos Arruda, 'A Creative Approach to Structural Adjustment: Towards a people-Centred Development' in John Cavanagh, Daphne Wysham and Marcos Arruda, *Beyond Bretton Woods: Alternative to the Global Economic Order*, London: Pluto Press, 1997, pp. 132-144.

⁵³ Penguin Dictionary of Economics, 1983, cited in Bryan Hurl, *Privatisation and the Public Sector*, Oxford: Heinemann Educational Publishers, 1995, p. 1.

ruling school of Islamic elite itself ignored the requirements of the modern age. Therefore, this model could not fulfil the expectations of the masses as well as the objectives of the Constitution of the Islamic Republic.

In this new atmosphere various revolutionary steps were taken and many private businesses and industries were confiscated in the belief that their owners had accumulated wealth against Islamic principles. In that unstable environment, foreign investors and many local businessmen and managers left the country. In this situation the government, in its attempt to control the industrial base of the country by confiscation or supervision of private businesses and industries, in effect was compelled to begin the process of nationalisation. However, after a trial period it became apparent that this did not benefit the country; therefore, they decided to initiate de-nationalisation.

Under the Iranian constitution, private property is recognised and sanctioned on Islamic guidelines, but subject to a number of obligations. The major obstacle in this regard is the difficulty of reconciling free market principles in the modern age. Another major problem in this area is the interpretation of the Islamic teachings with regard to the current process of globalisation. Possibly, this is one of the main reasons, why, after two decades of revolution, a common ground with regard to the economic principles, which directly or indirectly affect the right of ownership and privatisation process, has still not been found.

During the last decade the main focus of privatisation has centred on those light industries and the services sector, which were directly under the control of government. There has been little effort to de-nationalise the business entities owned and controlled by the revolutionary institutions, which were not obliged to report to the government and were exempted from the payment of taxes and government auditing. In addition to analysing the factors mentioned above, this thesis will also concentrate on the distribution of utilities, heavy and light industries, and the offering of shares of petrochemicals and electrical industries to foreign investors.

In the context of the objectives of the study, Chapter Two attempts to analyse various theories of development in relation to the place of ownership and privatisation. Chapter Three presents an overview of the historical background of the country, while Chapter

Four focuses on the post-Revolution state of the economy. Privatisation originated first in the United Kingdom, followed by various other industrial countries. Due to global acceptance of privatisation, this twentieth century phenomenon was not only recommended by the major global financial institutions, such as the World Bank and the IMF, but in several instances it was made a prerequisite for 'third-world' countries to receive international aid and 'third-world' financing. Chapter Five focuses on the UK's experience of privatisation and extends it to an analysis of the situation of privatisation in Egypt and Pakistan, two Muslim countries situated in the same region and sharing common values. Chapter Six attempts to analyse the procedural and legal channels, and the state of disposal of shares of government-owned enterprises to the private sector. Apart from the analysis based on published sources, a special effort was made by the researcher to analyse the latest and actual situation in the field of privatisation in Iran. Thus Chapter Seven is based on an in-depth field survey, which was conducted to discover the facts that were never published elsewhere nor were on the records. The final chapter concludes the outcome of the study and presents some recommendations for the improvement of the privatisation process in Iran so that it may be conducted efficiently, and the spectrum of the benefit of this programme if it could be widened.

1.5 Epistemology, Methodology and Methods

This thesis is an empirical study. It observes and reports on a 'real world'. It does not assume that there is nothing we can talk about except 'text' or our own interpretations. But it is not empiricist, in the sense that it does not treat as given what we learn from sense experience. The empiricist tradition, which has its roots in the European seventeenth and eighteenth century work of Locke, Newton and their successors, argues that we can have direct knowledge of the 'real world' through our sense experience, on the basis of which we can observe certain regular patterns. A wide variety of positions reject this argument as simplistic⁵⁴. They reject the claim that a search for invariance can enable us to deduce causal laws. Defenders of the search for causal law-like propositions continue to think that we can find causation even if we are dealing with

⁵⁴ A. Tudor, *Beyond Empiricism: Philosophy of Science in Sociology*, London: Routledge and Kegan Paul, 1982; A. Giddens, *New Rules of Sociological Method: A Positive Critique of Interpretive*, Cambridge: Polity Press, 1993.

unique historical events, at least according to Reynolds⁵⁵. But this study does not seek to follow the empiricist's strong programme of causal law finding. It accepts at least some of the available criticisms of empiricism, while holding on to the idea that knowledge of the social world is important and worthwhile, as well as possible⁵⁶. It recognises that there are reasons why the researcher has to be cautious about what one can learn from sense experience. Sense experience is a starting point for empirical work, but we have to interpret it with care. And this might be justified as closer to 'common sense' as Tudor suggests⁵⁷, than simply to accept the apparent 'given' of sense experience with critical reflection. As David Sanders has suggested, much research that looks at 'real world' concerns tends towards what he calls 'mindless empiricism'⁵⁸; but his argument is less a rejection of empiricism as such than a call for what we could call 'mindful empiricism'. The thesis is grounded in such a critical approach, which shapes its whole argument. As Poku and Pettiford, already cited above, argue, in looking at third world politics, we need to recognise the importance of complexity and diversity⁵⁹. But we also need a framework for study that enables us to make sense of that complexity and yet enables us to initiate the conversation which research involves⁶⁰.

The critical approach chosen here at the same time influences the choice of the questions, which I shall ask, and provides an underpinning for the research as a whole. It is composed of three main elements. It is reflexive; it recognises the provisional and dialogic nature of all argument, including its own; and it is grounded in particular explicit values. These values are ones the author holds and which have led him to the research in the first place. In this sense, the thesis is 'critical'. But it is not rooted in post-Marxist critical theory. Indeed, it distances itself from post-Marxist or post-structural theory, firstly and mainly because it is deliberately more empirical and in Western terms more liberal than realist or post-Marxist or structuralist, even though it draws in some ways on those traditions. Secondly, it makes a point of exploring the distinctive role of ideas in development processes within a value framework, which many critical theorists would not accept, given the secular tendency of most post-

⁵⁵ Charles Reynolds, *Theory and Explanation in International Relation Politics*, London: Roverston, 1973.

⁵⁶ A. Tudor, *op. cit.*; A. Giddens, *op. cit.*

⁵⁷ A. Tudor, *op. cit.*

⁵⁸ David Sanders, 'Behavioural Analysis', in D. Marsh and G. Stoker, *Theory and Methods in Political Science*, Basingstoke: Macmillan, 1995, p. 64-65.

⁵⁹ Nana Poku and Lloyd Pettiford, 'A Call for Complexity in Third World Research: Challenging the False God of Theoretical Parsimony', in *Redefining the Third World*, Basingstoke: St. Martin's Press, 1998.

⁶⁰ Steiner Kvale, *Interviews: An Introduction to Qualitative Research*, London: Sage, 1996, pp. 19-22.

Marxian Western writings. And thirdly, it accepts much of the nature of the global capitalist system, although not without criticising elements of it at the same time. It does not 'accept' that system altogether willingly, but it recognises the logic of the argument in Friedman⁶¹ of the compelling power of global capitalism and of globalisation. But the thesis is primarily rooted in values derived from the subject of the study itself, Iranian society, and it gets its impetus above all from the commitment of its author to use knowledge critically so as to find ways in which that society can be improved realistically but substantially.

This broad approach is a conventional one. It draws on established conventions of knowledge creation, which are widely available in recent development literature, as writers such as Pieterse show⁶². It makes sense in terms of the conventions it uses. The thesis makes few claims to methodological or epistemological originality. These conventions are set out, for example, in *On Writing Qualitative Research*⁶³. Ely et al see the use of theory in qualitative research as the use of an 'open interpretive framework'⁶⁴ which serves to organise the material studied, define key questions asked, and define what counts as consistency in a piece of research. This in turn provides the guidelines for the 'conversation' of research⁶⁵ and, they argue, provides a basis for reflexivity⁶⁶. But it is grounded in a critical reading of existing literature on development, and especially in existing literature on development in Iran which is discussed elsewhere in this chapter as well as in chapters two and three. Critical reading, in this kind of qualitative research, is therefore more than a 'literature review' since it provides the epistemic and conversational starting points. Here, a critical reading of Islamic literature is at least distinctive, and, I would argue, provides a worthwhile and coherent basis for the argument here. This is important, since what should link the epistemology, methodology and methods in any thesis is not any one particular approach; instead, a thesis is to be judged on the coherence and consistency of the approach it takes⁶⁷.

⁶¹ T. Friedman, *The Lexus and the Olive Tree*, New York: Harper Collins, 1999.

⁶² Jan Nederveen Pieterse, *op. cit.*

⁶³ M. Ely, R. Vinz, M. Downing and M. Anzul, *On Writing Qualitative Research: Living by Words*, London: Falmer Press, 1997.

⁶⁴ *Ibid.*, p. 232.

⁶⁵ *Ibid.*, p. 274.

⁶⁶ *Ibid.*, p. 329-372.

⁶⁷ G. Stoker, 'Introduction', in D. Marsh and G. Stoker, *Theory and Methods in Political Science*, Basingstoke, Macmillan, 1995, pp. 1-20; N.G. King, R.O. Keohane and S. Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research*, Princeton NJ: Princeton University Press, 1994, pp. 44-46; M. Hollis, *op cit.*, pp. 244-247; A. Giddens, *Passim*; M. Ely et al, pp. 188.

This study is also grounded in a conventional social science literature which encourages the development of 'cases of one'; of case studies which promote a single case rather than a comparative study in which it is held that in order to make a valid inference a series of relevant comparisons must be made. One main source for this is King, Keohane and Verba's *Designing Social Inquiry*, a research methods monograph the main aim of which is to bring to qualitative research the same standard of methodological rigour as one expects to find in more scientific research⁶⁸. They argue that it is possible to outline the conventional rules, which must govern single case study research⁶⁹ and suggest that a causal account of a single case can construct an implicit comparison in order to make causal judgments⁷⁰. Thus case studies of single cases can aim to be judged as no less rigorous than more explicitly comparative studies. In this thesis, a hybrid approach is adopted, since there are elements of comparative study (where Iran is compared with other countries that have similar social and cultural bases and which have experienced privatisation), but, as already pointed out, the major part of the study is of a single case.

The thesis has a methodological orientation which I have summarised by saying that it is empirical but not empiricist; it is reflexive, it understands knowledge as provisional and dialogic but capable of having a real significance in a 'real world'. This section now turns to explain this language more carefully.

The thesis is reflexive. That is to say that it aims to be self-conscious of its own motives and self-critical of the positions its author takes. 'Reflexivity'⁷¹ might involve a more complicated set of arguments about knowledge construction, such as those referred to in Farrands⁷² derived from the writing of Bourdieu and others. As Habermas⁷³ among others shows in social theory, and as post-structuralist writers in development theory also argue⁷⁴, reflexivity is a necessary condition for critical research. Giddens provides

⁶⁸ N.G. King, R.O Keohane and S. Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research*, Princeton: Princeton University Press, 1994, p. 3-4.

⁶⁹ *Ibid.*, pp. 139-149.

⁷⁰ *Ibid.*, p. 137.

⁷¹ Helen Callaway's defines reflexivity as:..as opening the way to a more radical consciousness of self in facing the political dimensions of fieldwork and constructing knowledge. Other factors intersecting with gender-such as nationality, race, ethnicity, class, and age-also affect the anthropologist's field interactions and textual strategies. Reflexivity becomes a continuing mode of self-analysis and political awareness. See: Helen Callaway's, cited in Rosanna Hertz (ed.), 'Introduction: Reflexivity and Voice', in Rosanna Hertz (ed.), *Reflexivity and Voice*, London: SAGE, 1997, p. viii.

⁷² Christopher Farrands, *op. cit.*

⁷³ Jurgeon Habermas; translated by Thomas McCarthy, 'Reason and the Rationalisation of Society', *The Theory of Communicative Action*, Vol. I, 1984, pp. 112-125.

⁷⁴ Jan Nederveen Pieterse, *op. cit.*

the main argument for reflexive writing, although there are many comparable studies⁷⁵. This reflexivity involves three elements: a self-awareness of one's own position and its implications and relationship to the writing of others in the field; an awareness of the values chosen and their implicit and explicit impact on the research, as far as that is possible; and an awareness of the possibility that in doing research, it is possible to change the subject studied, or to lead to responses which may be different from the responses that might otherwise be given. While one origin of this idea is the possibility in nuclear physics research that merely by observing a particle one can (or must) change its nature, this is most obviously the case in the kind of research done here where interviewees might change how they respond to questions because of the interview situation or the (perceived) power or role of the interviewer. Here, ideas borrowed from ethnographic research have been brought to bear, in a pragmatic way, to help the researcher make sense of responses to questions, and to help him or her to situate themselves in the context of the work they do⁷⁶. The main point of this is that if the efforts at the creation of 'true knowledge' according to the positivist or empiricist view is impossible, then reflexivity provides a test of the process of knowledge building which might enable us to make what we think we have discovered checkable. But the standard of knowledge building is less certain, or less arrogant, than positivist thinking claims for it.

That is to say that in this kind of non-empiricist but empirical study, knowledge is always provisional, not just because we might happen to think something different tomorrow, but because it has a distinctively provisional status (i.e. ontologically, in what it fundamentally is). To say that knowledge is provisional may be said with differing degrees of force: Popper's idea of provisional knowledge in *Conjectures and Refutations*⁷⁷ is not the same as Carr's in *What Is History?*⁷⁸, since the former is closer to positivism and the latter closer to a view that sees knowledge as constructed⁷⁹. But these authors, and others, recognise that the knowledge-building process in social science cannot aim at a form of certainty; rather, it is precisely its provisional nature that makes it as true as it may be. This creates a certain kind of anxiety in fieldwork or

⁷⁵ A. Giddens, *New Rules*; *op. cit.* See also: M. Alvesson and K. Skoldberg, *Reflexive Methodology: New Vistas for Qualitative Research*, London: Sage, 2000; J. Dunn, *The Cunning of Unreason: Making Sense of Politics*, HarperCollins, 2000; F. Steier, *Research and Reflexivity*, London: Sage, 1991; R. Hertz (ed.), *Reflexivity and Voice*, London: Sage, 1997.

⁷⁶ Alvesson and Skoldberg, *op. cit.*

⁷⁷ Popper, Karl R., *Conjectures and Refutations: The Growth of Scientific Knowledge*, London: Routledge and Kegan Paul, 1972.

⁷⁸ E.H. Carr, *What is History? The George Macaulay Trevelyan*, (lectures delivered in the University of Cambridge, January-March 1961), Harmondsworth: Penguin 1964.

⁷⁹ Popper, Karl R., *op. cit.*

research, as Michalowski⁸⁰ observes, and this author conducted field research often with many doubts as to whether a convincing picture could be arrived at from the many diverse fragments of evidence. But the starting point for dealing with this anxiety is to recognise its source in the uncertainty of knowledge claims as well as the complexity of the stories one is told. This uncertainty in the face of the 'library of stories' open to the researcher has shaped the writing of the thesis as it has emerged from the beginning so that even very shortly before submission it was not precisely clear what conclusions would take shape, even though their broad lines had been apparent for some time⁸¹.

This form of knowledge creation is also dialogic. This is to say that, as with reflexivity and provisionality, knowledge claims receive what Hollis and Smith call their intellectual warrant from taking part in a continuing dialogue amongst the scholars involved in this question⁸². Habermas has developed the idea of the dialogic nature of knowledge, and it parallels the idea of knowledge building as an ongoing conversation⁸³. The dialogue takes the role of acting as a check on the claims made. It is intended to undermine the idea of the 'knowledge producer' as especially privileged or above criticism. It also recognises the common problem which researchers share in getting at the truth. This idea of a dialogue on knowledge production is not uniquely European, and can be found equally in (some) Islamic writing, where the notion of a conversation through which truths emerge is equally important⁸⁴. The idea that knowledge is contested and that the dialogic form of the contest helps us to participate in the first place and then to be less unsure of the outcome while leaving all knowledge claims as provisional is well established in the existing literature⁸⁵. Among other things, what it also implies is the importance of the context of the field of study and the importance of the history of both language and practices as a tool for making sense of more recent events. In this spirit, the thesis devotes some time to looking at the background of the ways in which privatisation is discussed and the context in which particular arguments have been made. In Iran, this is especially important because the

⁸⁰ R. Michalowski, 'Ethnography and Anxiety: Field Work and Reflexivity in the Vortex of Cuban-American Relations', in G. McKenzie, J. Powell, and R. Usher (eds.), *Understanding Research: Perspectives on Methodology and Practice*, London: Falmer Press, 1997, pp. 45-69.

⁸¹ G. McKenzie, 'Enigma Variations: Uncertainty in Social and Economic Research' in G. McKenzie, J. Powell, and R. Usher (eds.), *op. cit.*, pp. 221-32.

⁸² M. Hollis and S. Smith, *op. cit.*

⁸³ *Ibid.*, p. 309.

⁸⁴ Especially in the work of the classical scholars Ar-Razi and Al-Farabi, but also in Ibn Kaldun's reflections on history: see K. Versteegh (ed.), 'Landmarks in Linguistic Thoughts (Vol. 3), *The Arab Linguistic Tradition*, London: Routledge, 1997, pp. 82-84.

⁸⁵ S. Seidman, *Contested Knowledge: Social Theory in the Post-modern Era*, Oxford: Blackwell, 1994; G. Miller and R. Dingwall, *Context and Method in Qualitative Research*, London: SAGE, 1997.

contexts are complex and not always obvious to the casual observer. So the researcher has spent some time on the context, the evolution of meanings, and the long running historical development of the Iranian economy; this not only provides background but, much more than background, provides a basis for reconstructing and understanding recent and possible future policy developments in a way that grasps their meanings in Iran and to the Iranian people, recognising the importance of their idea of the context and the language they use in discussing it.

The specific methods, which the thesis follows, derive from, and are embedded in, the epistemology and the methodological orientations outlined above. Information is derived from publicly available sources as well as from interviews, private or primary documents, and other sources. At any stage, a number of different interpretations are possible. It is through reflecting on the evidence as it emerges and the possible patterns it suggests that one arrives at a sense of what is the most convincing explanation of the evidence explored. To be aware of the possibility of different interpretations is the start of a struggle to pin down the 'best fit' interpretation available. Here 'plausibility' is a kind of check on reality, in so far as the researcher can ask simply, 'is this convincing ... i.e. plausible'. But 'plausibility' is also dangerous, in so far as someone can say something is 'plausible' which I know not to be true. To stand as an argument in the thesis, the researcher has to look first of all for plausibility, but then to reject something if it only looks plausible. Here, the test is a stronger one, a test of how evidence fits into consistent and coherent patterns. The object of the researcher is not, as has already been said, to find definitive causal patterns. But, as Rosenau has pointed out⁸⁶, any research project in international business, international relations or international political economy is a search for patterns. Research of this kind is a sense making activity; drawing on the conventions of particular kinds of research, which operate at the particular time the research, is done. Research results are therefore provisional not only for the theoretical reasons noted in the previous paragraphs but also because the conventions change over time and as a result of changing circumstances and interests. The information gathered in this kind of research does not mean very much as a set of separate 'facts'; it makes sense, or acquires meaning, when it is argued in a pattern which can be tested and explained using common sense and practical experience as well as a continuing attempt to achieve consistency and coherence in the interpretation given. Thus coherence and consistency are the nearest and surest guides to knowledge, and the

⁸⁶ J. N. Rosenau, *In Search of Global Patterns – Global Voices: Dialogue in International Relations*, Boulder: Westview Press, 1993.

business of evidence gathering itself can recognise this. There is no attempt to argue that conclusions are ultimately true; instead there is a struggle to try to check them continuously and to ensure that they are not false or incoherent⁸⁷.

The same procedures and standards which apply to interview evidence, apply to published and unpublished documents. That is to say that any source needs to be treated critically; every source needs to be read in a context and to be allowed to speak for itself while the process of reading it is a 'sense making' exercise. The author has been privileged to have had access to unpublished, often confidential material. How these were produced, for what purpose, and for what readership is clearly important, and the thesis discusses the roles of elite groups and pressure groups inside and around government as it considers particular pieces of evidence, especially in chapters two, six and seven. The main sources for the thesis include these papers, some of which are public but all of which have a specific political status (depending on when they were produced and who by). In general, as King *et al.* point out in their study, knowledge production is not so much to be judged by the quality of specific bits of evidence used, although of course that matters, as by the quality of the deductive chains of reasoning which are used to relate evidence to conclusions and the stories which are read through those chains of reasoning⁸⁸. This is also the standard by which this thesis can be assessed.

This approach grounds a piece of personal research in several senses. Of course, all research is the researcher's own work, and no-one does a PhD without personal commitment given the work involved. But the writing is also personal in the sense that it marks a voyage of personal discovery around a field which the author has worked within for many years in business and administration, which he thinks he knows well, and yet which the research exercise has made 'foreign' to him in some ways as he has re-discovered it through the eyes of a researcher rather than a practitioner⁸⁹. Personal writing has many forms, and this is not to say that this particular thesis is autobiographical. However, it does also reflect a personal concern for its subject, which

⁸⁷ On 'Sense-making', see: J. Kirk and M. Miller, *Reliability and Validity in Qualitative Research*, London: SAGE, 1986; M. Hammersley, *Making Sense of Data*, Milton Keynes: Open University Press, 1979 (especially written as course material for DE 304, Research Methods in Education and Social Sciences); K. E. Wieck, *Making Sense of the Organization*, Oxford: Blackwell, 2001.

⁸⁸ N.G. King, R.O Keohane and S. Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research*, Princeton NJ: Princeton University Press, 1994.

⁸⁹ M. J. DeVault, 'Personal Writing in Social Science: Issues of Production and Interpretation', in R. Hertz (ed.), *Reflexivity and Voice*, London: Sage, 1997, pp. 216-228.

emerges at many points, and although the analysis and the results should be checkable in a formal sense, the choices, which have framed the work, come from personal convictions and personal values. I shall return to the need to maintain a balance between personal writing and 'check ability' in the final discussion. I shall follow the convention for this kind of research in maintaining that there is no problem with the value of this kind of research so long as it is not seen as having the same status as positivistic, causal-law inducing explanation⁹⁰

This section has outlined the conventions of an epistemology which allows empirical work but which respects some of the main criticisms of empiricism. It also outlines the basis for personal choices about how and why to approach this particular piece of work. It has demonstrated the conventions within which the thesis operates, and argued that the knowledge the thesis hopes to produce can be at the same time real and significant but marked by the caution which provisional, reflexive, dialogic knowledge contributes. If the reader disagrees, she or he is invited to join the dialogue.

1.6 The claim to originality

The thesis advances a number of arguments, and explores questions of policy as well as more analytical or theory-based issues. Throughout the discussion that follows, there is a central claim to originality and a number of secondary but important claims which support the overall claim. The claims to originality can be summarised in the following terms.

- i) The thesis describes and explains the character of privatisation policy as an aspect of development in Iran; it does so by grounding the experience of privatisation in the history of ideas (Chapter Two) and experience (Chapters Three and Four) in the Iranian economy, through a comparison with privatisation in other countries (Chapter Five) and through a detailed analysis of the recent past (Chapter Six) and present prospects (Chapter Seven) for privatisation. It makes this analysis using information, which the author has been able to collect, which has hitherto been unavailable to general readers or academics in Iran as well as in the West and the

⁹⁰ G. McKenzie, *op. cit.*; A. Giddens, *op. cit.*

- UK. It uses published and unpublished sources, including confidential material to which the author has had unique access. In doing so, it necessarily makes judgements about the quality of that evidence, and reflects on the author's own role in the privatisation process.
- ii) The thesis explores the role of ideas in development, taking up the literature on ideas and foreign economic policy developed by Goldstein, Milner and others in the U.S., and on ideas in development in 1993 and 1996⁹¹. It argues that we cannot understand development processes in countries like Iran using generalised comparative theories, whether they are broadly liberal or broadly structuralist, and although it does not suggest that no lessons can be drawn from one country's experience of development, it holds that lessons drawn need to be drawn cautiously and with attention to the deep cultural differences between societies. In this case, the role of Islam is seen as a precious resource for development, so long as the character of Islamic economic thinking (and the diversity of that thought) is properly assessed.
- iii) The thesis thus follows recent writers such as Manor *et al*⁹² in arguing that development processes are diverse; there are many paths to development just as there are many possible obstacles. In making this case, again, the thesis emphasises the role of culture as well as ideas in the understanding of development trajectories and in mapping more potentially successful development paths.
- iv) The thesis draws extensively on both Islamic and Western economic and social thinking in the ways it charts possible development paths, and thus implies a possible synthesis in which Islamic ideas play a substantial part and retain their own integrity. This makes sense to the author in terms of his own values and beliefs; but it also makes sense in terms of the history and experience of development processes in Iran, which the thesis charts.
- v) The thesis explains the development process in terms of an 'historical sociology' model which uses ideas of the distinctive character of the long term state-society-economy model in Iran and of the role of ideas in that model. This model is

⁹¹ Judith Goldstein and Robert Owen, Keohane (eds.), *Ideas and Foreign Policy, Beliefs, Institutions and Political Change*, Ithaca NY: Cornell University Press, 1993; Helen V. Milner and Robert Owen Keohane (eds.), *Internationalisation and Domestic Politics*, Cambridge: Cambridge University Press, 1996.

⁹² James Manor (ed.), *op. cit.*

explained in terms of ideas drawn from recent writing by Stephen Hobden⁹³ in particular, although the work of Abbott and Palan⁹⁴ and others also contributes to it in important respects.

- vi) The thesis interrogates the capacity of the Iranian economy to develop. It suggests that the ownership system is key to the possible future development of that economy, and the specific history of the ownership system has underpinned an instability in property patterns, which works against a stability of expectations of contracts and economic performance. In turn, these unstable expectations make it harder for investment to take place, undermine the possibility of clear patterns of ownership and property rights, and thus affect contracts. Without a reform of ownership patterns so that people in Iran can have a reasonable expectation that legally held property rights will be guaranteed, privatisation is much less likely to be successful. And investors and potential investors need to have a sense that property rights will not be changed or redefined by legal action, which renders their risk-taking worthless. This leads to the argument that legitimacy of property rights is central to the privatisation process, and in a situation where political authority is divided and where the conferring of legitimacy is itself disputed, governance structures fail to create the environment in which privatisation can take place effectively. So the prospects for privatisation depend on the structures of legitimacy and authority in post-revolutionary Iran.

The thesis is original also in many of the sources, which it draws on. It is worth emphasising here that these sources are original in that they have not been in work published in Iran or in any work published outside. Among the main sources used are key primary sources, which include:

- i) Open discussions: In Iran discussions were made with the professionals, politicians, academicians, and managers engaged in the privatisation process, and those who were involved in the day-to-day decision-making process of the country. Discussions were also held with various religious authorities, the presidential office, general workers and people belonging to different sections of the community.

⁹³ Stephen Hobden, *Theorising the International System: Perspectives from Historical Sociology*, in *Review of International Studies*, Vol. 25, Number 2, Cambridge: Cambridge University Press, April 1999

⁹⁴ Ronen Palan and Jason Abbot with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999.

In Britain, several meetings were conducted with British, Egyptian and Pakistani experts. These included: Lord Lamont (ex-Chancellor of the Exchequer); officials in HM Treasury; DTI; officials from Egyptian, Pakistani and Iranian foreign missions in the UK; and Iranian business and religious elite based in this country.

In addition to personal meetings, contacts via e-mail, fax and telephone were also made with several other people based in the UK, United States, Canada, Australia, Germany, Egypt, Pakistan and Iran. Some of these people provided their useful opinion and comments with regard to their own present study.

An index of interviews and interviewees is included in an appendix, which for reasons of confidentiality will be available to examiners, but not when the thesis is more widely circulated; examiners are requested to respect this confidentiality.

- ii) With regard to the privatisation process in Iran, interviews were also conducted with 106 professionals, academicis, politicians and people from regulatory bodies. These interviews were carried out through questionnaires specifically developed for this purpose. A copy of the questionnaire is included as an appendix.
- iii) Another, and possibly the most important, method which was used was some direct and indirect personal contacts to obtain some of the missing information which was not available from any other source. In fact, that was the inside and real information and people who provided such information, purely on personal and discreet contact, specifically asked the researcher not to mention their names at any level. This information is used, but its quality and reliability will also be carefully assessed as the account of the research unfolds.
- iv) Various unpublished reports of government and non-governmental organisations were also used as a secondary source of information. These included the internal financial reports of private business organisations; companies bought by different pressure groups, reports from religious authorities as well as some reports from some security agencies.

Secondary sources consist of information collected from published sources - which include books, research journals, magazines, newspapers, official government

parliament reports of Iran, reports of other organisations, and company reports – and electronic sources, including data banks of Plan and Budget Organisation in Iran, Ministry of Industry in Iran and City Business Library, London, and various websites of UK-based and international agencies, e.g., Statistical Centre, HM Treasury, Privatisation International, IMF and United Nations, and other non-governmental organisations.

1.7 Analysis and Presentation

Due to the particular nature of this study, emphasis was laid on both qualitative and quantitative analysis. Here, both primary and secondary approaches were applied to arrive at specific conclusions. In the case of secondary sources, an effort was made to examine the nature of analysis of other researchers, their cross comparison and the background of their findings. With regard to the primary analysis, the information was analysed to draw specific conclusion. In both cases, i.e., primary and secondary sources, some of the quantitative information were analysed by computer, and tables and diagrams were prepared to present the outcome of this analysis. To improve the quality and originality of this research, a special effort was made to obtain 'inside information'. It needs to be emphasised that this information was of particular importance as on the one hand it was completely novel while on the other it also acted as a bridge between the information obtained from other sources.

It is obvious from the above discussion that this analysis was not only based on facts and figures or the economic indicators, but an analysis of socio-religious aspects was also made in conjunction with the quantitative analysis. This multi-dimensional type of approach helped to present the picture in a broader context. The strategy adopted for this study helped to determine the link between problems and prospects.

1.8 Basic Beliefs and Assumptions

This methodology was developed on the basis of the particular situation of Iran, over-viewing its pre- and post-Revolution situation of economic and religio-political aspects, their internal links with various domestic variables, and the impact of the global environment on the country's developmental process. Even the modern history of Iran saw various drastic changes in the context of the socio-political life of the people. In this respect this country has a unique position in the region where religion and modernism contend for dominance. This situation created an environment of complexity and ambiguity, particularly with regard to questions of ownership and private entrepreneurship. Thus, it can be assumed that any study of the country's socio-economic aspects would remain incomplete without discussing the religio-cultural aspects of the nation. It is for this reason that the study of the privatisation process in Iran needs to be carried out in relation to a number of issues - the state of ownership in the country, peoples' beliefs and culture which are mainly associated with religion, the dominant position of the elite in the vague democratic environment, and the role of foreign elements in the domestic decision-making process.

The concluding chapter will explore the limitations of the work done here more fully. But it is important to remark on some of the key limitations from the outset. The preparation of this research has been hampered by a lack of adequate information. Data on many aspects of the Iranian economy has been relatively scarce, fragmentary, and often doubtful in nature. Although the government has recently taken a somewhat more relaxed attitude towards the publication and dissemination of economic data, sufficient transparency has not yet been achieved. An accurate portrayal of the economy was also made difficult by the inconsistency of available official data. Scattered information made available by state agencies was often unverifiable from other sources and was packed with discrepancies. Figures on many aspects of the economy, such as employment and unemployment, national debt, foreign exchange reserves, and the financial status of some organisations, were not regularly published. Within published data, sizeable lack of harmony in certain items makes it difficult to detect real trends in the economy, or to analyse the nature of the government's involvement and objectives. Furthermore, data from those who report to the Spiritual Leader was not reflected in the national statistics. In addition to the shortcomings of official data - some of which Iran shares with other countries - there was the matter of divergence between official and

private estimates. In the case of certain sensitive data such as the figures of the national unemployment rate, inflation, and debt, unofficial figures differed substantially. Frequent changes of organisation and of individuals responsible affected the quality of data handling and classification. There was another problem, possibly it may be peculiar to Iran that even some published data is not allowed to be utilised for research or other purposes. The ruling religious authorities imposed this ban on the basis of so called 'national security'.⁹⁵ In several cases it was difficult to differentiate between prohibited and unprohibited information.⁹⁶

In addition to these general problems there were several other difficulties faced during this research. The most problematic of these issues related to the reliability and the question of access to what was seen as sensitive information. For example, in certain instances the time period and classification of information differed from organisation to organisation, a fact exacerbated by their unreliability. In this type of situation, certain figures were not adjusted in accordance with inflation or other economic indicators. Furthermore, access to much of the information required proved difficult at times due to what was deemed its sensitive nature and the fear of reprisal felt by officials if they were to make certain facts and figures available. This was a situation that proved very frustrating in relation to the study of Egypt and Pakistan where, due to an atmosphere of mistrust, a lack of understanding and a lack of willingness to co-operate, most research sources were derived through personal contacts and the Economic Intelligence Unit in London. In the case of Iran, the problems centred on the lack of up-to-date information and reports. This entailed gathering various facts and figures from the different governments departments and combining them to create accurate reports, statistics and future projections. While the unwillingness to speak openly or release government figures and private companies financial figures were evident here also, the researcher's own personal experience in the privatisation process in the country meant that he had an established network of contacts encompassing all aspects of the economic spectrum from academics to a high ranking government officials. The final problem experienced was in relation to the questionnaires, which took a long time to gather required information due to the length of time it took for some individuals to reply. With this detailed study based both on both primary and secondary sources, it is hoped that it will

⁹⁵ *The Daily Ettela'at International*, 2 November 2000 - Warning by head of Islamic Republic of Iran's judiciary regarding the release of government information.

⁹⁶ A person who uses prohibited information may be liable for heavy fine, imprisonment and even lashes. See Ali Mohajeri, *The Special Crimes of Administrations Staff*, Tehran: Keyhan Institute, 2000, p. 65.

provide a complete and comprehensive framework for a future detailed planning for the implementation of workable privatisation program in Iran.

1.9 States, Societies, Social Power and Long Term Transformation

To understand the development process, drawing on the epistemology outlined above and the conventions of critical empirical enquiry associated with them, the study will use a broad historical sociological approach to context the explanations given. That is to say that the kinds of causes which matter, as already indicated, will be those associated with the long term development of the relationship between the state, the society and the economic structure of Iran, within which particular ideas are embedded. This section explains that 'state-society-economy' approach more fully.

One starting point for this discussion is what is usually called the 'Weberian model' of economic development, in which the state plays an important part as the manager or regulator of development. Although this model looks back to Weber's late nineteenth century work on state and economy and the relationship between change in economic patterns, especially the division of labour, and the emerging class system, its more recent manifestation starts with the work by Theda Skocpol *et al.*⁹⁷ on 'bringing the state back in' to the analysis of political change emphasises the importance of re-thinking the historical role of our understanding of comparative politics. The book has not only been influential in shaping interpretations of particular visions. Its importance, and its relevance here, is also methodological. For in combining a comparative approach to a long-term sense of the dynamic relations between state and society in their internal and external contexts, the book opened the door to more critical approaches to development questions. One issue this body of work stresses is the role of culture/politics relations in grounding our understanding of the relationship of ideas and institutions. This suggests possible questions for the researcher, which I shall follow up in the thesis as a whole.

⁹⁷ Theda Skocpol, 'Bringing the State Back' in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.) 'Strategies of Analysis in Current Research', in *Bringing the State Back*, New York: Cambridge University Press, 1985, p. 16.

According to Stephen Hobden⁹⁸, the past fifteen years has seen an increase in interest by International Relations theorists in the work of historical sociologists. This is primarily because of the renewed interest in the state shown by writers such as Skocpol, Tilly and Mann.⁹⁹ This concern with 'bringing the state back in' has been reflected in the substance of the references that have been made to the works of historical sociologists. For International Relations the state is a central concept. Traditionally the state has been viewed as a container that occupies a territorial space. By contrast, most historical sociologists do not envisage the state as a territorial and social totality. Instead the state is viewed as a limited set of institutions that claim the right to wield coercive power over a particular territory. This set of institutions not only has to compete for resources with other groups within a territorial area, but also with other states in different territorial areas. Sociologists have become increasingly interested in examining the impact that multiple societies have on each other. To do this they have sought to analyse international impacts on social development.

Skocpol's first major work examined the causes and outcomes of the French, Russian and Chinese revolutions.¹⁰⁰ An analysis of the state, defined as 'a set of administrative, policing, and military organisations headed, and more or less well coordinated by, an executive authority'¹⁰¹, was central. For her the state has a dual role, one foot in the domestic situation and one in the international. She introduced the concept of an international system as an important element in her analysis, as an influence in the occurrence of specific revolutions, and as a considerable determinant of their outcomes. Skocpol also maintained that it was important to consider trans-national relationships, which have contributed to the emergence of all social-revolutionary crises and have invariably helped to shape revolutionary struggles and outcomes.¹⁰² Warfare is central to Skocpol's notion of international system. Her explanation for the occurrence of revolution is based to a large extent on the old regime's involvement in international war whether successful or not. A similar concentration on the role of war is apparent in the

⁹⁸ Stephen Hobden, *op. cit.*

⁹⁹ See Fred Halliday, *State and Society in International Relations: A Second Agenda*, Millennium, Vol. 16, 1987, pp. 215-230; A. Jarvis, 'Societies, States and Geopolitics: Challenges from Historical Sociology', *Review of International Studies*, Vol. 15, 1989, pp. 281-293; J. M. Hobson, 'The Historical Sociology of the State and the State of Historical Sociology in International Relations', *Review of International Political Economy*, Vol. 5, 1998, pp. 284-320.

¹⁰⁰ Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia and China*, Cambridge: Cambridge University Press, 1979, cited in Stephen Hobden, 'Theorising the International System: Perspectives from Historical Sociology', *Review of International Studies*, Vol. 25-2, April 1999, pp. 255-257.

¹⁰¹ *Ibid.*, pp. 256-258.

¹⁰² *Ibid.*, p. 19.

work of Tilly. He is famous for his statement that 'War made the state and the state made war'.¹⁰³ However, in his most recent work on the formation of nation states and cities in Europe Tilly has built on and superseded the simplicity of this statement. Patterns of state formation are now seen as being determined by the presence of concentrations of coercion associated with states and/or concentrations of capital. He declares that an important factor in the process of state formation is the impact of international systems. He argues that other states and eventually the entire system of states strongly affected the path of change followed by any particular state.¹⁰⁴ He perceives international systems as a product of war.

Michael Mann takes a more structuralist-oriented approach in his *Origins of Social Power in State, War and Capitalism*¹⁰⁵. His approach to historical sociology defines important areas of the subject including how government participation in war can shape the limitations of the state and often charts the growth of state power. It also shows how involvement in war re-constructs the specific practices of the state, and the role of the bureaucratic elite.

Mann, who is famous for his work on the history of social power, a ground-breaking study of how different combinations of power relations have structured human societies¹⁰⁶; uses two terms to describe the organisation of geo-political space: multi-power-actor civilisations and empires of domination. The prime characteristic of multi-power civilisations is the degree of shared norms amongst a number of actors. By contrast, in empires of dominations, a shared environment based on common norms is replaced by what Mann terms 'compulsory cooperation'.¹⁰⁷ He makes very strong claims regarding the influences of geopolitical organisation. The main way that he describes is through military-fiscal extraction. The demands of war require the extraction by the state of resources from the domestic population. He argues that the tax

¹⁰³ C. Tilly, 'Reflections on the History of European State Making', in C. Tilly (ed.), 'The Formation of Nation States in Western Europe', Princeton, NJ: Princeton University Press, 1975, p. 42, cited in Stephen Hobden, 'Theorising the International System: Perspectives from Historical Sociology', *Review of International Studies*, Vol. 25-2, April 1999, pp. 259-270.

¹⁰⁴ C. Tilly, 'Coercion, Capital and European States', Oxford: Basil Blackwell, 1992. p. 26, cited in Stephen Hobden, *op. cit.*

¹⁰⁵ Michael Mann, *States, War and Capitalism*, Oxford: Basil Blackwell, 1998.

¹⁰⁶ See: Mann's work on the world history of social power is primarily found in M. Mann, *The Source of Social Power Vol. I: A History of Power from the Beginning to AD 1760*, Cambridge: Cambridge University Press, 1986, and M. Mann, *The Source of Social Power Vol. II: The Rise of Classes and Nation States, 1760-1914*, Cambridge: Cambridge University Press, 1993; M. Mann, *op. cit.*. See also: Stephen Hobden, *op. cit.*

¹⁰⁷ M. Mann, *op. cit.*

burden imposed to pay for war-fighting activities resulted in domestic class conflict and alterations in domestic political systems.¹⁰⁸ This example has similarity with the Iranian situation during the war with Iraq and afterwards and it has affected the state, its position and economy as a whole, which is explained in Chapter Four.

Palan and Abbott take up this vision of the role of conflict in constituting the state, but their account also asks how the state's role in global economic competition, in trade war, and in financial conflicts can shape the structure and ongoing self-image of the state as well as its purpose. They examine the idea that modern trading or 'competition' states take on key roles in structuring and shaping global and domestic economic life, and so in turn shape economic performance. The state in the post-1945 World assumed a major role in almost all-economic activity. Since the late 1970s, this may have declined in some ways. But Palan and Abbott show that the state relations play a key role in economic management, as trader, producer, regulator, guarantor or investor, and suggest that exactly how these roles are mediated depends the integrity of the state as well as the measurable performance of GDP. As some 'competition states' emerge, others see their survival as dependent on following the model. But even though the pressures to follow a common model remain, their analysis recognises differences between states and their predicaments. Even if there is a 'common' generic model, it takes many different forms in practice.

Sikkink's work on Brazil and Argentina, the changing character of the state and the particular patterns of relations between the elite and state organisation is an important variable in the explanation which she offers for differential patterns of development¹⁰⁹. Scholars such as the contributors to collections such as Appelbaum and Henderson also explore the way in which state-society relationships enable or limit the potential for development in the Asia-Pacific region¹¹⁰. Michael Mann takes a more structuralist-oriented approach in his *The Sources of Social Power*¹¹¹ and in *States War and Capitalism*¹¹². As suggested above, Mann's approach to historical sociology defines important areas of the subject including how government participation in war can shape

¹⁰⁸ M. Mann, 'War and Social Theory: Into Battle with Classes, Nations and States', in 'States, War and Capitalisms', 1988, Oxford: Basil Blackwell, cited in Stephen Hobden, *op. cit.*

¹⁰⁹ Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, NY: Cornell University Press, 1991

¹¹⁰ R.P. Appelbaum and J. Henderson (eds.), *State and Development in the Asian Pacific Rim*, London: Sage, 1992.

¹¹¹ M. Mann, *op. cit.*

¹¹² M. Mann, *op. cit.*

the limitations of the state, charting the growth of state power in the process. These ideas form elements of the approach to Iranian development, which the thesis will use, returning to reflect on their values in the concluding chapter.

A recent issue of the *Review of International Studies* is devoted to historical sociology approaches to international relations, and enables this author to check the direction of his work against the most recent scholarship. The issue points to the richness and variety of approaches possible under the general heading of 'historical sociology', but most of the papers relate more or less closely to Polanyi's argument in *The Great Transformation*,¹¹³ a source which has also informed some of the bases of this research from its beginnings. One idea emerges throughout the discussion (and to which the introduction draws our attention: Cox, Dunne and Booth,¹¹⁴ noting especially the work of Zhang on China¹¹⁵). That is that the conventional eurocentric reading of the transformation of the state from pre-modern to modern gives an inadequate sense of what is at issue for at least three reasons, all of which are also pertinent in the Iranian case. Firstly, we might note the capacity of pre-modern and modern forms of state-society-economy formation to continue alongside each other. Secondly, we might draw from this discussion the continuing capacity of external or exogenous factors to shape domestic economic arrangements and to limit the state's capacity to determine the future of its own society, while at the same time recognising that that 'shaping' and 'limiting' does not at all eradicate 'some important residual level' of choice and even of autonomy for the developing society under study. It is that residual choice and how well (or poorly) it is used that is the central focus of this study of privatisation in Iran. Thirdly, the relationship between state and empire has been ambiguous for dominant countries in the world economy. States can –and do– change the 'rules of the game' but Krasner's point in making this argument is that states as states can do this; it is not limited to states as dominant states. Thus coherently organised and strongly motivated states in the developing world have a freedom of action, which comes from their statehood. One should not write off statehood so easily (as some liberals might perhaps hope to do) if it is hoped to maintain at least that degree of autonomy, which is open to developing countries like Iran. South Africa, India, Brazil and Argentina might (in very

¹¹³ Karl Polanyi, *The Great Transformation*, Boston: Beacon Press, 1957.

¹¹⁴ M. Cox, Dunne, and K. Booth, 'Introduction' in *Review of International Studies*, special issue on 'Empires, Systems and States: Great Transformations in International Politics', Vol. 27, December 2001, pp. 1-16.

¹¹⁵ Y. Zhang, 'System, Empire and State in Chinese International Relations', *Review of International Studies*, special issue on 'Empires, Systems and States: Great Transformations in International Politics', Vol. 27, December 2001, pp. 43-64.

different ways) provide recent examples of countries using statehood as a tool to seek a rather greater scope of autonomy in the world system, and there may well be a case to imagine that similar opportunities might be available for Iran. But if that is the case, it draws our attention to the specific make-up and origins of the Iranian state, which forms an important question in the thesis as a whole. And the weaknesses of the Iranian state may help to explain some of the problems both of economic policy management in general and of privatisation policies in particular, as the later chapters will argue.

1.10 Concluding Remarks

This chapter has sought to establish the foundations of the thesis as a whole. Its conclusions set up the argument for the whole thesis. It has set the tone of the study, established the main epistemological and methodological concerns, and indicated the values of the author. All this grounds the empirical work, which follows. But it also identifies the criteria by which the study can be judged. It argues a case for the originality of the approach, and cautions the reader that the thesis does not claim to be 'original' in everything it discusses. Thus the discussion in section 1.6 has been intended not just to make the claim for originality, but also to say as precisely as possible where the balance lies in the separate elements for which originality is claimed. This opens the path to the work which follows. Chapter two will look at Islamic ideas on the economy and on development. It notes the diversity of Islamic thinking, and the diversity of authority within Islam on social and economic questions. This allows the author to develop a case which draws together Islamic and Western thinking on privatisation and economic development with a primary emphasis on the former, but which is intended to be true to the spirit of the different converging writings which it uses. Chapter Three follows in setting out the history of the Iranian state and its economy, allowing an analysis of the ways in which ideas identified in chapter two have been practiced (or, often, not practiced) in the past. This in turn establishes the character of the distinctive Iranian state-society-economy-culture nexus, which is the key explanatory variable in the thesis as a whole. Chapter Four is critical review of Iranian Economy after the revolution in the context of self-defined economic models and its report card with recent positive trend of corrections in the elite decisions and new international approach. Chapter Five, already discussed, contains an extensive

discussion of a comparison between privatisation strategies and outcomes in Britain, Egypt and Pakistan. Chapter six looks at privatisation experience in Iran in broad terms in the light of this comparison, while Chapter Seven contains a series of detailed and original case studies of Iranian privatisations in the 1990s. This allows Chapter Eight to make an analysis of the strengths, weaknesses and potential for privatisation in Iran in the near future. The chapter makes policy recommendations which are important for the future of Iran, and which suggest how privatisation can be undertaken in as stable a way as possible and with a structure and pattern which is consistent with Iranian values and needs. At one and the same time, it suggests something important about the value of Islamic thinking in questioning the way in which international relations and international political economy are usually written. The Islamic narrative of development is not the only story to tell; but it is an important one, and it has usually been neglected. The thesis suggests that it is time to correct this omission, and that when we do so we learn something important both in terms of practical policy and in the theory of the subject.

Chapter Two

ISLAM AND THE RECONSTRUCTION OF IRANIAN POLITICAL ECONOMY: DEBATES AND ISSUES

The Iranian economy has, since the 1979 Islamic revolution, been in a state of continuous crisis that has been engendered largely by the conflicting political and legal interpretations of the ideological objectives of an Islamic economy, and the nature and functions of the state in an Islamic society. Economic manifestations of this crisis have been reflected in the insecurity of private capital and property rights, with detrimental effects on the process of production in general, causing hyperinflation, shortage of basic commodities and stagnation of the economy. This situation has been further aggravated by the accumulation of foreign debt, a substantial increase in 'rent-seeking' activities at the expense of productive enterprise, a shrinking of capital stock, an inadequately trained work force and lack of reform of economic institutions.¹¹⁶

The stalemate created by the competing economic-ideological models offered by different factions in the Iranian Islamic leadership has, in turn, rendered state economic policies ineffective, contributing further to uncertainty about the role and scope of the private sector in the government's strategic thinking.¹¹⁷ In recent years, however, there has been a concerted attempt to re-structure the Iranian economy in line with a liberal economic order under the auspices of the World Bank and the International Monetary Fund. This strategic re-orientation of the economy has necessitated the trimming away of much of the populist economic policies of the last two decades and re-establishing a version not dissimilar to the economic system that existed in the pre-Revolutionary Iran¹¹⁸.

The purpose of this chapter is to provide a broad background to the analysis of the salient features characterising the Iranian economy, drawing upon various arguments

¹¹⁶ See: F. Khavand, 'An Overview of Iranian Economy after Revolution', cited in *Iran Nameh*, Bethesda: Iranian Study Foundation, 1999, pp. 645-656; Jahangir Amuzar, *Iran's Economy under the Islamic Republic*, London: I.B. Tauris, 1997, pp. 10-11; O. Roy, *The Failure of Political Islam*, London: I.B. Tauris, 1999, p. 133; Housein Azimi, *Today Iran: Development Discussion*, Tehran: Islamic Culture Publication Office, 1999, pp. 1-10.

¹¹⁷ Nikki R. Keddi, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983, pp. 1-3.

¹¹⁸ See: Jahangir Amuzar, *op. cit.* pp. 1-7; H. Azimi, *op. cit.*, pp. 8-9.

advanced by Islamic writers and economists on various aspects of the Islamic economics. The chapter is divided into four main sections, which are followed by a brief comparison with Western economic development models and a concluding summary. The first section outlines the philosophical context in which an Islamic economy is conceived and elaborated, and identifies the various sources which underlay the foundation and the main characteristics of the model. Section two examines the concepts of private capital and property rights in an Islamic economy drawing on these interpretations. Section three presents a brief account of the Islamic (*Shi'a*) ideology¹¹⁹ which promotes a range of interpretations of the Islamic laws, on which the basic Islamic economy and society is conceived and established in Iran. The final section examines the nature of the post-revolutionary Iranian political economy, and traces the current economic crisis to the ideological conflict within the ruling Islamic leadership.

The ongoing crisis situation is further complicated by the emerging conflict between the believers of the traditional "Iranian identity" and the practices and principles developed from a non-Iranian based religion.¹²⁰ The existing differences in practical application of the already complicated Islamic economic theories by the factions within the Islam elite do not help the situation either. Furthermore, the present state system where the centre of power is fragmented has created clashes between various factions (see section 6.8). This conflict between Iranian identity and *Shi'a* practice makes it difficult to assume that a fusion of religion and national identity remains coherent enough to sustain political legitimation in the contemporary Western-dominated world. As Mohammadi and Mohammadi argued:

The slippage between the notion of the "Iranian Revolution" and that of the "Islamic Revolution" is one indication of the struggle around identity and "naming community" that was a central part of the revolutionary process. This identity crisis was not a simple conflict between modernity and tradition but between a highly dependent and dictatorial process of modernization and retraditionalizing rhetoric based on indigenous culture offered different definitions and visions of the national community.¹²¹

¹¹⁹ *Shi'a* have constituted themselves as a separate sect since the early days of Islam, and at first traced the authority of religious inspiration through a direct line of succession from Imam Ali, cousin and son-in-law of the Prophet Mohammed (*pmbuh*). See: Ankie Hoogvelt, *Globalisation and the Postcolonial World*, Hampshire: Palgrave, 2001; Nikki R. Keddi, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983; Morteza Motahari, *Polarization Around the Character of Ali ibn Abi Talib*, Tehran: World Organization for Islamic Services, 1981.

¹²⁰ Ali Reza Alavi Tabar, *Iranian Future: Options open to the Reformists in Iran*, Aftab Magazine, Feb., 2002.

¹²¹ Annabelle Sreberny-Mohammadi and Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University of Minnesota Press, 1994.

But this issue, to which the thesis returns at several points should properly be a separate study in itself, and I only refer to it briefly here given the distinct concerns of this study.

2.1 The Foundation of an Islamic Economy

It may be useful to begin with a brief outline of the foundation of Islamic system so as to highlight the limitation imposed by the religious law, the *Shari'a*, and to underline the sources and methodological approaches used by the Islamic jurists and economists in the construction of Islamic economic models.

2.1.1 The Islamic System

The foundation of the Islamic system is based upon a set of religious laws, the *Shari'a*, which define and regulate an individual's relationship to God. This relationship is expressed in the concept of *towhid* (unity) that defines a collective whole, embracing man, nature and the purpose of man's life on earth. The essence of *towhid* is a total commitment to the will of God, which entails both submission and a mission to pattern one's life in accordance with His will. Thus, the will of God constitutes the source of value and becomes the purpose of man's endeavours¹²². According to Islamic precept 'life on earth is a test, and its purpose is to success in this test by doing Allah's (God) will'¹²³. In Islam, God is the ultimate owner of all natural resources and powers on earth and man is only entrusted to exploit these resources for the benefit of all, hence, every man has an equal share in His Universe¹²⁴. This implies that a definite relationship of brotherhood and equality exist among all Muslims. In the words of Abu-Sulaiman '*Towhid* is a coin with two faces: one implies that Allah is the Creator and the other that men are equal partners or that each man is brother to another man.'¹²⁵

¹²² Thomas Ballentine Irving, Khorshid Ahmad and Muhammad Manazir Ahsan, *The Qur'an Basic Teachings*, Leicester: The Islamic Foundation, 1992.

¹²³ Abdul Hamid Abu-Sulaiman, 'The Theory of the Economics in Islam: The Economics of *Towhid* and Brotherhood' in Khorshid Ahmad (ed), *Studies in Islamic Economics*, Leicester: The Islamic Foundation, 1980, p. 35.

¹²⁴ Ayatollah S.M. Taleghani, *Society and Economics in Islam*, Berkeley: Mizan Press, 1982; Ayatollah R. Khomeini, *Kashaf al-Asrar (Secrets Unveiled)*, Tehran: (n.d.), 1943.

¹²⁵ Khorshid Ahmad (ed.), *op. cit.*, p. 36.

In the early days of Islam the Prophet was responsible for leading Muslims towards the objective of becoming worthy of God's vicegerency on earth. He used education as a means of informing the believers and guided them toward that end. He was both spiritual and temporal leader of the *Umma'h* (the community of believers), who elaborated upon and sometimes modified the fixed issues pertaining to religious practices and worldly matters, especially adopting a more flexible attitude towards the operation of the Islamic economy. Thus, the divine texts were protected from misinterpretation or from conflicting interpretation of the same verse.¹²⁶

Although there is a general consensus on the basic ideology and belief of the Islamic philosophy, the contemporary writers tend to place a varying degree of emphasis on the nature of relationships between man and man in sharing the bounties of God. It is generally accepted that the test of life should be conducted in fair circumstances and no one should go without an adequate share of resources that are needed for maintenance of a materially 'acceptable' standard of living.¹²⁷ Islamic scholars tend to disagree on the models, which could provide adequate socio-economic conditions in which all people could fruitfully engage in economic activity and enjoy equal opportunity in sharing resources made available by God.¹²⁸

As is generally known, while Islam has always aimed to be a unified religious movement, there are important differences between different communities within Islam. Throughout the thesis, and especially in this chapter I shall refer to Islam as a whole, but I shall also point to differences including those between *Sunna* and *Shi'a* interpretations. Iran is predominantly *Shi'a*, and unless some specific exceptions are made, where the thesis talks of Iranian religious views they will always be of the *Shi'a* tradition. But the reader will want to be aware that there are also some concepts or arguments shared between the major traditions of Islam notwithstanding their very significant historical differences. The differences, which will be explained where they are relevant, are

¹²⁶ Khorshid Ahmad (ed.), *Studies in Islamic Economics: A Selection of Papers presented to the First International Conference on Islamic Economics held at Makka under the Auspices of King Abdul Aziz University, Jeddah, February 21-26, 1976*, Jeddah: International Centre for Research in Islamic Economics, 1980.; Muhammad Baqir as-Sadr, *Iqtisaduna, Our Economics*, Tehran: World Organization for Islamic Services, 1982.

¹²⁷ A. Abu Al-Hoseyni, *Shahid Motahhari (The Martyr Motahhari)*, Qom: Howzieh e-Elmieh-e Qom Press, 1984.

¹²⁸ S. Rahnema and Behdad, Sohrab, *Iran After Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1995, pp. 55-62.

historical, rooted in particular times and circumstances, and geographic, rooted in special separation and diversity.

2.1.2 The Multiplicity of Interpretations of the Divine Text

The root of the differences of interpretations of Islamic principles and the tradition of the prophet Mohammed (*pmbuh*) can be traced to the beginning of Islam¹²⁹. These differences emerged as opposing governance labelled as *Sunni* and *Shi'a*.¹³⁰ The schism between the two schools of thought came to a head at the tragedy of *Karbala*¹³¹ in the first century of Islamic Prophethood. This revolutionary tragedy occurred when the followers of *Sunni Calipha* martyred the *Shi'a*¹³² opponents of the ruling family. Since the tragedy of *Karbala* the opposing interpretations continued without bloodshed under the rule, in the main, of the *Sunni* rulers e.g. Nadershah. In the sixteenth century, however, to oppose the threat of the Ottoman invasion the Safavid dynasty became

¹²⁹ See: [www.al-shi'a.com], 15 April 2001.

¹³⁰ Ash-Sharif Ar-Radi, *Nahj Al-Balaghah: Selection from sermons, letters and sayings of Amir Al-Mu'Minin, Ali Ibn Abi Talib*, Tehran: World Organization for Islamic, 1979.

¹³¹ Karbala is a city in Iraq, where Imam Husayn-Son of Ali (*Shi'a* leader) was martyred by tyranny of Bannu Umayyids (Sunni).

¹³² According to Mohammadi and others, '*Shiism* lacks a formal clerical hierarchy and centralized institutions like the Catholic Church (the term 'clergy' is used for ease rather than as a formal referent). An Ayatollah is neither elected nor selected by an individual or body but draws his eminence, popularity, and recognition from competitive scholarship. The ayatollahs are the highest-ranking scholars of Islamic knowledge and jurisprudence, whose reputations have grown over time as the most popularly accepted interpreters of the Qur'an and traditions, and who therefore have the right to *ijtehad*, the making of new interpretations. The ayatollahs thus enjoy considerable authority; for they have their title through scholarship, peer judgement, and popular acclaim. The *howzeh-e-elmieh* (centres of learning) are operated independently of the state, located in the holy cities of *Qom* and *Mashhad*, and in *Isfahan* and elsewhere. In them, religious students (*tallabeh*) attend a religious school (madressah) supervised by an Ayatollah. They receive a traditional, predominantly tutorial-based, education. On completion of their studies, many of these *mullah* (trained clerics) would return to their towns and villages. Each believer must choose one Ayatollah as his or her *marja 'I-taqlid* (source of guidance and role model), whose book of conduct and interpretations are to be followed, indeed imitated, for the Ayatollah possesses esoteric knowledge unavailable to the ordinary person. This process of emulation lends ritual validity to the religious practices of the layperson, and the notion of a supreme source of emulation introduces the possibility of strong, centralized leadership. Clearly, access to such knowledge is a powerful basis for social status and endows the grand Ayatollah in particular with great social influence. Such patterns of authoritative relations between the *ulama* and their followers are thus deeply rooted within Iranian *shii'te* culture, and were readily called upon in 1977. *Shiism* does not have a single head; instead there are several-respected Ayatollah *al ozma* (grand ayatullah), whose reputations have grown over the years'. See: Ervand Abrahamian, *Khomeinism: Essays on the Islamic Republic*, Berkeley: University of Californian Press, 1993; M.J. Khalili and S. Manafi Anari, *Fundamentals of The Islamic Revolution: Selection from the Thoughts and Opinions of Imam Khomeini*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 2000; Annabelle Sreberny-Mohammadi, and Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University of Minnesota Press, 1994; Fishcer, Michael, "Imam Khomeini: Four Levels of Understanding." In J. Esposito, ed., *Voices of Resurgent Islam*, New York: Oxford University Press, 1983, in Annabelle Sreberny-Mohammadi, and Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University of Minnesota Press, 1994 pp. 83.

united under *Shi'ism* as a national religion and they put away their differences¹³³. The imposition of *Shi'ism* as the national religion allowed the rise to prominence of the *Shi'a* clergy in almost all aspects of life, including that of the judiciary. This continued until the rise of Reza Shah, who curtailed their influence, explained in detail in Chapter Three. A summary of the current essential differences between *Shi'ism* and *Sunn'ism* is given below.

The differences in the fundamental beliefs of Islam are expressed by acceptance or otherwise of five principles: *tawhid* (monotheism), *nubuawah* (Prophethood), *ma'ad* (the Day of Judgement), *Imamate* (Vicegerency) and *'adl* (Justice). Whilst both *Sunni* and *Shi'a* believe in the first three principles, only the *Shi'a* accept those of *Imamate* and *'adl*.¹³⁴ The practical significance of these differences is that *Sunni'ism* is deeply conservative with a very traditional interpretation of Islamic thought, whereas the acceptance of the *Imamate* and *'adl* by the *Shi'a* has allowed interpretation of Islamic thought based on the prevailing economic and social situation.¹³⁵ Abolfazl Sadeghpour and Hojatalaslam Kadivar argue that these differences affect thinking on the role of education and research in society, on socio/economic growth, and the acceptance of reform and modernisation within the Islamic values.¹³⁶

After the death of the Prophet, Islamic jurists began to use three major sources in their attempt to interpret and make judgement on emerging problems. These are: the primary sources, comprising the Qur'an¹³⁷ and the *Sunna*¹³⁸ (the tradition of the Prophet); the secondary sources, consisting of consensus (*ejma*) and analogy (*qiyas*); and tertiary sources, which are used by jurists to make pronouncements on the basis of what they subjectively consider to be in accordance with the real spirit of Islam. The latter sources are sometimes considered as juristic preferences on the basis of equality (*estehsan*) and rulings based on public welfare (*estelah*); these are seen as a variant of analogy or

¹³³ Saeed Rahnema and Sohrab Behdad, *Iran After the Revolution, Crisis of An Islamic State*, London: I.B. Tauris, 1996.

¹³⁴ See: [www.al-shi'a.com]; Ayatollah M. Motahari, *Becoming Familiar with Islamic Science*, Qom: Sadra Publications, 1999.

¹³⁵ Ayatollah M. Motahari, *op. cit.*

¹³⁶ Abolfazl Sadeghpour, *Discussion re Engineering of Society*, Tehran: Government Management Education Centre, 1976; Hojat ul Islam Mohsen Kadivar, *Political Thinking in Islam: Theories of State in Shi'a*, Tehran: Government Management Education Centre, 2001.

¹³⁷ The book of direct revelations by God to the Prophet Mohammed through the Archangel Gabriel. See: Nikki R. Keddi, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983; As Syyid Abu'l-Hassan, Ali ibn al-Husayn ar-Radi al-Musawi - Selection from sermons, letters and sayings of Amir Al-Muninin Ali Ibn Abi Talib, *Nahj Al-Balaghah*, Tehran: World Organization for Islamic, 1979.

¹³⁸ Literally, the 'trodden path', a compilation and codification of the sayings of the Prophet plus the official biography of the Prophet's life, this including all the things He did as well as said.

independent judgement. For the *Shi'a* clerics the tertiary sources are elevated to much greater importance than for the *Sunna* clerics (and this underlies the principal differences between the two branches of Islam), to the extent that the *Shi'a* clerics have argued that 'religious law commends to what is commanded by reason and that requirements of religious law are those of reason'¹³⁹. The acceptance of tertiary sources as a basis of Islamic law has paved the way for the increasing application of human reason within the general framework of the spirit of Islam.¹⁴⁰

The multiplicity of interpretations of the divine law that have since emerged can be attributed to the changing socio-economic conditions and political imperatives which are found to be historically incompatible with the Qur'anic prescriptions. At least four causes can be identified.

Jurists tend to interpret primary sources in a subjective manner and play down 'true content' explicit in the primary text when they make a ruling or express an opinion. It is argued that 'it is impossible to derive the Islamic concepts of ownership, work, distribution of wealth and justice from primary sources without social, philosophical or scientific preconceptions and prejudices.'¹⁴¹

Among Muslim scholars, there has always been difference of opinion with regard to the Islamic notions of wealth, its approved source of generation and accumulation, its permissible amount as well as its authorised method of disposition.¹⁴² Thus, two jurists may come to different interpretations of the notion of 'wealth'; one may support a quantitative amassing of wealth, while the other may favour an equal distribution of income, but both refer to the Islamic sources with their version of interpretations.¹⁴³

The magnitude of the primary sources (amounting to thousands of acts, injunctions and statements that are attributed to the Prophet) is considered a major source on rulings. However, the problems arise with the interpretations of these sources in light of modern challenges faced in the fields of socio-economic and politico-religious contexts.¹⁴⁴

¹³⁹ See: S. Rahnema and Behdad Sohrab, *Iran After Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1995, pp. 67-68; Khorshid Ahmad, *op. cit.*

¹⁴⁰ *Ibid.*

¹⁴¹ S. Rahnema and Behdad Sohrab, *op. cit.* p. 69.

¹⁴² *Ibid.*, p. 70.

¹⁴³ S. Rahnema and Behdad, Sohrab, *op. cit.* pp. 69-86.

¹⁴⁴ As Syyid Abu'l-Hassan Ali ibn al-Husayn ar-Radi al-Musawi, Selection from sermons, letters and sayings of Amir Al-Muninin Ali Ibn Abi Talib. *op. cit.*

Different tertiary sources of Islamic jurisprudence, which allow jurists to base their deduction on the implicit meaning of the primary text, permit them to rely primarily on their own reason and direction. Each jurist may emphasise different aspects of the spirit of Islam, thus giving rise to different interpretations.¹⁴⁵

2.1.3 The Construction of an Islamic Economy

The concept of an Islamic economy is an important component of the national state system of an Islamic country. Even in the earlier Islamic tradition, the economy was regulated by the *Shari'a*. The *Shari'a* sets forth a certain number of concepts with an economic impact, such as *Zakat* (tax on wealth) and *Riba* (usury), etc. It also defines the issues related to inheritance, property, booty and community rights¹⁴⁶. These concepts are then used to construct an economic model on the basis of clergies' interpretations of Islamic teachings. The fundamental problem with this construct is that the interpretations of the elements of *Shari'a* law do not carve out an autonomous space that could be called an economic theory or commercial law to govern a country in this globalised era.¹⁴⁷ For this researcher, the most sustainable viewpoint on the recent development of the Islamic economic models is that the steady evolutionary development from within, by Islamic scholars, has, by necessity, been tempered by ideas and interpretations brought from the West as part of the overall globalising activity between Islam, and particularly Iran, and the rest of the world. It can be argued that Islamic scholars have undertaken to systematise and conceptualise the basic *shari'atic* prescriptions in order to construct a functional ensemble that could offer a middle ground between Islam and Capitalism. Although the synthesis of the Islamic principles with modernity theories gives an apparent theory of Islamic political economy, it remains basically an ideological construct.¹⁴⁸

¹⁴⁵ See: S. Zubaida, *Islam: The People and the State*, London: I.B. Tauris, 1993, p. 79; Willem M. Floor, *The Revolutionary Character of the Ulama: Wishful Thinking or Reality?*, cited in Nikki, R. Keddi, *op. cit.*, p. 74.

¹⁴⁶ One may define an Islamic economics as a study in Islamic *fiqh* (jurisprudence), with an explicit goal to shape economic systems according to the *Shari'a*, see Ervand Abrahamian, *Khomeinism: Essays on the Islamic Republic*, Berkeley: University of California Press, 1993; M.J. Khalili and S. Manafi Ansari, *Fundamentals of the Islamic Revolution: Selections from the Thoughts and Opinions of Imam Khomeini*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 2000.

¹⁴⁷ O. Roy, *op. cit.*, p. 133.

¹⁴⁸ *Ibid*, p. 134.

For the lack of a theoretical framework, Islamic scholars claim that the model is not intended to be a science of existing reality but a worldview, a universal vision, which would establish a completely different form of society and economy. Baqer Sadr argues that 'Islamic economics is not a science of political economy, [rather] it is a revolutionary [ideology] for changing the corrupt reality, and turning it into pure one - it is clearly not an objective analysis of the existing reality.'¹⁴⁹ Islam offers a universal vision, an ideology that is to provide a moral framework throughout time, a historical economics. Sadr maintains that 'Islamic economy represents a just system of economic life, but it has nothing to do with the scientific discovery of economic relationship as it actually exists'¹⁵⁰.

For Islamic economists, the starting point for understanding the economy lies not in the concepts of the *Shari'a* but in an anthropological concept which defines man as a creature of God, gifted with reason and evolving in the realms both of need and salvation. The economy exists because man is a creature of needs; he has to satisfy his physical/biological needs. But because man's superior aim is salvation, his economic activity must be exercised within the ethical framework defined by the Qur'an¹⁵¹. Thus economy is a means not an end¹⁵². In an Islamic economy, people are expected to respect Islamic values and norms that allow the believers to enjoy the goods of the earth, which bring about the prosperity of the community as well as economic development. But man tends to forget his (spiritual/religious) obligations in satisfying his needs; thus it is necessary to strike a 'just balance' between consumption, on one hand, and redistribution to the needy, on the other.¹⁵³

The concept of 'social justice' is then used to highlight those areas of Islamic laws which allow for the limitation of property.¹⁵⁴ Islamic writers develop a 'social democratic' vision of economy, while recognising private property ownership, but want the state to ensure social justice through limiting the accumulation of wealth and through redistribution. They have systematised the scattered economic principles in the *Shari'a*, returning to the sources that portray the 'first Islamic society'.¹⁵⁵

¹⁴⁹ M. B. Sadr, *Egtesad -e Ma (Our Economics)*, Vol. I.& II, Tehran: Entesharat-e Esmali, 1982, p. 48.

¹⁵⁰ *Ibid*, p. 149.

¹⁵¹ As Syyid Abu'l-Hassan Ali ibn al-Husayn ar-Rdi al-Musawi, *op. cit.*

¹⁵² *Ibid*.

¹⁵³ O. Roy, O, *op. cit.*, p. 135.

¹⁵⁴ Ayatollah Khomeini, *op. cit.*

¹⁵⁵ See: S.M. Taleghani, *Islam and Ownership*, Lexington: Mazda Publishers, 1983, pp. 2-16; Jahangir Amuzar, *Iran's Economy under the Islamic Republic*, London: I.B. Tauris, 1997, p. 19.

Accumulation of wealth that goes beyond the satisfaction of needs - luxury, amassing wealth, and certain types of income, which is not earned through work, or running a risk - is not recommended. It is therefore necessary to place some limits on excessive accumulation¹⁵⁶. The first limit is the ethical model of a good Muslim who practices self-control and moderation. But ethical exhortation is not by itself considered sufficient in maintaining the desired behaviour. Islamic scholars interpret the Quranic prescriptions as a system that authorises the state to organise the redistribution of wealth.¹⁵⁷ The first limitation could be on ownership, even if it is lawful in principle. This limitation has a theological basis: man is only a trustee of the earth and its goods, the highest ownership of which is God's alone.¹⁵⁸ This highest ownership can be devolved to the *umma*, then to the Islamic state - for *Shi'ites* to the *Imam*. Thus a policy of nationalisation and state control is justified, reinforced by the Quranic interdiction of the appropriation of certain 'primary goods' - water, mines, pasture and combustibles. To ensure redistribution, *Zakat* is seen as an important means by which accumulation of wealth can be avoided; it is a legal obligation that all believers should adhere to it. It deals with capital and serves to limit accumulation of wealth, the proceeds of which are then devoted to the benefit of specific categories of the population, including the needy, as well as to defence of the religion and the community.¹⁵⁹ This delegation from God to community, and from community to the Islamic state allows the state to act as an engine of economic planning, justifying the policy of bank nationalisation and of centralised economic development. This socialist-leaning reading of Islam was strongly questioned by conservative clergy who instead emphasised all that is compatible with capitalism in Islam (the right of ownership and a market-oriented economy) while assigning the state a relatively restricted role in planning, fighting monopolies and acting as an engine for industrialisation.¹⁶⁰

Central to the concept of Islamic economy is the ethical model, clearly prescribed in the Qur'an, which is expected to be implemented by the Islamic state. The concept also rests on the perception in which man, as a creature of needs, must organise his activities according to a moral model exemplified by the Prophet. The ideal in an Islamic society

¹⁵⁶ As Syyyid Abu'l-Hassan Ali ibn al-Husayn ar-Rdi al-Musawi, Selection from sermons, letters and sayings of Amir Al-Muninin Ali Ibn Abi Talib, Nahj Al-Balaghah, Tehran:World Organization for Islamic, 1979; Taleghani, S.M., *op. cit.*

¹⁵⁷ Ayatullah Khomeini, *op. cit.*

¹⁵⁸ S.M. Taleghani, *op. cit.*, pp. 2-16.

¹⁵⁹ M.A. Chapra, 'The Islamic Welfare State and its Role in the Economy', in K. Ahmad (ed.), *Studies in Islamic Economics*, Leicester: The Islamic Foundation, 1980, p. 150.

¹⁶⁰ *Ibid*, pp. 143-49.

is, according to Bani Sadr, 'to produce according to one's capacities, to consume according to virtue'¹⁶¹. It is only this limitation of consumption that can ensure a surplus in society which can be distributed to those who follow the path of virtue and force those who do not¹⁶².

The essence of virtue is self-limitation, and redistribution ensures that everyone's needs will be met, since God could not have put his creatures into a world of scarcity: scarcity is a consequence of hoarding, thus an absence of virtue. Satisfaction of basic needs is therefore considered to be the prerequisite for the believers to practice religious duties: 'material self-sufficiency' is, therefore, an opportunity to advance toward virtue. The rationale behind the Islamic institutions is thus to lead man to an ethical model as exemplified by the Prophet. Moreover, respect for ethics is seen as a way to enjoy the goods of the earth; hence, Islamic economy is the combination of the respect for ethics and prosperity. The basic economic actor remains the individual, who behaves in conformity with the norms of the *Shari'a*, which are to be implemented by the Islamic state.¹⁶³

It is important, however, to note that the 'market' as an institution functions on the basis of price mechanisms which co-ordinate millions of economic acts, whatever the motivation, virtue and the goal of each individual, melting down the heterogeneity of the actors and their action into a whole. This market works independently from the wills of individual actors and is more or less regulated by the state. The idea of building a modern economy that would function only through the virtue of the economic actors is an illusion - for this reason only it is non-functional. When virtue doesn't function, its opposite emerges: the abuse of power, speculation, and corruption - the causes of instability of Islamic systems.¹⁶⁴

This brief analysis of the underlying concepts of 'Islamic economy' shows that it is essentially a politico-ideological construction, primarily intended to modify an existing economic system and replace it with Islamic ethics and norms that would determine the behaviour of individual actors who are engaged in economic activity. But what are the basic structures and theories that define an Islamic economic system? Islamic intellectuals are silent on these points, although they do implicitly accept that an Islamic

¹⁶¹ Bani Sadr, A. H., *Iqtasad-i Tawhidi (The Unitarist Economy)*, Tehran: Nasgr-i Hajr, 1989, p. 237.

¹⁶² M. A. Mannan, *Economic Development and Social Peace in Islam*, London: Ta-Ha Publishers Ltd., 1989.

¹⁶³ O. Roy, *op. cit.*, p. 135.

¹⁶⁴ A. H. Bani Sadr, *op. cit.*, p. 239.

economy is essentially a mixed-market economy. And then what are the implications arising from imposition of Islamic moral codes and ethics on a functioning dependent capitalist economy? This will be examined later in section four.

2.1.4 The Characteristics of Islamic Economics

There is an unanimous consensus among the Islamic writers that the Islamic political economy is neither capitalist nor socialist, but is a 'third path',¹⁶⁵ an alternative model offering a set of consistent programmes with an Islamic outlook to guide the Islamic community in ensuring the fulfilment of both spiritual and temporal needs of Muslim people. For Islamic economists, the model is an idealised political system with distinctive social and property relations constructed on the basis of Quranic principles and *Shari'a*, with an explicit aim to highlight the superiority of Islamic economics by criticising and rejecting both capitalist and socialist systems.¹⁶⁶ As such, this 'third path' is distinct from the Western-driven economic evolutionary models discussed in Chapter One, but, inevitably, in the real world, this 'third path' must be tempered by external, globalising influences.

The capitalist system is criticised for causing injustice, human suffering and loss of individual freedom and, in particular, the unrestrained pursuit of individual self-interest, which engenders an unbalanced society. Taleghani¹⁶⁷, Khomeini¹⁶⁸ and Mawdudi criticise capitalism for its undue emphasis on self-interest and the profit motive, which, they claim, produces a society devoid of humane character, brotherhood and co-operation. The undue emphasis on the right of individual ownership and free enterprise exacerbates conflict and antagonistic industrial relations. These combined with usury legislation add to the anti-social character of capitalist enterprise leading to concentration of wealth and pauperisation of the masses.¹⁶⁹ In the same vein, Baqar Sadr emphasises the contradictory nature of capitalism where increased production (growth) is not translated into greater welfare.¹⁷⁰ He maintains it is through equitable

¹⁶⁵ Jahangir, Amuzegar, *op. cit.*, p. 17.

¹⁶⁶ See: M. B. Sadr, *op. cit.* p. 241; M.A. Chapra, *op. cit.*, p. 150; Jahangir, Amuzar, *op. cit.*, pp. 19-22.

¹⁶⁷ S.M. Taleghani, *op. cit.*

¹⁶⁸ Ervand Abrahamian, *Khomeinism: Essays on the Islamic Republic*, Berkeley: University of California Press, 1993.

¹⁶⁹ Sayyid, Abul A'la Mawdudi, *Mas'alah Milkiyat-e-Zamin*, Lahore: Islamic Publications, 1969, pp. 100-106.

¹⁷⁰ M. B. Sadr, *op. cit.*, p. 241.

distribution of the total social product that welfare and satisfaction can be ensured; he posits further that the size of the total product is not always the determinant factor in the temporal satisfaction.¹⁷¹

Socialism is rejected on the grounds that it conflicts with the basic requirements of the moral and spiritual growth of human personality, chiefly being freedom of choice and action.¹⁷² Private property and free enterprise, within certain limits and subject to the public good, are considered to be essential for free societies.¹⁷³ State ownership of means of production is regarded as being incompatible with democracy, an essential feature of the political structure of Islam. Emphasis on materialistic aspects of life, class conflict and moral relativism, Islamic economists maintain, are inimical to the Islamic way of life. A harmonious society can only be established by every individual working in co-operation and for the good of society. More charitable writers admit some of the positive aspects of the socialist system, i.e., central planning, elimination of poverty, hunger and unemployment and extensive welfare state. These achievements, they assert, have involved heavy costs in terms of human life, liberty deprivation and denial of moral values.¹⁷⁴ Furthermore, socialism is equated with corruption and totalitarian regimes where surplus resources are spent for internal security and repression.¹⁷⁵

It is worth noting that Islamic economists, in their attempt to distinguish Islamic economy from capitalism, redefine modern theories (both Western and Communist) with reference to the *Shari'a*. This can be clearly seen in the analysis of the following concepts.

- Welfare: For Islamic economists, Islam envisions an economic system deeply rooted in the *Shari'a*, and from which it draws its world view, its goals and its development strategy. The goals of the system are not primarily to raise the material well being of the people *per se* but rather to create an integrated socio-economic framework within which individuals could combine material well being with spiritual satisfaction. Islamic writers include in the former category the provision and safeguard of the welfare of the population at large. Thus, the primary task of an Islamic state is to establish a welfare system where its priorities should include the

¹⁷¹ *Ibid*, p. 242.

¹⁷² See: M. B. Sadr, *op. cit.*, p. 241; M.A., Chapra, *op. cit.*; Ervand Abrahamian, *op. cit.*

¹⁷³ S.M. Taleghani, *op. cit.*, pp. 2-16.

¹⁷⁴ Sayyid, Abul A'la Mawdudi, *op. cit.*, p. 52.

¹⁷⁵ See: *Ibid*, pp. 100-106; M. B. Sadr, *op. cit.*, p. 248.

eradication of poverty and hunger alongside the provisions of medical care and physio-psychological needs of the population.¹⁷⁶

Although Islam gives strict directions to individuals on how they organise and conduct their business activities, its main focus remains with human development¹⁷⁷ as defined with reference to the Islamic ethics and moral codes which regulate the behaviour and conduct of all involved in economic activities. Thus, for Al-Ghazali, a 12th century jurist and scholar, accumulation of wealth was numbered last in his list of the priorities that a believer should endeavour for¹⁷⁸. This is because he considered accumulation of wealth simply as a means, not an end in itself - albeit an important and indispensable one - for realising human welfare and development.¹⁷⁹

The moral and spiritual conduct should, Mawdudi maintains, be supplemented with individual freedom, social justices, equal opportunity and co-operation. He goes on to argue that morally oriented individual actions tend to ensure the achievement of socially desirable outcomes. He posits that Islamic laws and social control are prerequisites for the Islamic societies in order to guide and regulate individual behaviour and conduct and to compensate deficiencies that may still remain.¹⁸⁰

- The State: The economic role of the state in Islamic society is defined with reference to the three pillars of Islamic philosophy: faith, commitment to moral values, and certain principles underlying social organisation. Its function is to establish social justice and ensure the fulfilment of the spiritual needs of the people as well as to organise public utility and social security.¹⁸¹ This role can be categorised into four types of action. Firstly, ensuring compliance with the Islamic code of conduct by individuals through education and, whenever necessary, through

¹⁷⁶ M.A. Mannan, *op. cit.*, p. 10.

¹⁷⁷ For the modern concept of 'human development', see: UNDP, *Human Development Report 1990*, New York: Oxford University Press, 1990; Government of Iran and The United Nations, *Human Development Report of the Islamic Republic of Iran 1999*, Tehran: Government of Iran and The United Nations, 1999; The Institute of Social Studies, *Social Development: Past Trends and Future Scenarios*, The Hague: The Institute of Social Studies, 1997; Government of Iran, *Education for All 2000*, Tehran: Government of Iran, 1999.

¹⁷⁸ The very objective of the *Shari'a*, according to Al Ghazali, is 'to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their posterity and their wealth. Whatever ensures the safeguarding of these five principles serves public interest and is desirable.' See: Abu-Hamid Al-Ghazali, *Al-Mustasfa fi'ilim al-Usul*, Vol. I, Cairo: Maktabah Al-Tijariah al-Kubra, 1937, pp. 123-137.

¹⁷⁹ Abu-Hamid Al-Ghazali, *op. cit.* pp. 139-40.

¹⁸⁰ Sayyid Abul A'la, Mawdudi, *A History of Muslim Philosophy*, Wiesbaden: Otto Harassowitz, 1963: p. 145.

¹⁸¹ Mubarak, Al-Mubarak, *Niz'am al-Islam: al-Iqtisad, Mobadi wa Qawa'id al-Ammah*, Damascus: Dar al-Fikr, 1972, pp. 106-127.

coercion. Secondly, maintaining healthy conditions in the market to ensure its proper functioning. Thirdly, modifying the allocation of resources and distribution of income affected by the market mechanism by guiding and regulating it as well as by direct intervention in the process. Finally, taking positive steps in the field of production and capital formation to accelerate economic growth and ensure social justice.¹⁸²

Islamic writers agree that the state enjoys wide and extensive 'legal' power to perform all of these functions; subject only to the constraints imposed by *Shari'a*, after consultation with, and approval of, the people.¹⁸³ Besides these functions, Sadr maintains that the state has the responsibility to undertake fresh legislation to regulate and guide the economic life in matters left unregulated by the *Shari'a*. The spheres of fresh legislation open to the state are related to the relations between man and his external world. These relations tend to change with accumulation of technical knowledge, discovery of new resources and application of more efficient technologies in the production of capital goods and consumer goods. They have to be properly regulated in order to ensure social justice and to protect the interest of the society as whole. Islam authorises a properly constituted government to take action in bridging the gap between *Shari'a* and the changing socio-economic conditions.¹⁸⁴

In a similar vein, Umar Chapra argues that it is the duty of the state to intervene directly in an economic situation where social justice is required, as well as where the private sector is unable or unwilling to undertake required investment in industries. Moreover, he argues that, for the realisation of the Islamic goals, it is incumbent upon the state not to leave the essential function of allocation of resources, or determination of aggregate demand to the unhindered operation of blind market forces. The state should take a positive role and consciously contribute towards the attainment of desired goals through rational planning, and building the necessary physical and social infrastructure.¹⁸⁵ In certain circumstances, the state should restrict individual freedom of action, regulate business activities, fix the prices of essential goods, undertake nationalisation, impose a ceiling on property

¹⁸² M. B. Sadr, *op. cit.*, pp. 249-253.

¹⁸³ M. A. Mannan, *Economic Development and Social Peace in Islam*, London: Ta-Ha Publishers Ltd., 1989; As Syyid Abu'l-Hassan Ali ibn al-Husayn ar-Radi al-Musawi, *op. cit.*

¹⁸⁴ *Ibid.*

¹⁸⁵ M.U. Chapra, *op. cit.*, pp. 40-42.

ownership, and levy heavy financial penalties on those individuals who disobey *Shari'a*.¹⁸⁶

- **Enterprise:** Islam provides unrestricted scope for private economic activities, and enterprising men are valued and respected for utilising the vast resources made available by God, both for their own benefit and for the benefit of the *Umma*. There are numerous verses in Qur'an, which refer to the desirability of enterprise in commerce, trade, industry and agriculture. It is said: 'it is the motivation, the ends of economic activity that matters. Given right motivation all economic activity assumes the character of worship, *Ibadat*'.¹⁸⁷

Islamic writers are engaged in debate on what the primary aims of economic enterprises in an Islamic society should be: private or social. Islam recognises the legitimacy of the individual's private ends, which include the fulfilment of personal needs and those of his family, provision for future needs and the desire to leave an inheritance, all made as the result of his lawful and productive effort. There is no maxim that an individual should stop the accumulation of wealth and the quality of life he may aspire to, but moderation in fulfilment of these needs is recommended and greed, avarice, excessive comforts and luxuries are denounced. Indulgence in luxurious living and the desire to show off is condemned: 'Islam cannot tolerate distinct consumption of the leisure class'.¹⁸⁸ Contemporary Islamic writers tend to emphasise the importance of social aims of economic enterprises; they see it as an 'attempt in the cause of Allah'. For them, elimination of poverty and hunger, disease and illiteracy and mobilisation of resources for strengthening the Islamic State as well as spreading the message of Allah should be the ambition of a true Muslim who is engaged in economic activities. For Faruqi, 'one who engages in productive activities for these purposes is doing God's will, and is promised adequate rewards here and hereafter.'¹⁸⁹

- **Private/Public Ownership:** The concept of property ownership is an important topic in Islamic economics. According to Islamic philosophy, real ownership resides with God; man holds property in trust for which he is accountable to Him. Hence,

¹⁸⁶ *Ibid.*

¹⁸⁷ Quran, XIV: 34.

¹⁸⁸ S. Qutb, *Social Justice in Islam*, New York: American Council of Learned Societies, 1986, p. 141.

¹⁸⁹ I.R.A. Faruqi, 'Introduction' in K. Ahmad (ed.), *Studies in Islamic Economics*, Leicester: The Islamic Foundation, 1972, p. 4.

ownership rights are determined by the rules clearly laid down in the *Shari'a*. Thus, acquisition of property, its uses and its disposal are subject to limits set and guided by the *Shari'a*. Islam does not recognise absolute ownership, and sets definite obligations upon individuals who are attending for the private ownership rights. Equally, the scope and nature of public ownership - on where a line should be drawn specifying the spheres of economic activity of public and private sectors - is extensively debated. However, it is generally accepted that the respective scope of these two sectors cannot be rigidly defined, but should be left to the socio-economic needs and circumstances.¹⁹⁰ The debate on the demarcation of the scope of public/private ownership activity centres around three points: the central position of private ownership, the relative scope of public and private ownership, and the degree of social control on private ownership rights and the circumstances justifying abrogation or curtailment of such rights.¹⁹¹

In sum, mainstream Islamic economics presents a design for the economy with an emphasis on social justice and adequate distribution of resources on the basis of the principle that the ultimate ownership rests with God; ruler is a trustee and general masses the beneficiaries¹⁹². It is consistent partly with the market mechanism and capitalist forms of production and partly with the socialistic approach where the state has an important role in central planning. Thus, theoretically, it is neither purely a capitalistic system nor a socialist one, rather a third path. Here the disagreements arise regarding the extent of the state's control over the economy and the legitimacy of the state's right to abrogate private property rights. Table 2.1 provides a brief summary of the basic Islamic concepts pertinent to property rights in Islam.

¹⁹⁰ See: S. Qutb, *op. cit.*, pp.111-19; Siddiqi, M.N., *Muslim Economic Thinking: A Survey of Contemporary Literature*, Jeddah: International Centre for Research in Islamic Economics, 1988, pp. 41-90.

¹⁹¹ Hujjat al-Islam Ali Akbar Hashemi Rafsanjani, 'Private and Public Ownership in Islam', *The Daily Ettela'at*, 3 Bahman 1362; and 16 Bahman 1362.

¹⁹² Ervand Abrahamian, *op. cit.*; S. Qutb, *op. cit.*; M. Umar Chapra, *Islam and the Economic Challenges*, Leicester: The Islamic Foundation and the International Institute of Islamic Thought, 1992.

Table 2.1: The Definition of the Basic Islamic Concepts

Notions	Islam
The Relationships of Human Beings with God	<ul style="list-style-type: none"> • Everything belongs to God, even human beings themselves. • Man is the vicegerent of God on this earth. • The key to Islamic philosophy lies in man's relationship with God. • Man holds property in trust for which he is accountable to God. • Different aspects of the Islamic social framework are united by one principle of <i>Towhid</i> (the oneness of God). • With regard to the relationship of man and society to God, emphasis is laid on both purification and growth (<i>tazkiyah</i>).
Pursuit of Wealth	<ul style="list-style-type: none"> • In Islamic philosophy there is no limit on the earning of wealth within the boundaries of Islamic principles.
Class Structure	<ul style="list-style-type: none"> • Emphasis on the just distribution of wealth and welfare.
Social Justice	<p>Emphasis on:</p> <ul style="list-style-type: none"> • Fair distribution of wealth. • Human welfare and security.
Spiritual Uplift	<ul style="list-style-type: none"> • Predominant stress on moral values. • The fulfillment of spiritual and material needs of individuals and society necessitates a vital role for the state. • The spiritual and material goals of a Muslim society can only be achieved if all the people in the society utilise their God-given talent with full efficiency and honesty.
Concept of Development	<ul style="list-style-type: none"> • Development includes the moral, spiritual and material aspects.
Ownership	<ul style="list-style-type: none"> • Absolute ownership of man is a concept alien to Islam as it belongs to God. There are definite obligations towards others attendant upon the individual rights of ownership. The Iranian Constitution - claimed to be based on <i>Shari'a</i> - states that there are no prohibitions against wealth as long as it is legitimately acquired (Article 49 of the Constitution).

Sources:

1. M. Umar Chapra, *Islam and the Economic Challenges*, Leicester: The Islamic Foundation and the International Institute of Islamic Thought, 1992.
2. Khurshid Ahmad (ed.), *Studies in Islamic Economics: A Selection of Papers presented to the First International Conference on Islamic Economics held at Makka under the Auspices of King Abdul Aziz University, Jeddah, February 21-26, 1976*, Jeddah: International Center for Research in Islamic Economics, 1980.
3. Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature*, Jeddah: International Centre for Research in Islamic Economics, 1988.
4. Ingrid Hahne Rima, *Development of Economic Analysis*, London: Routledge, 1996.
5. M.A. Mannan, *Economic Development and Social Peace in Islam*, London: Ta-Ha Publishers, 1990.
6. Syed Nawab Haider Naqvi, et. al., *An Agenda for Islamic Economic Reforms: The Report of the Committee on Islamization Appointed by the Finance Minister, Government of Pakistan*, Islamabad: Pakistan Institute of Development Economics, 1989.
7. Masud-ul Alam Choudhury, *Studies in Islamic Social Sciences*, London: Macmillan Press Ltd., 1998.
8. Ziauddin Ahmad, *Islam, Poverty and Income Distribution*, Leicester: The Islamic Foundation, 1991.
9. Muhammad Ahsan, 'Population Administration During the Time of Prophet Mohammad', *We People*, (A Biannual Journal of the Government of Pakistan), Vol. VI, July-December 1991, pp. 15-16.
10. Yadollah Yadollah Damavandi, *Ownership from the viewpoints of existing Islamic Clear-Sighted*, (Research Report), Tehran: (unpublished), 1980.

2.2 Property Rights and Ownership

The history of ownership is as long as the history of creatures on this earth, and human beings have always been trying to expand the spectrum of their dominance particularly to enhance their domain of proprietorship.¹⁹³ As compared to secular systems, Islam has different views about the status and the right of ownership. It is mentioned in the Qur'ān that:

يٰۤاَيُّهَا الَّذِيْنَ ءَامَنُوْا لَا تَاْكُلُوْا اَمْوَالِكُمْ بَيْنَكُمْ بِالْبَاطِلِ ۗ اِلَّا اَنْ تَكُوْنَ بَیْنَكُمْ مِجْرَةً عَنْ تَرَاضٍ مِّنْكُمْ وَلَا تَقْتُلُوْا اَنْفُسَكُمْ
 اِنَّ اللّٰهَ كَانَ بِكُمْ رَحِيْمًا ﴿٢٩﴾
 اِنَّ اللّٰهَ كَانَ بِكُمْ رَحِيْمًا ﴿٢٩﴾

You who believe, do not use up one another's wealth to no good purpose, unless it is for some business based on mutual consent among you. Do not kill one another: God has been Merciful towards you (4:29).

On another occasion it is said:

يٰۤاَيُّهَا الَّذِيْنَ ءَامَنُوْا لَا تَدْخُلُوْا بُيُوْتًا غَيْرِ بُيُوْتِكُمْ حَتّٰى تَسْتَأْذِنُوْا وَاُتِيَ بِكُمْ عَلَيْهِمْ

You who believe, do not enter any houses except your own homes unless you are sure of their occupant's consent, and greet them politely (24:27).

Rafi' b. Khadij¹⁹⁴ reported that the Messenger of Allah (*mpbuh*) said: 'One who cultivates on the land of other people without their permission, has no right on the yield except to the extent of his expenses.'

Whilst the Qur'an *makes* it explicitly clear that the ultimate owner is God and God only, the right of the individual to hold property is accepted and respected. This dichotomy of God-Man ownership is reconciled by the notion of trusteeship of man, and man's accountability to Him. Thus, a state representing the will of God, - an Islamic state - may impose limits on individual property rights. According to Ayatullah Taleghani - a

193 In Islamic philosophy there are enough resources on the earth to fulfil the need of every one not the greed of every one. See: Seyyed Mahmood Taleqani, *op. cit.*, p. 7; Ziauddin Ahmad, *Islam, Poverty and Income Distribution*, Leicester: The Islamic Foundation, 1991; Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature*, Leicester: The Islamic Foundation, 1981; Syed Nawab Haider Naqavi, et al, *An Agenda for Islamic Economic Reform*, Islamabad: Pakistan Institute of Development Economics, 1989.

¹⁹⁴ Muhammad Nejatullah Siddiqi, *op. cit.*

distinguished Iranian jurist - Islamic economy 'bears distinguishing features, as it generally recognizes individuals as owners of the fruits of their labour and free agents in transactions, within the framework of the relevant ordinances'.¹⁹⁵ Beyond these limits, it is the ruler (Islamic state) who functions as owner or as supervisor with regard to the public capital and the exchange regulations in the public sphere of activities. Therefore, 'this economy is based neither on the unlimited freedom of private ownership that leads to unbridled capitalism, nor on the public ownership that results in the total denial of individual ownership and freedom.'¹⁹⁶ He further elaborates on the concept that '...property ties and economic relationships are bound with human sentiments and instincts, and the social milieu reflects the totality of these ties. Islam envisions distribution, like production, as the natural and innate right of the one whose labour is involved, such that the individual is free to choose his labour, and labour is the source of the right of ownership.'¹⁹⁷

However, the restrictiveness of the limits on private property will depend on the extent of interference of individual property rights with the realisation of God's will in the Muslim society¹⁹⁸. The Islamic state will be the judge of interference and abrogator of the individual property rights. As long as the state is not Islamic, the issue of determination of limits of property rights is merely academic. In the established Islamic state where the existing property relationships have gained historical legitimacy, the issue is confined to adjudication in the cases of conflict in the property rights of individuals. However, the challenge of those rights becomes a highly critical political issue, when, as in Iran, the establishment of the new state is the outcome of a popular Islamic revolution under the banner of egalitarian ideology.¹⁹⁹

The constraints imposed by *Shari'a* law on private property rights include the prohibition of hoarding and excessive gain (*riba*). The former refers to unused productive capacity and consumption wealth, where *zakat* and charity are instigated to discourage and reduce accumulation, which may result in hoarding. Prohibition of hoarding has been limited in two principal cases in Tradition. One is the case of hoarding by merchants as a way of gaining market monopoly. The Islamic state may

¹⁹⁵ S.M. Taleghani, *op. cit.*, p. 26.

¹⁹⁶ *Ibid*, p. 34.

¹⁹⁷ *Ibid*.

¹⁹⁸ *Baqir Al-Sadr, Islam and Schools of Economics*, Karachi: Islamic Seminary Pakistan, 1980.

¹⁹⁹ S. Behdad, 'The Political Economy of Islamic Planning in Iran', in H. Amirahmadi, and M. Parvin (eds.), *Post-Revolutionary Iran*, London: West View Press, 1988, pp. 56-9.

force the hoarders to sell the hoards at a fair value.²⁰⁰ The other case is the hoarding of land by leaving it unused. This refers particularly to plain land (land in its natural form) where no individual should have the right of ownership. According to Sadr, plain land should be under public or state ownership respectively for usable and unusable land.²⁰¹ One may claim priority in use of plain land by improving it with one's labour and capital. But this priority is conditional on the continued use of land. He quotes the Tradition by stating 'land belongs to God, whoever leaves it uncultivated for three consecutive years will have it taken away and given to someone else'.²⁰²

Even the strictest interpretation of the *Shari'a*, however, could not prevent rapid accumulation of wealth and high concentration of capital in a real market economy. Reformist economists tend to envisage a market economy comprised of small artisans, merchants and farmers, where those who are financially better off will give a helping hand to those who are in need and are destitute. This is an idealistic picture of a pre-capitalist society in which business will be conducted in a 'humanised market' as existed in the time of the Prophet, when 'no monopoly was allowed, no unfairness or cheating was permitted [and all] opportunistic speculation and ill-deals were ruled out.'²⁰³

What radical economists, who advocate much greater state intervention and a larger public sector, fail to analyse are the socio-economic implications for an economy heavily exposed to global market forces. However, the extent to which a large public sector and an interventionist state would facilitate or obstruct private accumulation of capital in a market economy would depend, on the final analysis, on the class character of the state - which is a political issue and can be demonstrated empirically. A more interesting question in the reformistic interpretations of the *Shari'a* for the Islamic economics is the legitimacy of these reforms in the context of Islamic jurisprudence. Indeed, Islamic economists are well aware of the constraints they confront in acquiring jurisprudential sanction for their reforms.²⁰⁴

²⁰⁰ M.A. Mannan, *op. cit.*, pp.153-155.

²⁰¹ M.B. Sadr, *op. cit.*, pp. 62-117.

²⁰² *Ibid*, p. 43.

²⁰³ A.H.A. Abu Sulaiman, 'The Theory of the Economics in Islam: The Economics of *Towhid* and Brotherhood' in K. Ahmad (ed.), *op. cit.*, p. 30.

²⁰⁴ Personal interview with individuals (H and J) identified in Appendix 3.

2.3 Ideological Interpretations and Islamic Revolution

The 1979 Islamic revolution in Iran has shown the efficacy of *Shi'ism* as a potent political force in unifying a socially stratified and polarised society under the egalitarian banner of Islamic ideology. As discussed earlier, different interpretations of Islamic principles caused ambiguities in understanding the place of the state and the right of individuals in owning property, which have promoted a range of factions and debates about the forms in which an Islamic economy can be conceived and constructed, depending on the competing socio-political forces in the society. All interpretations shared the same basic tenets of *Shi'a* Islam and derived their ideal models from the same sources of jurisprudence. Each model tended to implicitly encapsulate the economic interests and aspirations of groups or classes within the imperatives directed by the contemporary global system. Rahnama and Nomani summarise these models (sub-systems) by identifying their main proponents whose views have provided the basis for the political struggle among competing sub-systems within the leadership in post-revolutionary Iran. They analyse these sub-systems under titles: Ayatullah Morteza Motahari, Ali Shariati, Navab-Safavi and Mehdi Bazargan.²⁰⁵

2.3.1 Ayatullah²⁰⁶ Morteza Motahari²⁰⁷

Motahari's²⁰⁸ sub-system reflects an Islamic jurist attempt to revive Islam as a potent ideology capable of countering Marxism and winning over the Iranian misguided youth. His approach was one of persuasion and intellectual debate on how to redress the social, political, economic and cultural ills caused by the Shah's Western-dependent

²⁰⁵ A. Rehnema, and F. Nomani, *The Competing Shi'a Subsystem in Contemporary Iran*, London: I.B. Tauris, 1995, pp. 92-98.

²⁰⁶ An Ayatollah is neither nor selected by an individual or body but draws his eminence, popularity, and recognition from competitive scholarship. The Ayatollahs are the highest-ranking scholars of Islamic knowledge and jurisprudence, whose reputations have grown over time as the most popularly accepted interpreters of the Qur'an and traditions, and who therefore have the right to *ijtihad*, the making of new interpretations. The Ayatollahs thus enjoy considerable authority; for they have their title through scholarship, peer judgement, and popular acclaim. See: Annabelle Sreberny-Mohammadi and Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University of Minnesota Press, 1994, p. 83.

²⁰⁷ In May 1979, i.e., four months after the Islamic Revolution, a faction called Forghan, which was committed to the overthrow of an Islamic state, assassinated Ayatullah Morteza Mothahari. See: Sandra Mackey, *The Iranians, Persia, Islam and the Soul of a Nation*, New York: Penguin Group, 1996.

²⁰⁸ See: Morteza Mothahari, *Naqdi bar Marxism*, Tehran: Housieneh Ershad, 1977, p. 158; *Dowlat Dini, Din Dowlati, Discussions of Mohamad Ghochani with Hojat Al-Islam Yousefi Ashkevari et al*, Tehran: Hashemion Publication, 2000.

mechanical development model based on ignorance of *Shari'a*. He sought to present Islam as progressive ideology, free from superstition, parochialism and conservatism, and rejected the notion that the society is polarised on the basis of possession of means of production. He argued that the believers and pious could be found among all classes; thus, differentiation between the exploiters and the exploited is foreign to the Islamic philosophy.²⁰⁹ He posited that an individual is not to be judged by his class position but rather by his resistance to worldly temptations and his devotion to the fulfilment of his religious obligations. He maintained that Islam had to be guarded against the 'eclectic school' which combines certain principles of communism and some aspects of existentialism with Islamic concepts and precepts.²¹⁰

Motahari attached great importance to social justice and advocated the idea that equal opportunity should be available to all individuals engaged in economic activity²¹¹. He explained the difference in the social positions of individuals in terms of differences in human capability, effort, aptitudes and entrepreneurship, which are rewarded accordingly. He viewed the differences in rewards as just, using the argument that in the act of creation God willed such differences. Rahnema and Nomani²¹² and Ervand Abrahamian²¹³ identify the following characteristics in Motahari's economic subsystem:

- The acceptance of private property ownership up to an (undefined) acceptable amount.
- The rejection of the notion that any type of property is the result of exploitation.
- The belief in the principle that from each according to his ability and to each according to his need does not constitute justice but injustice.
- The belief in the notion that the fruits of a person's labour belong only to him and may not be appropriated and confiscated, since such an act would be the essence of injustice.
- The rejection of an equal distribution of income.
- The conviction that solidarity with the dispossessed and a tendency toward a more equitable distribution of income can only be secured once the rich, based on Islamic spirituality, voluntarily participate in helping the poor.

²⁰⁹ Sandra Mackey, *op. cit.*

²¹⁰ *Ibid.*

²¹¹ A. Rahnema, and F. Nomani, *The Competing Shi'a Subsystem in Contemporary Iran*, London: I.B. Tauris, 1995, p. 73.

²¹² A. Rahnema, and F. Nomani, *op. cit.*

²¹³ Ervand Abrahamian, *op. cit.*

- The rejection of statism, whereby the government takes from individuals and spends on others, as it sees fit; and,
- The notion that poverty is not a 'bad' condition, since it can lead to well being.

After the Revolution, Motahari's sub-system was theoretically embraced not only by the traditional commercial bourgeoisie (bazaar merchants) who had historically strong ties with the clergy, and property owning groups, but also by a large section of prominent conservative clerical figures who detested the radical socio-economic changes advocated by Ali Shariati (who had questioned the authority of the high-ranking jurists)²¹⁴. The unreserved support of Ayatullah Khomeini has enhanced the authority of Motahari as the leading theoretician of the Islamic Republic.²¹⁵

In the context of privatisation, Motahari expressed somewhat conflicting views. On the one hand, his ideas strongly supported liberty and property rights of individuals, viewing these individuals as essentially non-corrupt and able to make ethical decisions in relation to others. On the other hand, however, he argues for overseeing control of privatisation issues by the state, which, in Iranian terms, equates with the clergy, with the assumption that they are the all-knowing and non-corrupt moral guardians of an Islamic way of life.²¹⁶

2.3.2 Ali Shariati²¹⁷

Ali Shariati's [As anti-imperialists, antimonarchists, and anti-Marxists, as transitional ideologues against tradition and for progressive Islam and social reform, the group at Hosseinieh Ershad²¹⁸ played an important role in educating and politicising, particularly among lower-middle-class university students²¹⁹] sub-system²²⁰ is essentially a political attempt in mobilisation of the Iranian youth in combating despotism, capitalism and

²¹⁴ Sandra Mackey, *op. cit.*

²¹⁵ See: A. Rehnema, and F. Nomani, *op. cit.*; Sandra Mackey, *op. cit.*

²¹⁶ Ervand Abrahamian, *Khomeinism, op. cit.*

²¹⁷ Ali Shariati, the most furious revolutionary among the ideologues of rebellion led by Islam, was not a cleric. He did not live to see the revolution he helped spawn. In June 1977, the exiled Ali Shariati suffered an unexpected heart attack. See: Sandra Mackey, *op. cit.*

²¹⁸ A place, which was used by Ali Shariati to educate youths (particularly university students) to become familiar with the truth in Islam.

²¹⁹ Annabelle Sreberny-Mohammadi, Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University of Minnesota Press, 1994, P. 87.

²²⁰ A. Rehnema, and F. Nomani, *op. cit.*

imperialism. He fuses together Western theories and Third-Worldist politics dressed in an interpretation of *Shi'a* Islam, and uses familiar religious-based median to communicate these themes and ideas. His interpretation of Islam found ready audiences among college and university students who had come from mainly traditional families in which religion played an important part in their upbringing, and which provided an ideal and an identity that they could be proud of and defend. Shariati regarded intellectuals as the main catalysts for social change; thus, they had to be politicised in order to carry out their liberating historical duty.²²¹ He used Qur'an and *Sunna* with an emphasis on the tradition of Imam Ali and Imam Hosein²²² as an ideal model in his independent reasoning, drawing upon what he considered to be the spirit, objective and correct interpretation of Islam. He interpreted the Qura'nic verses and deduced references to modern concepts used in analysis of the capitalist system. According to Shariati, the Islam of Imam Ali, which reflected a polarised view of society based on struggling classes, represented Islam's correct vision of society.²²³ The following points are worth noting in this sub-system²²⁴:

- It is an attempt at fusing together the themes and ideas of all those Western and Eastern seminal theoreticians that Shariati believed have shaped the world outlook of modern Western intellectuals.
- Believed that intellectuals, and not the poverty-ridden masses, were the catalysts of social change.
- Believed that Islamic social justice expresses equality in income and wealth.²²⁵
- Disagrees with clerical leadership.²²⁶
- Belief in the creation of a new social order based on the *Shi'a* principles of egalitarian justice (*adl*) and the revolutionary leadership and guidance of the 12 *Imams*.
- Belief in human free will and one's ability to choose.
- Belief in human collective responsibility to challenge and resist oppression and to struggle for the realisation of an ideal classless monotheistic Islam.

²²¹ *Ibid*, p. 74.

²²² First and third Imams in *Shi'ism*.

²²³ A. Rehnema, and F. Nomani, *op. cit.*, p. 75.

²²⁴ See: Sandra Mackey, *op. cit.*; A. Rehnema, and F. Nomani, *op. cit.*; Ali Shariati, *Khod Saziye Enqlabi*, Tehran: Hoseinieh Ershad, 1977, p. 158; Motahari, Morteza, *Nehzat-ha-ye Eslami Dar Sad Saleh Akher*, Tehran: Entesharat-e Sadra, 1982, p. 71; A. Rahnema and F. Nomani, *The Secular Miracle: Religion, Politics, and Economic Policy in Iran*, London: Zed Books, 1990, pp. 73-96.

²²⁵ Morteza Motahari, *op.cit.*, p. 71.

²²⁶ *Ibid*

- Belief in moral and collective incentive and the rejection of material incentives.
- Belief in the primacy of praxis for its members, who are not only believers but have to prove their faith through social and political activism.
- Belief in revolutionary justice, one that is retroactive when injustice has been committed.
- Belief in the benevolent dictatorship of a saintly figure that has the right attributes of a just Imam.
- Belief in the implementation of equality in the distribution of income and consumption.
- Belief in an Islamic reformation or Protestantism.
- Belief in the struggle against those ossified members of the clergy who justify a pacifist view of Islam in the face of social injustice and inequality.
- Belief in the struggle against colonialism and imperialism.²²⁷

Shariati's view of ownership starts from an interpretation of Islamic culture similar to that of Motahari; an Islamic community is built upon justice and equitable allocation of property, wealth and resources. Where Shariati's views differ from other thinkers is in his application of the Marxist ideals of ownership – collective ownership and no class structure to society, whether caused by wealth or religious hierarchy. This view of ownership does not allow for a privatisation culture modelled on the demands of the IMF and World Bank; it does, however, allow a model based on privatisation into the hands of the workers. As a consequence, this view necessarily downgrades the influence and importance of both the West and the Islamic clergy.

2.3.3 Navab Safavi

Navab Safavai's sub-system was primarily based on self-reliance and a religio-authoritarian state to restore the supremacy of Islamic values. He believed that Reza Shah ignored these values due to his modernisation drive based on a nationalistic and pro-Western authoritarian state.

²²⁷ Ali Shariati, *Mazhab' Aleyh-e- Mazhab*, Tehran: Hosienieh Ershad, 1977, p. 18.

Safavi's approach was purely doctrinal and completely immune to principles and concepts exogenous to traditional mainstream *Shi'a* Islam.²²⁸ He believed in:

- The administration of society according to the *Shari'a*, an important aspect of which is the application of Islamic punishments.
- The inability of secular laws to direct individuals toward felicity and salvation.
- Abolition of all non-Islamic laws, including the laws and practices challenging the legitimacy of ownership based on Islamic principles.
- The institution of martyrdom as a necessary act for the defence of Islam.
- The primacy of combating all foreign influences, ideas, and tendencies, which are deemed to be corrupting, and deviationist.
- Minimising contact and interaction between Muslims and foreigners, and breaking all political and military ties with countries such as the UK, the USA, and the Soviet Union, since they are all believed to be controlled and conditioned by lust and worldliness.
- A military alliance among all Islamic states.
- The revolutionary execution of all those who are disrespectful toward Islam or oppose the Islamisation of society.
- The construction of a mosque in every governmental office, factory and school, where prayers should be held regularly.
- Sexual segregation in schools and workshops and even on buses.
- The strict observation of the Islamic dress code for women.
- The prohibition of alcoholic beverages, cigarettes, gambling, prostitution, nightclubs, modern music and films, etc.
- Thoroughly Islamic educational system.

These ideas played a small, but an important part in the ideas of supporter of the Islamic Revolution and had considerable influence in the early years of the revolution. However with time and practical reality these strong ideas grew weak.

The views of Safavi come closest to Islamic orthodoxy and share some characteristics of the Taliban²²⁹ (fundamentalism) views. Implicit in this is the idea that ownership and privatisation in a Western interpretation are inimical to Islamic values. His virulent

²²⁸ Sayyed Hosein Khoshneiyat, *Syyed Mojtaba Navab-e Safavi*, Tehran: Entesharat Manshur-e Baradari, 1981, p. 202.

²²⁹ Ahmed Rashid, *Taliban: The Story of the Afghan Warlords*, London: Pan Macmillan, 2001.

opposition to any external non-Islamic influences would logically be extended to opposition to any Western model of privatisation.

2.3.4 Mehdi Bazargan²³⁰

Bazargan's approach²³¹ is totally different from the above three approaches. It is unique in the sense that it is based on the Qur'an, and tries to present Islam as a non-coercive and tolerant religion compatible with liberalism and political democracy. Thus, in this context it was an anti-authoritarian model to run an Islamic state on modern lines. Unlike the other three approaches, with their emphasis on control by the clergy and the need to impose strict Islamic values, Bazargan's Islam is one of non-exclusion, in which the 'other' - the anti-clerical intellectuals, the capitalists or the unveiled women - are neither castigated nor viewed as 'corrupters on earth'. By including the 'other' in God's family, Bazargan singles out tolerance as the cornerstone of Islam.²³² In his view:

- Observation and implementation of Islamic ordinances are considered to be private matters left to the discretion of individuals. It is argued that God has willed individuals to be free in their judgements and decisions. Freedom of choice is thus identified as the co-ordinating mechanism of the relationship between God and individuals.²³³
- Once God is argued to have given individuals the freedom of choice, forced compliance with Islamic edicts becomes meaningless and coercion as a mechanism to ensure Islamisation loses validity and justification.²³⁴
- Bazargan's sub-system is similar to the other sub-systems in that the implementation of the *Shari'a* (constitutes) its principal objective.
- God does not wish to impose His view of what is good on individuals, since coercion would negate their God-given freedom of choice.²³⁵

²³⁰ Mehdi Bazargan, a scrupulously religious man who was not a cleric, was one of Iran's Western-educated scholars. He was another of the pre-Revolutionary writers who had reshaped Marxist ideology in terms of Islam. For him, there was no conflict between the faith and his deeply held belief in the rule of law, parliamentary democracy, basic freedoms, and respect for the individual. Yet all were in Western political thoughts, which Ayatollah Khomeini viewed as secularism, that despicable cultural import from the imperial West. See: Sandra Mackey, *op. cit.*

²³¹ Mehdi Bazargan, *Rah-e Tai Shodeh*, Tehran: Sherakat Sahami Enteshar, 1959; Mehdi Bazargan, *Iranian Revolution in Two Directions*, Tehran: Sherakat Sahami Enteshar, 1984; Mehdi Bazargan, *Misled*, Tehran: Sherakat Sahami Enteshar, 1984; A. Rehnema and F. Nomani, *op. cit.*

²³² A. Rehnema and F. Nomani, *op. cit.* p.104.

²³³ Bazargan, Mehdi, *Bazyabi-ye Arzesh-ha*, Tehran: Naraghi, 1983, Vol. I, p. 132; Vol. II, p. 109.

²³⁴ *Ibid.* Vol. III, p. 78.

- Even though God foregoes His own rights in relation to individuals by giving them the freedom of choice, He will not allow the rights of any one individual to be violated by another.²³⁶
- Blind obedience and the imposition of a religion's political monolith is a clear violation of Islamic precepts. He rejects the forced imposition of religious or political instructions, even by a *marja-e taqlid*²³⁷, since it tampers with the principle of man's freedom and responsibility.²³⁸
- A mixed economy, in which the sanctity of property and legitimate ownership is respected, and the market with its price mechanism co-ordinate the demand and supply of goods.²³⁹
- In his mixed economy, the government is further responsible for ironing out the problems that the private sector cannot deal with - the provision of public services and securing public welfare - without ever becoming too self-indulgent.²⁴⁰
- In Bazargan's sub-system, *the mostaz'afin*²⁴¹ or the disinherited, whose welfare should be guaranteed in an Islamic state, do not only constitute the workers and the peasants, but also the clerical workers, the *bazaaris*, and members of the private sector.²⁴²
- There is no Islamic justification for the government of the jurisconsult (*velayat-e faqih*)²⁴³ if it is understood as a position of unlimited power with no accountability to the people.²⁴⁴
- According to Bazargan's sub-system the total monopolisation of power in the hands of the governing jurisconsult is an unprecedented religious innovation that is neither

²³⁵ *Ibid*, Vol. I , p. 73.

²³⁶ *Ibid*, p. 113.

²³⁷ Source of imitation.

²³⁸ Mehdi Bazargan, *Bazyabi-ye Arzesh-ha*, Tehran: (unpublished), 1983, Vol. I, p. 132; Vol. II, p. 117.

²³⁹ Mehdi Bazargan, *Moshkelat va Masa-el-e Avvalin Sale-e Enqelab*, Tehran: (unpublished), 1983, p. 201 [He believed in national growth with maximum utilisation of internal resources (indigenous development) but not forbidding entry of foreign technology and investment].

²⁴⁰ Mehdi Bazargan, *Iranian Revolution in Two Directions*, Tehran: Mehdi Bazargan, 1984.

²⁴¹ Oppressed.

²⁴² Mehdi Bazargan, *op. cit.*

²⁴³ Unchallenged power of jurist-theologians. Ayatollah Khomeini's edict of 6th June 1988 proclaimed the absolutist government of the jurisconsult (*Valayat-e Motlaqeh-ye Faqih*) and gave absolute legal power to the jurisconsult. See: M. J. Khalili, and S. Manafi, *Fundamentals of the Islamic Revolution: Selection from the Thoughts and Opinions of Imam Khomeini*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 2000; Imam Khomeini, *Valayat-e Faqih*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 1999.

²⁴⁴ Nehzat-e Azadi-ye Iran, *Tafsil va Tahlil-e Velatye-e Motlaqeh-ye Faqih*, Tehran: Nehzat-e Azadi Iran, 1988, p.150.

rooted in the *Sunna*,²⁴⁵ nor reflects the democratic Qur'anic principle that 'affairs of the people should be conducted on the basis of mutual consultation.'²⁴⁶

This thesis draws on a wide range of ideas, but it has been particularly influenced by arguments which Bazargan illustrates. This suggests that 'appropriate' but real economic development is possible within the context of an Islamic society. It also suggests that reconciliation between environmental and social priorities and economic growth may be possible. Bazargan's interpretation of Islamic principles in the contemporary world is compatible with a free enterprise-based privatisation model, which nevertheless takes account of Islamic values and Iranian culture.

2.4 Ayatullah Khomeini²⁴⁷ and Post-Revolution Iran

The review of the above Islamic ideological approaches reflects that various intellectuals made efforts to create a state development model to transform Iran into an independent self-reliant country, keeping in mind the state autonomy on the basis of Islamic principles. However, all these theorists lacked the opportunity to experience implementation of their thought. In spite of this they affected and provided seeds for the future Islamic model.²⁴⁸ Only the late Ayatullah Khomeini had the chance to implement an Islamic model. His approach is reflected in the formation of the Iranian Constitution, which is based on his thoughts, and interpretation of *Shari'a*. His main emphasis was on social justice and political and economic independence.²⁴⁹ Khomeini's view of

²⁴⁵ Prophetic teachings and practices.

²⁴⁶ The Quran, 42:38.

²⁴⁷ Ayatullah Khomeini was born in 1902 (died in 1989) into a well-to-do family in Khomein (Central Iran). Both parents came from landed and clerical families. His mother was the sister of a local landlord and the daughter of Akhund Haj Mulla Hosayn Khonsari, a highly respected *mojtahed* (high ranking cleric). Ayatullah Khomeini's father studied in Isfahan and then in Najaf (in Iraq), in Ottoman Empire, where he obtained his *ejtehad* (higher theology degree). He had a retinue of servants and armed guards. Ayatullah Khomeini's parental grandfather, Syiid Ahmad, who died in 1868, was born in Kashmir, where his own father, originally was from Nishabour (East of Iran). See: Ervand Abrahamian, *Khomeinism, Essays on the Islamic Republic*, Berkeley: University of California Press, 1993; Baqir Moin, *Khomeini, Life of the Ayattollah*, London: I.B. Tauris, 1999; *Islam and Revolution: Writings and Declarations of Imam Khomeini*: Tran. and annotated by Hamid Algar, Berkeley: Mizan Press, 1981.

²⁴⁸ Although Mehdi Bazargan was in power as the first prime minister of the Islamic Republic of Iran, he could not implement his thoughts because political differences with ruling clergies forced him to leave office. See: Mehdi Bazargan, *Islamic Revolution in Two Directions*, *op. cit.*; Sandra Mackey, *op. cit.*

²⁴⁹ See: Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997; Nikki R. Keddie, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983; Parvin Alizadeh, *The Economy of Iran: Dilemmas of an Islamic State*, London: I.B. Tauris, 2000; A. Rahnama

ownership and privatisation bears similarities to those of Motahari and Bazargan in that the right to ownership is acknowledged as an Islamic principle and as a basis for a balanced economy. The differences, however, align Khomeini more with a strict interpretation of *Shari'a* law, in that significant control is given to the clergy, and in particular the clerical judiciary as an arbiter of rights to ownership. A positive feature of Ayatullah Khomeini's reign was his willingness to modify, and if need be, moderate, his views in the light of exigencies.

The most distinctive feature of the 1979 Iranian Revolution is that the movement began to formulate its objectives only in the last phase of the revolution. The formulation of the objectives was the result of a series of resolutions, which reflected a negotiated summation of demands of different interest groups. After demanding the establishment of the Government of Islamic Justice, the resolutions demanded 'the guarantee of the right of workers and peasants to the full benefit from the product of their labour', an end to 'the exploitation of man by man' and elimination of 'exploitative profiteering and economic domination which gives rise to accumulation of wealth, on the one hand, and deprivation and poverty on the other'. The resolutions demanded 'honourable economic independence, rejuvenation of agriculture and development to the limits of self-sufficiency and liberation from dependence from foreign domination, and an end to exploitation ... and dependence on, imperialism of East and West.'²⁵⁰ One of the effects of the dilemma questioned implicitly the sanctity of property ownership, particularly of those who had accumulated huge amount of wealth, which was claimed to be a result of the privileged relationships with the Shah's regime.

However, the nationalisation and expropriation of a large segment of the private sector was carried out without a clear idea about which type of economic system would replace it.²⁵¹ The Constitution divided up the state authorities; government as the executive body, headed by the president supervising a highly centralised state; the judiciary with power to appoint district judges; and the national parliament, elected through universal adult suffrage. It superimposes on the structure of the Constitution the concept of *velayat-e faqih*²⁵², which is given the authority to dismiss the president,

and F. Nomani, *The Secular Miracle: Religion, Politics, and Economic Policy in Iran*, London: Zed Books, 1990.

²⁵⁰ *Ibid.*

²⁵¹ Personal interview with individuals (AB, G, H, L and U) identified in Appendix 3.

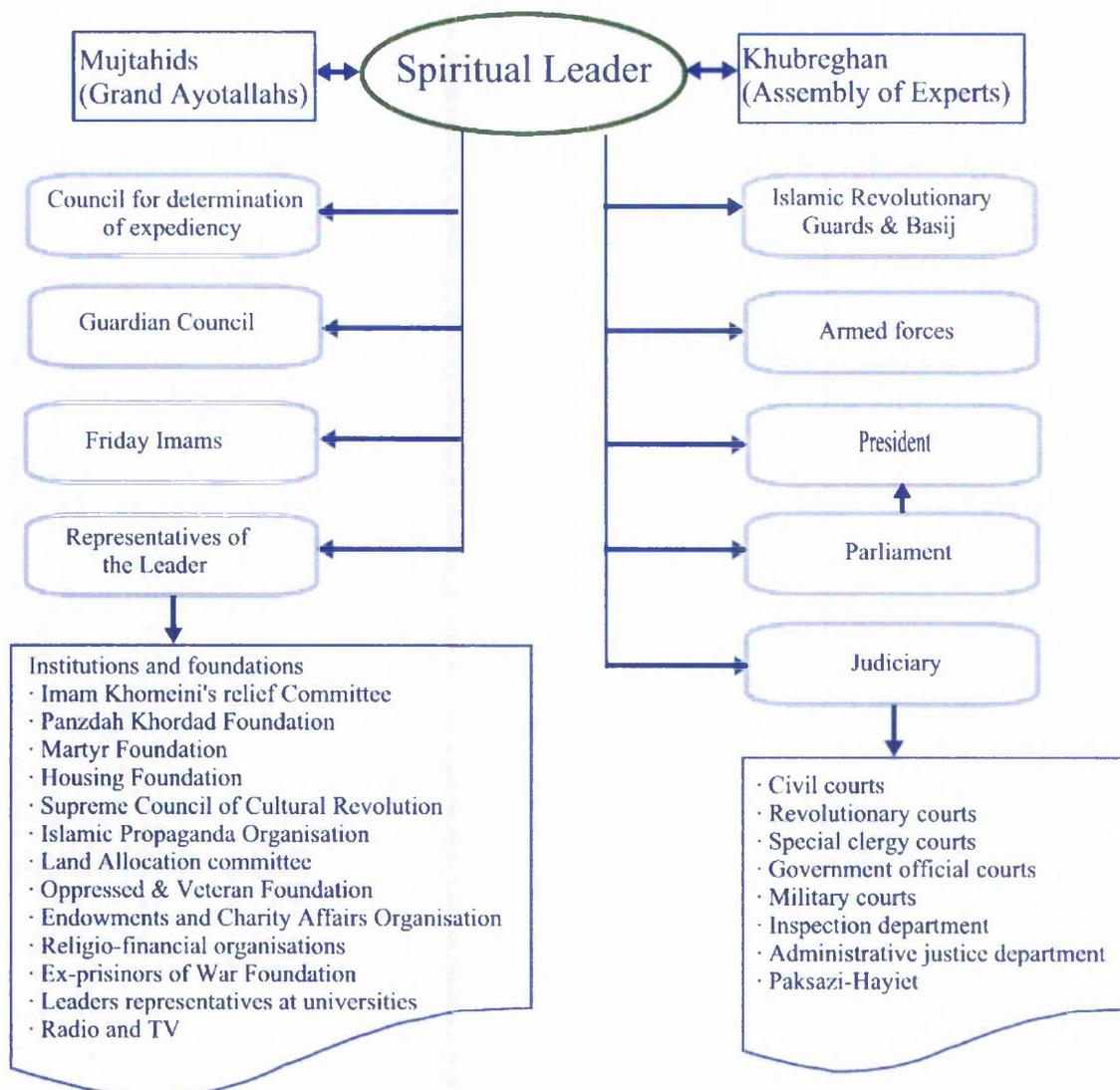
²⁵² Ayatollah R. Khomeini, *Kashaf al-Asrar (Secrets Unveiled)*, Tehran: (n.d.) 1943; Ervand Abrahamian, *Khomeinism, Essays on the Islamic Republic*, Berkeley: University of California Press, 1993.

appoint the main military commanders, and name senior clerics to the *Shawra-ye Nagahban*²⁵³ whose chief responsibility is to ensure that all laws passed by parliament conform to the *Shari'a*²⁵⁴. This state authoritative system is indicated in the following diagram.

²⁵³ Council of Guardians.

²⁵⁴ Asghr Schirazi, Translated by John O'Kane, *The Constitution of Iran: Politics and the State in the Islamic Republic*, London: I.B. Tauris, 1998, pp. 74-75.

State Administrative System of Islamic Republic of Islam



Note:

1. This diagram is based on various official and unofficial documents and personal interviews and discussions of the researcher with individuals. It is based on the researcher's own interpretation of various findings and is not intended to imply any criticism or to offend the principles of Islam.
2. The *Khubreghan* elects Spiritual Leader and he is the supreme governing authority on behalf of *Imam* (in *Shi'ism*). The *Mujtahideen* (Grand Ayatollahs) obeys his orders in state grounds. He is the final authority in religious as well as state matters. But the legitimacy of his orders should be in accordance with *Shari'a* and be agreed by *Mujtahideen*.
3. Council of Guardians is chosen by six persons appointed by the Spiritual Leader and another six proposed by the Judiciary on the approval of the parliament.
4. *Khubreghan* are elected by general public and are approved by the Council of Guardians.
5. *Mujtahid* can issue a '*Fatwa*'; however, the state is not bound to obey it.
6. *Showrai Maslahat* (Council for Determination of Expediency) is an arbitrator between parliament and the Council of Guardians. The Spiritual Leader chooses the members of this council.
7. General public elects the members of the parliament, which then should be approved by the Council of Guardians. The bills approved by the parliament also need clearance from the Council of Guardians.
8. The Islamic Revolutionary Guards are under the direct control of the Spiritual Leader. The Guard has three components parallel to Army, Navy and the Air Force..
9. *Basij* is a militia force equipped with light arms, which follows the orders of religious authorities in enforcement of Islamic laws.

10. Friday *Imams* are not only clergies, they have a lot of politico-social powers and hence they influence various government policies and decisions.
11. The President is directly elected by the people, but he has also to seek approval from the Parliament, Council of Guardians and the Spiritual Leader. Next to the Spiritual Leader he holds the highest office and is responsible for supervision of the proper implementation of the Constitution. He is responsible to the Spiritual Leader, Parliament and general public. In fact, due to the complexity of the national governing system, he has many responsibilities but with only limited authority: he is even not authorised to appoint his own security guard. This situation has made him politically paralysed and unable to make decisions of national importance.
12. The Representatives of the Spiritual Leader control various state businesses and charity organisations. They are exempted from any government tax and audits. Clergies and religious organisations mainly supervise the authorities of these organisations. According to unofficial estimates, these organisations control more than a quarter of the national economy while the Military, Revolutionary Guards and Basij consume a significant part of another quarter. Thus, nearly half of the economy is beyond the control of the elected government or President. The remaining half is mainly used in administration, enforcement of law and order and salaries of the government staff. In this environment, it is not difficult to judge how much resources are left for capital formation.
13. It is clear that this whole system is extremely complicated and tightly controlled by various religiously dominated organisations and influential interested groups, which have direct and indirect power in the national system. Thus the national system does not present a straightforward process for a local or a foreign investor to take the risk for long-term investment.

As is discussed in section 3.1, the literature on historical sociology, which was introduced in chapter one, has relevance too. For the history of colonial impact (even though Iran was never properly speaking a colony) has had, one can conclude, a powerful impact on state formation and on state-society-economy relations over the long-term. As Zhang²⁵⁵ notes in relation to China, the penetration of colonial empires not only contributed to the dissolution of earlier state formation (the Empire) but also provided alternative models and at the same time promoted distorted or deformed patterns of weakened state formation in the creation of the final days of the imperial state and its nationalist and warlord state successors. However, in the case of Iran, there is another unique point that this state-society-economy formation is linked with its religio-cultural history. This element has become more dominant in the context of current global affairs and international politics. It is particularly true, both whether the regime was secular or religious. For instance, the Pahlavi Empire based on secular ideology emphasised on its past with reference to its 2500 year old origin of the Persian Empire, while the Islamic Revolution which is unique in the context of 'religious fundamentalism',²⁵⁶ dominated by clergy sought its roots of legitimacy in Prophet Mohammed's (*mpbuh*) time (14 centuries ago). However, due to its endogenous

²⁵⁵ Y. Zhang, 'System, Empire and State in Chinese International Relations', *Review of International Studies*, (special issue on Empires, Systems and States: Great Transformations in International Politics), Vol. 27, December 2001, pp. 43-64.

²⁵⁶ Fred Halliday, *Islam & the Myth of Confrontation: Religion and Politics in the Middle East*, London: I.B. Tauris, 1999.

weaknesses, both regimes could not escape from the ex- and new-colonisers.²⁵⁷ In Iran, the lessons of colonial penetration were in many respects comparable, leaving a weakened state and distorted sense of what the state might be both in the 'warlordism' of the early 20th century and in the ersatz empire of the 1960s and 1970s. The post-revolutionary state, I shall argue later in chapter three and elsewhere in the thesis, owes more than its protagonists would perhaps like to admit to the past in the ways in which the state interacts with and mutually constitutes society and economy.²⁵⁸

Palan and Blair argued that the state is deemed to possess a personality of its own²⁵⁹ and in this perspective, Deans claims that the success of a country's economy clearly influences the legitimacy of a government in any regime. This research reflects (Chapter Four) that these principles which directly and indirectly affect the state of ownership and the overall privatisation process, are not fully functioning in Iran. In a similar context, Palan and Abbott²⁶⁰ point to the blurring of boundaries between the public and private in the developmental state. While they have East Asian examples particularly in mind, they draw on Polanyi²⁶¹ to suggest that this is necessary and not just accidental in the development process. Although the logic of capitalism depends on having a powerful private sector with the capacity to invest and make decision based on profit and the profit motive, the state also plays a key role in shaping the rules of the growth. In rapidly changing industrialising societies, it is the state which shakes the rules of property and ownership up in the air, and in all societies which have successfully adapted to capitalist conditions there have been periods where political and economic leadership talked the language of stable property rights and stable contracts, while themselves unhinging the rules for a period in order to redistribute rights away from and old class (landowners or feudal rights holders) and towards an emerging new class. Palan and Abbott cite Korea and Japan as examples while Polanyi cites England and Germany²⁶². However, recent history of Iran particularly the post-revolution situation

²⁵⁷ For further study, see: Ali Mohammadi and Mohammad Ahsan, *Globalisation of Recolonisation: The Muslim World in the 21st Century*, London: TaHa Publishers, 2002.

²⁵⁸ Stephen Hobden, 'Theorising the International System: Perspectives from Historical Sociology', *Review of International Studies*, Vol. 25-2, 1999, pp. 257-271.

²⁵⁹ See: Ronen Palan and Brook Blair, 'On the Idealist Origins of the Realist Theory of International Relations', *Review of International Studies*, Vol. 19, pp. 385-399 cited in Ronen Palan and Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999, p. 41; Phil Deans, *The Capitalist Development State in East Asia*, *op. cit.*, p. 99.

²⁶⁰ Ronen Palan and Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1996.

²⁶¹ Karl Polanyi, *The Great Transformation*, Boston: Beacon Press, 1957.

²⁶² Ronen Palan and Jason Abbott, *State Strategies in the Global Political Economy*, London: Pinter, 1996, pp. 81-83.

reveals that it is not so clear either that any one interest or party has been in control or that benefits have been redistributed so rationally²⁶³. Although there has been an ongoing conflict over values and the private/public distinction and the legitimacy of ownership, it has been an arena for the pursuit of other (often ideological) disputes which have been left unresolved because, as explained above, the power structure has not been clearly captured by a defined group of interests as it was in the other examples they cite, and because the state has therefore been unable to bring these disputes to resolution.²⁶⁴

2.5 Uniqueness of the Iranian System

It may be noted here that the Islamic Constitution of the country promises all citizens pensions, social security, unemployment benefits, disability pay, medical services, and free education up to secondary level. It also promises to: eradicate hoarding, usury, monopolies, poverty and social deprivation; provide interest-free loans; utilise science and technology; and plan the economy in such a way that all individuals will have the time and opportunity to enhance their moral and social development and participate in the leadership and management of the country.²⁶⁵ Although the Constitution is formulated on the basis of good intention, this is a unique type of state administration system, in which nearly half of the national economy is beyond any audit and accountability by the government, and which has never been tried before in any other part of the world. This opens the possibility of corruption on a large scale, as well as the arbitrary use of power.

Furthermore, to achieve the aforesaid objectives of the Constitution, this economic model promises to make Iran fully independent and self-protective rather than dependent on a capitalist economy, and also promises to pay off external loans, and

²⁶³ *Ibid*, p. 37.

²⁶⁴ There are two important points in this regards: i) the dispute about the role of Multi National Corporations (MNCs) in the context of Iran's socio-religious background as a part of dependency theory, and ii) role of Iranians investors (with their secularist views) living abroad and are willing to come to Iran and be a part of the state, society and system. These people are not accepted by the state backed revolutionary groups who came to power after the revolution because of their religious affiliations.

²⁶⁵ CIRI, *Constitution of Islamic Republic of Iran*, trans. H. Algar, Berkeley, Calif: Mizan Press 1980, pp. 26-43.

cancel concessions to foreign nationals and companies.²⁶⁶ The important aspects of the Constitution with regard to economic issues are the Articles 44, 47 and 49, which limit the activities of private entrepreneurs and internal and external capital formation. It is important that on the one hand the Constitution promises comprehensive social benefits from cradle to grave, whilst on the other it puts limits on the required management and capital formation to satisfy its own promises. Coupled with the complex state administration system, the whole package presents a unique picture of the country in the globalised world. Needless to say, several other characters further contribute to this uniqueness, e.g.:

- It is unique in the sense that after more than two and a half thousand years of history in which it was invaded several times, the national echo is still defending its Persian culture. According to Mohammadi and Mohammadi, ‘the slippage between the notion of the “Iranian revolution” and that of the “Islamic revolution” is one indication of the struggle around identity and “naming the community” that was a central part of the revolutionary process. This identity crises was not a simple conflict between modernity and tradition but between a highly dependent and dictatorial process of modernisation and a retraditionalising rhetoric based on indigenous culture [as discussed in chapter two] in which competing communicative structure offered different definitions and visions of the national community.’²⁶⁷
- ‘The Iranian revolution ranks as one of the most tumultuous popular revolution in history. It differed significantly from other Third World revolutions and movements of national liberation in several fundamental ways. Unlike the Chinese, Vietnamese and Angolan struggles, for example, which were based on peasant mobilisation in the countryside, the Iranian movement had an urban dynamic.’²⁶⁸
- In the contemporary Iran, there are three main forces struggling for dominance. One segment of the society - hard-liner Islamists - want to export this brand of revolution to other countries, another segment pushes for traditional Persian monarchy, whilst the third segment is pro-Western. This last segment consists mainly of the young

²⁶⁶ *Ibid.*

²⁶⁷ Annabelle Sreberny-Mohammadi and Ali Mohammadi, *Small Media, Big Revolution: Communication, Culture, and the Iranian Revolution*, Minnesota: University Minnesota Press, 1994, p. 4.

²⁶⁸ *Ibid.*, p. xvii. Also see: Halliday, Fred, ‘The Iranian Revolution: Uneven Development and Religious Populism’, in F. Halliday and H. Alavi (eds.), *State and Ideology in Middle East and Pakistan*, New York: Monthly Review Press, 1988, pp. 31-63.

and educated generation and is heavily influenced by the mass media and the current waves of globalisation.

- The country is situated in a troubled region of the world. It is hosting more than two million refugees from Afghanistan and Iraq while at the same time more than two million Iranians have emigrated abroad, mainly to the West. The majority of these emigrants belonged to the educated and wealthy segments of the society, which was a drain upon the human and financial capital of the country. In contrast, the immigrants are usually very poor and many of them are involved in illegal practices.
- In theory, the country is the only *Shi'a* Islamic welfare state in the world and is rich in natural resources, particularly oil and gas. However, in spite of this nearly, one fifth of the population is living under conditions of extreme poverty. Even ignoring one half of the population, the female half, it has a 16 percent unemployment²⁶⁹ rate, one of the highest in the world.
- The level of the efficiency of the system can be judged from the fact that some estimates reflect that the average real working time of employees in government offices is less than one hour.

One of the important points in this discussion of uniqueness is that the interest groups are extremely dominant in the Iranian economy and the clergy supports them. But does such pursuit of self-interest by individuals and interest groups operating in an economy with conflicting aims and with unequal access to decision-makers, bring about the desirable optimum allocation of resources for the country as a whole? An assumption underlying neo-classical microeconomics was that the sum of individual welfare and utility maximisation adds up to maximization of social welfare. However, Olson disagrees and believes that the special-interest groups will only cater to the interests of their members, and thus will reduce the efficiency and aggregate income of the society as a whole in which they operate. Whilst economic competition in the market generates efficiency in resource allocation, competition in the political markets based on self-

²⁶⁹ Minister of the Iranian Security raised the following points:

- Smuggling, addictions, high rising divorces, burglaries, crimes and many social unrests are due to poverty and unemployment.
- Main option is to facilitate a secure environment for the investors.
- All judiciary and executive bodies have to give necessary services to the investors

See: *Et'laat* (Daily Newspaper), 29/04/02.

interested behaviour generates a negative outcome.²⁷⁰ On balance, special interest organisations, collusion and their coalitions will reduce efficiency and aggregate income and make political life more divisive.²⁷¹ Their lobbying will look after their own segmental interest and not that of the population as a whole. They will induce the government to make rules and pass legislation that would benefit them exclusively. As a consequence, over time, laws and regulations would become complex, bringing lawyers into the field to find loopholes in the laws for the benefit of interest groups or to find ways of plugging these on behalf of the government. There can be an unending process of loophole discoveries and closures with the complexity and cost of regulation continually increasing. The coalitions will strive to capture the largest possible share of national income at the cost of the vast majority who are poor and unorganised.²⁷² Bazargan, Ashkwari and Ibrahim Yasdi, famous Iranian religious intellectuals (believing in a reformist interpretation of *shari'a* principles), also follow these views.²⁷³ In fact, the difference between traditional Western interest groups and the Iranian interest groups is that in the Western world there is a predefined and well established administrative, judicial and taxation system, politically based on strong national institutions. A profound democracy and accountability strengthen the environment of security for ownership and business activities. Although this type of system is supported by *Shari'a* and the Iranian constitution, unfortunately, it is not applied in its true sense due to the weakness of state institutions. Thus, it promotes individualism rather than pluralism. It also promotes political and economic uncertainty.

²⁷⁰ Merilee S. Grindle, and John W. Thomas, *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries*, Baltimore and London: John Hopkins University Press, 1991, pp. 25-26.

²⁷¹ Olson, Mancur, *The Rise and Decline of Nations: Economic Growth Stagflation and Social Rigidities*, New Haven and London: Yale University Press, 1982, p. 47.

²⁷² *Ibid*, pp. 69-73.

²⁷³ See: Mehdi Bazargan, *Iranian Revolution in Two Directions*, Tehran: Mehdi Bazargan, 1984; Mohammad Ghochani (compilation on the basis of discussion with Hujat ul Islam Hasan Yousafi Ashkwari), *Government of Theocrats and Theocrats in Government*, Tehran: Hashimioun, 2000; Ibrahim Yazdi, *Three Republics*, Tehran: Bahman, 2000.

2.6 Western Secular Thought on Economic Development

In the context of Islamic thought, it would also be appropriate to discuss briefly the secular schools of thought regarding the development and right of ownership (Table 2.2). Here, almost all of the philosophical, political and economic theories have been developed with the key objective of either defining the limits of 'ownership' or 'property' or governing conflicts between an individual's 'needs' and 'wants' with those of other individuals or the society as a whole.²⁷⁴ In addition to material wealth (property), Susan Strange believes that certain 'higher level' needs and wants, like security, freedom, and justice, have also played important roles in the debates about individual rights.²⁷⁵ In this context, various arguments have been presented by different secularists such as Keynes, who accepted freedom in the society and proposed some limitations in the form of state intervention,²⁷⁶ and Kindleberger and Herrick, who examined a process in which government and private enterprise worked together to improve the welfare of the people.²⁷⁷

The secular debates in economic thought mainly deal with accelerated wealth expansion, own-managed private property (which is necessary for individual initiative), maximum production and 'want satisfaction' in accordance with individual preference and self-interest (which ultimately serve collective interest). In secular philosophy (liberal and Marxist), these materialistic aspects are considered the basic elements of human well being and development. In fact, it would not be wrong to say that, in a Western perspective, this is the essence of classical and modern schools of thought. Here, it is also worth mentioning that the philosophy of the Classical School is based on a *Laissez Faire* model, while the Modern School emphasizes government intervention either directly or through its regulatory bodies that monitor the private sector. This intervention is mainly prevalent in monetary and fiscal policies.

²⁷⁴ D.P. Levine, *Wealth and Freedom*, London: Cambridge University Press, 1995, pp. 20-30.

²⁷⁵ Susan Strange, *States and Markets*, London: Pinter Publishers, 1988, pp. 16-17.

²⁷⁶ Eric Roll, *A History of Economic Thought*, London: Faber and Faber Ltd., 1938, p. 449.

²⁷⁷ Jacques V. Dinavo, *Privatization in Developing Countries*, Westport: 1995, pp. 23-24.

Table 2.2: An Overview of Wealth and Ownership in Different Schools of Thought

School of Thought	Description
<p>Pre-classical Plato & Aristotle</p>	<ul style="list-style-type: none"> • They believed that a minimum amount of wealth is essential to the good life. The household exists for the purpose of satisfying natural wants by producing useful commodities or acquiring them by exchange for consumption. • Plato's view: <ol style="list-style-type: none"> i) A systematic expansion of the principles of society and the origin of the <i>city state</i> and the division of labour; and, ii) The city arises because of the division of labour which itself is the result of natural inequalities in human skill and the multiplicity of human wants. • Aristotle's view: <ol style="list-style-type: none"> i) More private property with its liberal use. ii) In favour of money rather than barter exchange. iii) Against usury; and, iv) His attack on the community of property is almost entirely based on the <i>incentive</i> argument; communal property will not be looked after as carefully as private property.
<p><i>Classical</i></p> <ul style="list-style-type: none"> • Adam Smith (1723-1790) • Ricardo (1772-1823) 	<ul style="list-style-type: none"> • The last quarter of the 18th century and the beginning of the Industrial Revolution opened up vast possibilities of expansion to the recently established mode of industrial capitalism. • England was the most advanced capitalist country, and its political structure had begun to change in accordance with the ideas of liberalism long before the French Revolution released its stimulus for the forces of liberalism everywhere. • The champion of the <i>Laissez Faire</i> approach. • He was under no illusion about the desire of individuals including businessmen to create a privileged position for themselves. But he nevertheless believed in the harmony of interest, because he thought that these privileged positions could only be maintained with state support without the intervention of government. • He believed in natural order; however, he did not doubt the compatibility of social harmony with the institution of private property. He also believed in the defence of the rich against the poor by the government and thought that property was the chief cause of authority and subordination. • Claimed that inherent natural order is superior to any order artificially created by mankind and the wise social organisations need to act in harmony with the dictates of the natural order. • He stressed the point that the benefit of one should not conflict with the good of others. • Believed that labour is the main source of the wealth of the nation and it depends on the degree of productivity of the labour and the amount of useful labour. • <i>Theory of value and distribution:</i> The whole produce is divided among the three classes of the community, that the proportions of this division vary in different stages of society, that 'to determine the laws which regulate this distribution are the

<ul style="list-style-type: none"> • Edmund Burke • Gentz (1764-1832) 	<p>principal problem in political economy', and that hitherto there has been very little satisfactory information respecting the natural course of rent, profit, and wages.</p> <ul style="list-style-type: none"> • <i>Analysis of the causes of the value:</i> The discovery of the origin of the surplus product and consequent classification of different activities and classes of society and of various policies in relation to the production, accumulation, and distribution of surplus. • He was in favour of non-interventionism, except for state finance. • He favoured a wealthy and financially independent Church. • He was also in favour of rights of property. • In his philosophy working classes are capable of governing. • He thought that self-interest was the main motive of human conduct for the individual and society. • Regarded the development of trade, industry, and scientific agriculture as un-natural, though he could not deny their usefulness. • Tried to compromise by stressing the power of public finance in molding the economic activities of the community as a whole. • In favour of indirect taxation as an instrument of state policy. • Excessive power assigned to the state is much in evidence in his theory of money.
<p>Marxism (Karl Marx 1818-1883)</p>	<ul style="list-style-type: none"> • Man is a social producer of his means of livelihood. • Labour, viewed as a producer of use-value, is not the source of value; for this labour cannot be exercised without some natural material. • The form, in which the proportional division of labour operates in a society where the inter-connection of social labour is manifested in the private exchange of the individual products of labour, is precisely the exchange value of these products. • Social production involves certain social relations, the quality of which depends upon the degree of development of the social productive powers. • In order to allow the expanding productive process, the social change is essential. Therefore, political and legal institutions have to change and so will ideas. • The society can be classified on the basis of the factor of ownership of the material means of production. This division is the basis of the process of production and all other economic phenomena. Once economic relations have been established the process of production itself makes them subject to change.
<p><i>Modern</i></p> <ul style="list-style-type: none"> • Alfred Marshall (1842-1924) 	<ul style="list-style-type: none"> • In Alfred Marshall's view the forces behind supply and demand are: <ul style="list-style-type: none"> i) Behind demand is marginal utility - reflected in demand prices of buyers. ii) Behind supply is marginal effort and sacrifice - reflected in the supply price. • The equilibrium between supply and demand can be considered as: <ul style="list-style-type: none"> i) There are the market value equity of supply and demand, when the supply is assumed fixed. ii) There are normal values, which relate to short or long periods.

<ul style="list-style-type: none"> • Keynes (1883-1946) 	<ul style="list-style-type: none"> • He was concerned with aggregate income consumption, saving, and investment rather than with the determination of individual prices which formed the core of the economic theory. • Regarding the supply and demand functions: <ul style="list-style-type: none"> i) Effective demand is defined as the aggregate income which the entrepreneurs expect to receive, inclusive of the income which they will hand on to other factors of production, from the amount of current employment which they decide to give. ii) A supply function can be established, relating the aggregate supply price of the output obtained by employing a variable number of men with that number. • The level of income determines the volume of employment; furthermore it is determined jointly by the level of consumption and by the level of investment. • Functional relation of the employment, consumption and investment gives a certain marginal propensity to consume. • The psychological attitude to liquidity and the psychological expectation of future yield from capital assets. • <i>Determinants of the volume of investment:</i> When a man invest he purchases the rights to the series of perspective net returns which he expects to obtain from selling, the output of the capital asset in which he has invested during the life of the asset (marginal efficiency of capital). • Emphasis on the government intervention when aggregate demand is inadequate to create full employment. • The essentials of the Capitalist system could be preserved without sacrificing full employment if government exercises proper control. • There are certain areas that should not be left to individual initiative. • State has to exercise a guiding influence on the propensity to consume partly through taxation and partly by fixing the rate of interest. • He proposed a mixed economy in which investment is socialized but in which private self-interest will continue to function in all areas in which it is compatible with full employment. He regarded this as 'the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the condition of the successful functioning of individual initiative.'
<ul style="list-style-type: none"> • Chicago School of Thought (-Frank Knight 1885-1946 -George Stigler 1910-1991 -Milton Friedman 1912- -James Buchanan 1918-) 	<ul style="list-style-type: none"> • Frank Knight is considered the leader of this school who emphasised the theory of individual choice based on households as the production units that seek to maximise utility much as firms seek to maximise profit. • They were pioneers in promoting law and economics as the chief interdisciplinary field of the social sciences by studying the effects of the assignment of property rights. • This school was interested towards the analysis of growth in underdeveloped countries via market mechanisms. • They were pro-liberalisation and economic freedom as a means to achieve higher efficiency of the market. • They emphasised the usefulness of sovereignty of consumers for maximising behaviour in their economic activity. • They stressed the point that in addition to the stock of physical capital and increasing the labour-force, the technical progress

	<p>and human capital are also important.</p> <ul style="list-style-type: none"> • They believed on philosophy of profit maximisation as a response to the incentives given to them (labour-force) in underdeveloped countries. • The market mechanism can stimulate efficiency and growth in an underdeveloped economy more effectively than the alternative policy of governmental planning as an instrument of economic development. • The necessity for encouraging the emergence of 'entrepreneurial personalities' in underdeveloped countries is a matter of special concern. • They urged government to facilitate private investment by supplying data not generally available to individuals. Education, free elections and nation-wide media were regarded useful in opening up an otherwise closed society.
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Sources:

- i) John Maynard Keynes, *The General Theory of Employment, Interest and Money*, London: Macmillan, 1936.
- ii) Ingrid Hahne Rima, *Development of Economic Analysis*, London: Rutledge, 1996.
- iii) Frank Knight, *Introduction to Carl Menger's Principles of Economics* (translated and edited by James Dingwall and Bert Hoselitz), New York: The Free Press, 1950.
- iv) Lowry, S. Todd, *The Archaeology of Economic Ideas*, Durham: Duke University Press, 1987.
- v) Karl Polanyi, et al, *Trade and Markets in Early Empires*, New York: Free Press, 1957.
- vi) Walsh, Vivian and Harvey Gram, *Classical and Neo-classical Theories of General Equilibrium*, Chapter 2, New York: Oxford University Press, 1980.
- vii) H. K. Betz, "How Does the German Historical School Fit?" *History of Political Economy* Vol. 20, (Fall 1988), pp. 409-30.
- viii) Rima, I.H. "Keynes' Vision and Economic Analysis," In *Keynes and Public Policy After 50 Years*, Vol. 2 edited by Omar F. Hamouda and Johan H. Smithin, Harts: Edward Elgar, 1988.

Note:

I have summarised –necessarily brief and selective - the history of Western economic thinking here for two main reasons. Firstly there is not, any more than there is in Islam, a simple consensus view. Instead, there are a series of complex and continuing debates. Although it is sometimes fashionable to agree that there is a telus, a tendency for a single meaning to emerge in these debates, that is not really the case. Nor is it the case in Islamic economic argument. Secondly, as the thesis will explore in some detail with respect to privatisation, these debates have interacted. It is perhaps going too far to say that there is a "conversation" between Western and Islamic debates on privatisation, but there have at least been elements of a dialogue. This thesis tries to promote that conversation. The discussion of Western economic thinking, necessarily brief, is a basic building block in understanding the shape or boundaries of that conversation. It is however also worth reminding oneself that these different theories are debated, and may be implemented, in a context which is always structurally and historically different in Iran from relatively developed economies. This is not only a difference of performance but also one of expectations and of the sense of stability in society and economy. Iranian people have never, at least in the twentieth century, been able to anticipate stable rules or orderly procedures in government for very long, and the existence of deep internal conflicts as well as external war have shaped these expectations profoundly.

2.7 Concluding Comments

This chapter focused on a theoretical debate on the reconstruction of the Iranian economy in an Islamic perspective with particular reference to the concept and the state of ownership. It reflected the diversity of interpretation of Islamic teachings made by various groups of clergy and intellectuals. It also discussed in detail the interpretation of Islam by Ayatullah Khomeimi, the founder of the Islamic revolution in Iran. The Iranian Constitution is mainly based on his thoughts. The Post-Revolution Iranian state system and national structure has also been tailored by him and is unique in the modern globalised world. After his death, his wishes for an independent Islamic model of the state are in the hands of clergy-supported interest groups, which are mainly opposed to democracy, freedom, liberalism, and reduction of the role of the state.

The discussion in this chapter raises many questions. For instance, how is the Iranian past relevant to the present? And in the present circumstance, do the boundaries and limits fixed by the system provide enough room for the development of required ownership and business opportunities? Is this unique national system and its institutions capable of overcoming the socio-economic problems of the country? Is this chaos leading the country towards increased dependency on foreign capital, technology and management? And, how do all these circumstances impinge on privatisation and capital formation in the country? The following chapters attempt to explore the answers to these questions. The chapter also demonstrates that there is not necessarily a conflict between orthodox Islamic principles and economic development. While some in the Islamic world fear economic and social change, to say all do is false and stereotyping. But equally, to say that economic development can only take place with an all-encompassing modernisation which requires the abandonment of culture and tradition as well as deeply held values is just as mistaken. This chapter demonstrates the subtlety and sophistication of Islamic thinking that can potentially be a resource, not an obstacle, for substantive economic and social development. This might not be easy to achieve, but it is not impossible.

As explained in Chapter One and presented in this chapter, the Islamic principles (*Shari'a*), their diverse interpretations, and the uniqueness of the Iran revolutionary state-society model, supports the view that the methodology that needed to be used in

this study would have to reflect the researcher's own experience and knowledge along the lines put forward in Chapter One.

Chapter Three

THE WEIGHT OF THE PAST: AN OVERVIEW OF PRE- REVOLUTION IRAN

The previous chapter has set the context of the thesis in terms of ideas and intellectual context. This chapter looks at the historical context. It takes up the suggestion by Fred Halliday²⁷⁸, among others, that the Iranian present is only understandable in the context of a long, complex and unique past. The contemporary Iranian state is obviously the product of its recent history, but what is not so obvious is how this history affected it. There is, on one side, a considerable body of literature that analyses the Iranian state or political system in terms of an underlying continuity.²⁷⁹ Such analysis argues that Iran has always been ruled by Shahs (pre-Revolution). It has never been a neutral country; Britain and Russia squabbled over it for more than a century. It is the only direct causeway from the Indian Ocean to the heart of Russian and ex-Russian countries. Throughout its history, this country has also been terrorised by Turks, Afghans, Indians and Mongols. These circumstances left their deep influences on Iranian society, which created imbalances in the whole process of socio-economic development. As discussed in Chapter Two, these imbalances negatively influenced the processes of professionalisation, skill development, technology, rationality and functionality, which are the prerequisites for development²⁸⁰. As the present is always linked with the past, this chapter is an attempt to analyse the salient features of Iranian history, which shape the possibility of development today, and which set the pattern for present and future privatisation programmes. It discusses the effects of ignorance of the history of Iranian economy on the pre-Revolution modernisation approach adopted by the Pahlavi dynasty, the role of religious and interest groups, and of nationalist and socialist factions. The question that needs to be asked is: what impact did historical changes have on national development? Also, how did various segments of the society react to a pre-

²⁷⁸ See: Fred Halliday, *Dictatorship and Development*, New York: Penguin Books Ltd., 1979; David E. Apter, *Rethinking Development: Modernization, Dependency and Post-modern Politics*, London: SAGE Publications, 1987; Sadegh Ziba-Kalam, *How We Became We: Roots of Underdevelopment in Iran*, Tehran: Rozaneh Publications, 1998.

²⁷⁹ See: Sadegh Ziba-Kalam, *op. cit.*; Ali Reza Gholi, *Murdering Elites*, Tehran: Nashre Nei.1999; Ebrahim Razaghi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publication, 1996.

²⁸⁰ See: Mohammad Ali Islami Nadoshan, *What Does She Have to Say?* Tehran: Enteshat 2000; Sadegh Ziba Kalam, *op. cit.*

revolutionary development approach based on growth indexes, but not including the general masses and their religio-cultural values as well as the absorptive capacity of the nation? This chapter tries to explore the answers to these questions.

Karl Polanyi²⁸¹ demonstrated the importance of the relationship between culture, state organisation, pattern of economic and financial structure, and social transformation in the west European industrial revolution. The central argument was that markets are not 'natural', still less are they naturally 'free'. Polanyi indicated how we do need to understand the powerful but contingent relations between social, political and economic factors as distinctive in each move of industrialisation, and perhaps in each case. More recent writers, such as Hobden²⁸² and Palan and Abbott²⁸³ have also emphasised the important role which relations between state and society - or between regulatory systems, authority and entrepreneurship - have in enabling development. But, even more than 'enabling', they also give it particular characteristics and direction in the long term. In this sense, this chapter is a key element in building the argument that, while comparisons may be illuminating, systematic 'comparative science', which reflects historical specifics, is not helpful in understanding present-day Iran. But both the experience of the 1979 Revolution in Iran and its ultimate fate and the future of the country are deeply rooted in the relationship which these authors identify, and which this chapter will chart.

3.1 The Structural Context in the Long Term

Iran is situated in South-Western Asia with a dry climate, and only one-tenth of the total land being cultivatable.²⁸⁴ The formation of population patterns in the vicinity of cultivatable areas created a distinctive population scatter, which resulted in huge distances between villages and cities. With average rainfall being 15-20 percent of that of Japan and Europe, Iran suffers immensely from shortage of irrigation water, which adversely affects the overall production and productivity of crops and livestock. A

²⁸¹ Karl Polanyi, *The Great Transformation: The Political and Economic Origin of Our Time*, Boston: Beacon Press, 1957.

²⁸² Stephen Hobden, 'Theorising the International System: Perspectives from Historical Sociology', *Review of International System*, Vol. 25, April 1999, pp. 257-271.

²⁸³ Ronen Palan and Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy*, London: Printer, 1999.

simple comparison of the resource distribution situation of Iran with Western Europe underlines the intensity of such a problem. The development of a chain of integration of local economies and subsequently the formation of a national economic network was hindered by the lack of production for export, due to lack of extra income and the subsequent lack of capital accumulation²⁸⁵.

The tribal element is another factor that needs to be considered.²⁸⁶ Their domination through Iranian history was due to the scarcity of water and rights of proprietorship. Shortage of water and great variations in weather conditions forced tribes to move more frequently; therefore, the origin of a permanent society and perennial proprietorship could not emerge. This situation led to reprisals and ambiguities in proprietorship.²⁸⁷ It can firmly be said that until the Pahlavi Empire each dynasty was associated with internal conflicts, instabilities and threats to proprietorship.²⁸⁸ It is important to point out that these sufferings were not only due to internal conflicts and instabilities which resulted in the destruction of society and blockage of socio-economic development: some external events caused greater damage, e.g. in the thirteenth and fourteenth centuries Genghis Khan Moghal (Ilkhanian), the world conqueror, demolished numerous cities and killed thousands of people in Iran.²⁸⁹ Sanderz, a nineteenth century historian, believed that this massive destruction of human and physical capital was the real cause of the downfall of the Iranian and Islamic civilisations.²⁹⁰ He argued that the Mongol destruction of the eastern regions of the world set apart the West, particularly Greece, Florence and Rome, which escaped this disaster.²⁹¹ In this sense, west European development owes much to an historical accident.

²⁸⁵ Housein Azimi, *Underdevelopment Circuits of Iranian Economy*, Tehran: Nashr-e Nei, 1996; Nili, Massoud, 'Tahlil-e Amal Kard-e Siasatha-ye Ta'dil-e Eqtesadi', in M. Nili (ed.), *Eqtesad-e Iran*, Tehran: Institute for Research in Planning and Development.

²⁸⁶ Vardasevei Abazar, *Reasons for not being Complete: the Feudalism of Iranian Society*, Tehran: Chapar Publishing Co, 1977, p. 9.

²⁸⁷ Khosro Khosravi, *Land Problems and Poor Peasants in Iran*, Tehran: Nashre Bidari, 1981, pp. 70, 103, 35; Fatemeh Moghadam, 'Property Rights and Islamic Revolution in Iran' in H. Esfandiari and A.L. Udovitch (eds.), *The Economic Dimensions of Middle Eastern History*, Princeton: The Darwin Press, 1990.

²⁸⁸ Sharden, a French tourist who visited Iran during the time of Shah Abbas (1642-1662), wrote in his diary that all of Ghazvin, Gilan, Mozandaran, Yazd, Kerman, Khorasan, and Azarbajejan belonged to Khaleseh (the Crown Property).

²⁸⁹ L. Hartog, *Genghis Khan: The Conqueror of the World*, London: I.B. Tauris, 1989, p. 111.

²⁹⁰ J.J. Sanderz, *Moghol, Conquests History* (translated by Abolchasem Halat), Tehran: Amir Kabir Publishing Co., 1982, p. 127.

²⁹¹ *Ibid.*, p. 179.

It was only in the recent past, i.e., during the nineteenth century, that Iranians as a nation first realised that their society faced various basic problems in terms of its internal and external environment. The key cause of this awareness was the development of international communication, which brought Iran and Iranians closer to the rest of the world and especially to the industrial revolution in the West. The newly industrialised Western countries needed cheap raw materials to run their factories and make bigger markets for their products; hence various international companies started to take an increasing interest in the Iranian economy. The ultimate outcome of these events was the deep realisation, by Iranian scholars, of the then underdeveloped status of socio-economic development in the country in comparison to that of the modernisation in the Western World.²⁹²

With the passage of time, Iranian scholars realised that the real base of Western development was its advancement in the fields of science and technology, which was the product of a series of evolutionary processes and was based on the institutional structure of their society. They went further and suggested that the importation of Western models was the only prescription for curing Iranian ills. These groups of people were supporters of the constitutional revolution in Iran. Other factions believed that the Western capitalist system, based on imperial and colonial philosophy, was a poisonous gift to humanity that only favoured the upper classes of the society.²⁹³ They believed in socialist schools of thought and were followers of Marx and Lenin.²⁹⁴

²⁹² For instance, until the mid nineteenth century, Iran had only one technical institution, - Dar-ul-Fonon - which was established by the then prime minister Amir Kabir, while Europe had modern centres for learning physics, chemistry, biology, mathematics, medicine, human sciences, history and geography. In the Western World, democracy was established on sound grounds, with real power rested with the parliament and people, while in Iran, the Shah in the centre and Governors in the provinces were the focus of power. Europe had thousands of kilometres of rail while Iran had just 15 kilometres. Thus, riding on animals, the speed of travel in Iran was just 40 kilometres per day. The towns and villages of Iran were only self-supportive and there was not enough surplus output for trade, i.e., no integrated economic activities at local and national levels and subsequently not enough circulation of money and capital, and, according to a Persian proverb, 'Iran was out of the world news'. See: Ervand Abrahamian, *Iran Between Two Revolutions*, Princeton: Princeton University Press, 1981, p. 14; Abdol Hadi Hari, *Early Thoughts of Iranian Thinkers Regarding the Western Civilisation*, Tehran: Amir Kabir Publishing Institute, 1988, Chapters 1-7 & 10.

²⁹³ In the nineteenth century, under the extended influence of secularism in Europe, some of the Iranian thinkers started arguing for the Constitutional Revolution. The then king, Mozafarondin Shah Ghajar, accused foreign powers of intervening in the internal affairs of the country. Similarly Reza Shah, who was considered (particularly by the *Ulama*) to be a friend of the British, was suspicious about the involvement of foreigners. His son, Mohammad Reza Shah, also claimed that Russia backed the uprising in Tabriz. At his place of exile in 1979, he gave an interview to the BBC in which he again expressed similar views and claimed involvement by foreigners in his overthrow and triumphs of the Islamic Revolution. Interestingly enough, it is quite common in Iran to blame foreigners in general, and the British in particular, as the root cause of every problem in the country. Such reported views substantiate the reality of foreign influence and validate the Iranian scholar's common belief that foreign influence in

One may ask the question: how and why did this state of indirect colonialism come to Iran? History provides an answer to this. The invasion of the Indian sub-continent by Nader Shah²⁹⁵ did not bring science, technology, culture, or civilisation but only provided wealth, which enriched the treasury but was not invested. The same applies to Agha Mohamad Khan Ghajar²⁹⁶ who invaded Christian parts of Ghafghaz (southern Russia). This is only one side of the story. At the dawn of the twentieth century Iran did not even know about its huge oil reserves in the southern part until [William Knox] D'Arcy, a British oil explorer, discovered it. Similar lack of knowledge continues to this day. Recently, the French Oil Company 'Total Oil' has been engaged in exploring new oil and gas reserves in the southern region of the country and has noted a lack of heavy technology and expertise in Iran. According to a newspaper report, the country, which has been a major exporter of petroleum and other related refined products, had started to import benzene.²⁹⁷ This regrettably reveals the under-developed state of the Iranian nation at the dawn of the twenty-first century. The literature on historical sociology, which was introduced in chapter one, has relevance here too. For the history of colonial impact (even though Iran was never properly speaking a colony) has had, one can conclude, a powerful impact on state formation and on state-society-economy relations over the long term. As Zhang²⁹⁸ notes in relation to China, the penetration of colonial empires not only contributed to the dissolution of earlier state formations (the Empire) but also provided alternative models and at the same time promoted distorted or deformed patterns of weakened state formation in the creation of the final days of the imperial state and its nationalist and warlord state successors. In Iran, the lessons of colonial penetration were in many respects comparable, leaving a weakened state and a distorted sense of what the state might be both in the 'warlordism' of the early twentieth century and in the ersatz empire of the 1960s and 1970s. The post-revolutionary state, I shall argue later in this chapter and elsewhere in the thesis, owes more than its

Iran led to a wide variety of financial and development problems, associated with corruption, elitism, and undemocratic rule.

²⁹⁴ In Iran, the socialist ideologies have gradually developed since the early twentieth century and became more influential after the downfall of Reza Shah. The socialists organised a political organisation called 'Hizb-i-Tuddeh Iran' which was welcomed by educated secularists of society. The development of a socialist school of thought occurred around two decades after the establishment of Nawab Safavi's school of thought, which was based on Islamic fundamentalism. See: Sayyed Hosein Khoshneiyat, *Sayyed Mojtaba Navab-Safavi*, Tehran: Entesharat-e Manshur-e Baradari, 1981, p. 202.

²⁹⁵ Iranian King in first half of eighteenth century.

²⁹⁶ Iranian King who ruled the country during the end of eighteenth and beginning of nineteenth century.

²⁹⁷ *The Weekly International Keyhan*, 12 April 2001.

²⁹⁸ Y. Zhang, 'System, Empire and State in Chinese International Relations', *Review of International Studies*, special issue on Empires, Systems and States: Great Transformation in International Politics, Vol. 27, special issue, December 2001, pp. 1-16.

protagonists would perhaps like to admit to the past in the ways in which the state interacts with and mutually constitutes society and economy Hobden²⁹⁹.

3.2 The Decline of Science and Intellectual Activities

Muslim civilisation was at its peak during the medieval age. Its advancement in science and technology influenced the rest of the world as the Western World now dominates the globe.³⁰⁰ With the passage of time Europe started to awake and gave birth to the renaissance which caused the Industrial Revolution and changed the life-style of Western society. This possibly was the turning point for the decline in development of the Muslim world (including Iran). Abdul Hadi Haeri believes that the real causes of the Muslim decline are the differences between philosophers and religious traditionalists. In his opinion, '... huge gap between pro-free thinkers and religious hard-liners widened until the Saljoghian (eleventh century) dynasty where they tried to adopt a single thinking style based on the consensus of different Muslim schools of thought.'³⁰¹ Mehdi Farshad and Zabiholha Safa support this contention of Haeri that deviation from rational and intellectual thinking in Iran occurred after Salajoghieh.³⁰² Haeri believes that such thinking originated in the ninth century in the centre of Islam (*Dar-ul-Islam*), i.e., two centuries before Salajoghian, although Salajegheh followed and promoted it. In reality, this process was initiated during Ghaznavian's reign (i.e., tenth century), and was further developed by Muslim scientists and thinkers throughout the eleventh and twelfth centuries.³⁰³ Mehdi Farshad described that the learning of science was discouraged,

²⁹⁹ Stephen Hobden, 'Theorising the International System: Perspectives from Historical Sociology' in *Review of International Studies* (1999), Vol. 25, pp. 257-71.

³⁰⁰ See: Muhammad Ahsan, 'Population Administration during the Time of Prophet Muhammad (*pmuh*)', *Ham Loug*, Vol. 6, (a biannual Urdu journal), July-December, 1991, Islamabad: Population Census Organisation Government of Pakistan; *Ibid.*, 'Population Administration during the Time of Four Right Caliphs (*pbut*)', *Ham Loug*, Vol. 7, January-June, 1992, Pakistan.

³⁰¹ Abdo Hadi Haeri, *First Challenges of Iranian Thinkers with Double Face of Western Bourgeois Civilisation*, Tehran: Amir Kabir Publication, 1988, p. 130.

³⁰² See: Abdul Hosien Zarinkoob, *Scientific Life of Islamic Thinkers*, Tehran: Science and Cultural Publication Co., 1985; Mehdi Farshad, *Science History in Iran*, Tehran, Amir Kabir Publication, 1986; Safa Zabi Ullah, *The Intellectual Science History in Islamic Civilisation Until Mid-Fifth Century*, Tehran: Tehran University Publication, 1972.

³⁰³ Important Islamic thinkers during these times included (in chronological order): Kharazmi: 8th century – first half of the 9th century; Jaber ebn Haian: end of 8th century- beginning of 9th century; Al kandi, and Ebn Jogheal: 9th century; Mohamad Zakarai Razi: end of 9th century to beginning of 10th century; Fsabet abn Ghoreh: first half of 10th century; Farabi: first half of 10th century; Avsina: end of 10th century to first half of 11th century; Abu Rayhan Birooni: end of 10th century to and mid 11th century; Abu Hamed Imam Mohamad Ghazali, Hakim Omar Khayam Nishabori: 11th century; Khajeh Nasir ul Din Tossi: 13th century.

leading to the decline of technological development in the Muslim world.³⁰⁴ According to George Sarton: 'West found the cure that was escape from scholasticism by experience whereas the East could not recognise it in this way or if it did, simply refused to accept it'.³⁰⁵

These circumstances discouraged the development of scientific thought, intellectual activities and mass maturity, which according to Habermas are the principal drivers of the state.³⁰⁶ Therefore, the work and thoughts of famous Muslim scholars such as Ave Sina and Omar Khayam were neither appreciated nor allowed to flourish further, to an extent that even centuries after their death they were considered *Gumrah* (misled). There are numerous examples in which other Muslim scholars were declared *Kafar* (non-believer). Thus, this clash of ideology between the clergy and intellectuals caused the decline of the Iranian society.³⁰⁷ These adversities were even more accelerated during the Safavid dynasty, but some clergy such as Mohsen Feiz Kashani and Alameh Mohamad Bagher Majlesi cautiously looked to classical wisdom believers. This continued during Ghajar's period and further warnings against the pursuit of intellectual wisdom were issued. For example, in 1812, in the holy city of Qom, Mirza Abul Ghasem Ghomi forbade student clergy from learning science except for *Feqih* (religious jurisprudence) and *Asoul* (basic principles of *Shari'a*).³⁰⁸

The outcome of this was a huge economic and technological gap between the Eastern and Western worlds (outlined in Chapter Two). Although various efforts have been made to bridge this gap, in the recent past as well as in the present, it will still take a

³⁰⁴ Mehdi Farshad, *Science History in Iran*, Tehran: Amir Kabir Publications, 1986, pp.56-9.

³⁰⁵ George Sarton, *An Introduction to Science History*, translated by Gholam Hosaien Sadri Afshar, Tehran: Government of the Islamic Republic of Iran, 1974, pp. 86-87.

³⁰⁶ David E. Apter, *Rethinking Development: Modernisation, Dependency, and Post-modern Politics*, Newbury Park, Sage Publications, 1987, p. 8.

³⁰⁷ Abdol Hadi Haeri, *Early Challenges of Iranian Thinkers with Double Face of Western Bourgeois Civilisation*, Tehran: Amir Kabir Publication, 1988, pp. 131-132.

³⁰⁸ *Ibid*, pp. 363-364. From the medieval age to the contemporary world, there have been many factors that retarded the development of science, technology and intellectuality in the Muslim world. During the earlier period of Islam there were commercial and intellectual links between the Muslim and Western worlds. However, with the passage of time these links were loosened and ultimately the Muslim world became alienated in the global activities. During Safavid regime although many Iranians travelled abroad, they could not bring any new technologies back home on their return. On the other hand, the tourists, politicians and diplomats who travelled to Iran faced difficulties in communication. Iranian diplomats also faced a similar problem, as they did not make enough efforts to learn foreign languages. In 1625 an official group of Iranian diplomats travelled to Netherlands to discuss political and commercial relations between two countries and none of the group members knew any European language. Many examples from the post-revolution period can also be quoted here. For instance, at a meeting held in London between an Iranian business group (interested in buying raw sugar) and the representatives of a British company, at which the author of this report was also present, the Iranian delegates were unable to communicate effectively with their counterparts.

long time to close it.³⁰⁹ Two distinct efforts are worth mentioning. Amir Kabir was the first Prime Minister (Ghajar dynasty) to tackle this technological gap by establishing a technical college (*Dar-ul-Fananoon*), and the present President of Islamic Republic of Iran, Khatemi, has similarly embarked on a process of liberalising the national system and promoting understanding of the contemporary world and globalisation. He clearly stated that Iran could partially adopt Western civilisation without losing her values.³¹⁰

In Chapter Two, various Islamic and economic thoughts about wealth and ownership have been discussed, while in the beginning of this chapter the historical background of Iran in the context of its state of underdevelopment is presented. Unfortunately, until the beginning of the nineteenth century when oil was discovered in the country and added to the list of exported items, Iran remained only a producer and exporter of raw material and handicrafts. Although some development was made during this period, it occurred without establishing an adequate physical and social infrastructure.³¹¹ In fact, external

³⁰⁹ See: Ali Reza Gholi., *Murdering the Elite*, Tehran: Nei Publication, 1998, pp. 38-39; Ahmad Seif, *Iranian Economy in Nineteenth Century*, Tehran: Neshr-e-Cheshmeh, 1984, p. 9; Sadeq Ziba Kalam, *op. cit.*, pp. 207-214. In fact, during the period of colonisation and industrial revolution in the West, the new era of scientific development was started. During that period the church lost its grip on the society, not due to the change of the beliefs of the people, but rather because it could not present the solution of the problems with the changing of time. This was the time of the end of Safavid regime and the decline of the economy in Iran while it was the initiation of a new era in the West. This situation allowed foreign powers like Russia and UK to interfere in Iran politically and economically. Therefore, by increasing their influence these foreign powers got many priority rights within the country. Partially this problem was due to the lack of education. There were many people who believed that their poverty was the will of God. Therefore, they avoided working hard as they believed that they would be well to do when God will want it. Such thinking emerged because of illiteracy and ignorance about the religion. In reality Islam has always emphasised hard working and earning money within its prescribed moral boundaries.

In addition to the above problem, the ruling class who remained in power by force also created and maintained this environment of ignorance as it was in their interest to keep the masses illiterate and unaware their rights and abilities, otherwise they might be a challenge to their power. It is interesting that in contrast to this general situation, during late Pahlavi dynasty as well as under contemporary Islamic regime vast opportunities of basic education has been provided to the public, which started to cause political unrest. As mentioned above, this situation was created because the people became aware of their rights and power and started to demonstrate. Gholi believes that in addition to various other problems, the most important ones are that mostly the people prefer trading rather than production. In fact this situation is based on the widespread laziness among the masses. If the mass attitude is not changed, the success of any developmental package is unsure. The same is also true for machines; although their usefulness to modern life is appreciated, the technology behind their production is not, in the belief that God will help us.

³¹⁰ *The Daily Ettela'at International*, 20th of Sept. 2001.

³¹¹ Reza Shah, who was a strong military commander and a nationalist, made efforts to develop the country along modern lines. However, his efforts could not produce the desired results for a variety of reasons. The Shah ignored the indigenous cultural values, as he could not understand the inability of the majority of the people to cope his developmental programmes. He abolished the political institutions of the country; and he promoted foreign consumption models rather than encouraging domestic products and cottage industry. The money used to buy imported products was paid from national resources like oil. Finally, his land reform programme supported a tiny minority of big landowners who developed a centralised control over 80 percent of the country's farmland. Therefore, the vast majority of small landowners became poorer.

See: Ebrahim Razzaghi, *op. cit.*, pp. 3-26.

actors during the course of the twentieth century heavily influenced the dynamics of domestic politics within Iran, particularly those super powers that have their own economic interests in the country. Therefore, they were keen to exert a strategic and military presence in a geographically significant part of the Middle East.³¹² For these reasons, Iran entered the twentieth century with a weak economic and institutional basis, which was already under the influence of external powers.³¹³

3.3 Pre-Revolution Economy: The 1920s to 1960s

After the First World War, the country was beset by several problems, e.g., internal instability, high level of corruption and insecurity. In 1925, an army Colonel, Reza Khan, who was welcomed by the clergy and other segments of society, and ruled as Reza Shah Pahlavi, restored the monarchy. In 1934, the Shah changed the name of the country from Persia to Iran to reflect its supposedly Aryan racial complexion.³¹⁴ As mentioned earlier, Reza Shah's dictatorship and his attempt to reduce the power of clergy (and to deviate from the country's past which itself was associated with conservatism and religion), as well as his process of modernisation, was an innovative and integrated approach, but which in reality was a mixture of various contradicting elements. Reza Shah followed a nationalistic independent approach and tried to reduce the influence of two major powers in Iran (Russia and Britain) as well as the clergies

³¹² There are two schools of thought, which have contradicting views regarding foreign interference in Iranian internal affairs. The first, associated particularly with the famous Iranian intellectual Hadj Sayyed Javadi, mainly blames external powers. In his opinion, it was this foreign interference, which led to the execution of various nationalist leaders who particularly believed on internal growth and self-sufficiency. He argued that the execution of Prime Ministers Ghaem Megham Farahani and Mirza Taghi Khan Amir Kabir (Ghajar regime) are examples of this external interference, as both Prime Ministers opposed some of the foreign political and commercial contracts endorsed by the respective kings, which they believed were not in the national interest. The same is also true for M. Mussaddiq (Pahlavi regime) who resisted the continuation of oil contracts with British Petroleum (BP). He was then prosecuted in a military court and kept under surveillance until his death, See: Donal N. Wibler, *Adventures in the Middle East*, Princeton, NJ: Darwin Press, 1986; Richard W. Catto, *Nationalism in Iran*, Pittsburgh, PA: University of Pittsburgh Press 1964.

The second school argues that it is not justified to blame only foreign interference, and that factors such as internal ignorance and negligence, lack of a nationalistic approach, and individual and group benefits (selfishness) were equally responsible in facilitating and accelerating the process of external interference, which ultimately caused the outflow of capital. Ghazi-Zadeh quotes Churchill who said that the major reason for the success of the United Kingdom in international affairs is that they had sound objectives and adequate plans to achieve those objectives, and that these plans were implemented through local individuals and groups who were more interested in their own benefits than those of their nation. See: Ali Akbar Ghazi-Zada, 'National Interests and Foreign Relations, *The Daily Neshat*, June 1999, Iran.

³¹³ Sadeh Ziba Kalam, *op. cit.*

³¹⁴ Paul B. Rich, 'The Construction of Ideologies in the Twentieth Century', in Stephen Chan and Jarrod Wiener (eds.), *Twentieth Century International History*, London: I.B. Tauris, 1999, p. 14.

within the country. During World War II, he favoured Germany at the expense of the allies. These factors led to his removal from power.

His son Mohammed Reza Shah replaced Reza Shah in 1941. He had a nationalistic outlook but adopted a Western-dependent approach to his country's development. His Prime Minister Mussaddiq (April 1951 to August 1953, except some days) was a nationalist and independent- and democratically-minded, but was not welcomed by foreign powers (particularly UK and USA) and was also not supported by the clergy and landowners.³¹⁵ Thus, he was not in control of the whole apparatus of state; rather he was merely a leader of a popular political movement. The rest of the state affairs were in the hands of despotic agents and institutions, which, in pursuit of their own interests, collaborated with foreign powers and transnational corporations.³¹⁶ This situation can be considered as an example of dual sovereignty, which was, in fact, a struggle between the democratic forces led by Mussaddiq, and the conservative and despotic forces (and foreign powers³¹⁷) led by the Shah, who eventually emerged as the victor.³¹⁸ It is important to appreciate that the economic problems of the country - owing to the British oil blockade, the American refusal to grant financial aid, the Soviet government's refusal to repay its war time debts to Iran, the political instability, incapability of the society to understand democracy and so forth - came to the surface due to Mussaddiq's nationalistic approach. Although Mussaddiq was a learned and experienced Prime Minister who alone fought and won his country's case against British oil cartels at the Hague International Tribunal, he could not survive in the face of opposition from selfish opportunist politicians and an ignorant public.³¹⁹

After Mussaddiq's fall, Mohammed Reza Shah Pahlavi began a rapid process of industrialisation on Western lines but his fast modernisation programme, which was more than the infrastructural capacity of the country could absorb, increasingly

³¹⁵ See: Ali Reza Gholi, *op.cit.*; Hamid Ahmadi (trans.), *Coup d'Etat: Secret Documents of CIA about Over Throwing Mussiddiq*, Tehran: Nashre Nei, 2000.

³¹⁶ These multinational companies expanded their domination in underdeveloped countries and took advantage of cheap raw material and labour, and customs duty exemptions. See: Ebrahim Razaghi, *Overview of the Iranian Economy*, Tehran: Amir Kabir Instituiton Publisher, 1996, p. 28.

³¹⁷ Kennett Lure, *The American Role in the Pahlavi Restoration on 19 August 1953* (unpublished paper) in the Allen Dulles Papers, Princeton University Library, 1960, pp. 40-41, cited in Hamid Ahmadi (transl.) *Coup d'Etat Secrets: Secrets Documents of CIA about Overthrowing the Mussaddiq*, Tehran: Nashre Nei, 2000, pp. 18-21.

³¹⁸ Homa Katouzian, *The Political Economy of Modern Iran, 1926-1979*, London: The Macmillan Press Ltd., 1981 pp.164-65.

³¹⁹ In fact, the most powerful internal forces behind the coup against Mussaddiq were based on internal and external intervention. These forces were principally made up of landlords, politicians, religious factions and big merchants.

floundered during the 1970s. These modernisation efforts aimed to overcome the ignorance of the religion and Iranian traditions, and were carried out under the shade of huge oil revenue, foreign financial and technical assistance, and with the full support of external forces³²⁰. Thus, his regime faced a militant alliance of Islamic clerics, intellectuals, nationalists and bazaar owners as well as a broad mass of the urban Iranian population. The high level of corruption among some politicians and bureaucrats further aggravated this state of instability. In February 1979, he was overthrown in one of the twentieth century's great revolutions, and *Shi'a* clerics led by Ayatullah Khomeini³²¹ declared the country as an Islamic Republic.³²²

Iran, therefore, was a classic example of radiation of the influence of liberal theories of modernisation, geared to a wider global strategy of containment, prevalent during the 1950s in the social sciences in the United States and influential in political decision-making. Iranian society saw democracy as emerging not through political struggle between organised political groupings but rather in a mechanistic manner as the end product of a process of social and economic modernisation.³²³ Iran's pre-revolution economy, despite its imbalances and fragility, was a workable system from the Western point of view, capable of self-correction and survival in the face of many economic challenges. But, as it turned out, the elaborate economic superstructure could not withstand hostile political forces and a revolutionary onslaught. It was gradually weakened by unreasonable demands on its fragile capabilities, and capacities, and finally immobilised by the ferocity of the opposition's attacks on its nerve centres, which ultimately ended with the Islamic revolution. One of the distinctive characteristics of this revolution was the turning away from Western secular ideals and the evolution of an Islamic system based on social justice, rather than one based only on materialistic benefits, along the lines outlined in Chapter Two. The founder of this revolution, Ayatullah Khomeini, wanted Iranian society to return to an earlier type of

³²⁰ Homa Katouzian, *op. cit.*

³²¹ Ayatollah Khomeini (1902-1989) was the most radical Muslim leader of the age, who transformed himself from a traditional Muslim theologian into a charismatic Iranian ruler. He launched an Islamic revival movement, which, with the collapse of Communism and unhappiness of the Muslim world with the West, quickly became a symbol of spiritual and political rebirth. See: Baqer Moin, *Khomeini: Life of the Ayatollah*, London: I.B. Tauris, 1999.

³²² Barry Rubin, 'Paved with Good Intentions: The American Experience and Iran', Harmondsworth: Penguin Books, 1981, p. 100, cited in Paul B. Rich, 'The Construction of Ideologies in the Twentieth Century', in Stephen Chan and Jarrod Wiener (eds.), *op. cit.*, p. 14.

³²³ Barry Rubin ' *op. cit.*, pp. 104-115; Raymond Seidelman, *Disenchanted Realistic Political Science and The American Crisis*, Albany: New York State University Press, 1985 cited by Paul B. Rich, *The Construction of Ideologies in the Twentieth Century*, in Stephen Chan and Jarrod Wiener, *op. cit.*, p. 15.

social model centred on theocratic notions of rule by a divinely inspired religious authority. The revolution represented a denial of Western precepts of citizenship and pluralistic democracy, and it led to the strict imposition of *Shari'a* Laws.³²⁴ It was also profoundly ambiguous about the idea of economic growth, for it claimed to want development but to find its implications unacceptable.

3.4. From White Revolution to the Islamic Revolution: 1960s to 1979

The White Revolution³²⁵ was the name given to a series of social and economic reform programmes that were initiated by the Shah during the 1960s. The original programmes of the White Revolution included: i) the land reform programme to redistribute the holdings of major landlords among the land-less peasants who worked on the land; ii) nationalisation of forests; iii) sale of state-owned enterprises to the public; iv) workers profit-sharing in 20 % of net corporate earnings; v) voting and political rights for women; and vi) the setting up of the literacy corps. Thirteen more programmes were presented from January 1964 to late December 1975, including the establishment of the health corps, the reconstruction and development corps, the houses of equity, nationalisation of water resources, urban and rural reconstruction, administrative revolution, a scheme for employee and public ownership, price stabilisation, a campaign against profiteering, free education and daily free meals for students from kindergarden to grade-VIII; free nutrition for infants up to the age of two, nationwide social security, a campaign against land and housing speculation, and a fight against corruption. This reform package was formulated and implemented under external³²⁶ and internal³²⁷ pressure. Although implementation of these reforms seemed to initiate a new era of national development, their initiation was a political choice originating primarily outside the polity, and its process had not been adequately planned. As a result, its course and outcomes were influenced by the material and non-material interests of the major forces as well as by the domestic and foreign political actors. During the 1950s and 1960s, the United States had incorporated a policy of encouraging moderate land reform in less-developed countries into its foreign aid programme in order to bolster

³²⁴ Jahangir Amuzegar, *op. cit.*, p. 11.

³²⁵ Jan Nederveen Pieterse, *Development Theory: Deconstructions/Reconstructions*, London: SAGE Publications, 2001, pp. 22-23.

³²⁶ Mainly from the Kennedy Administration in 1960-63. See: Jan Nederveen Pieterse, *op. cit.*

³²⁷ Pressure from socialists, clergy and nationalists etc.

their ability to resist the so-called menace of communist encroachment. In this process of reform, the Shah issued a decree calling for the distribution of crown land among the peasantry.³²⁸ But the 1958 revolutionary *coup d'état* in neighbouring Iraq and the mounting propaganda campaign from the USSR against the Shah's regime led to pressure on him for a speedy reform programme in the country.³²⁹

3.4.1. The White Revolution and the Evolution of Social Classes

The 1960s and 1970s saw major changes in the country. Public bureaucracies grew rapidly, the number of public-sector wage and salary earners in urban areas rising from approximately 0.5 million (or one-fifth of the economically active urban workforce) in 1956 to nearly 1.5 million (or over one-third) in 1976.³³⁰ Thus the state emerged as the largest capitalist in this period and owned all heavy industries. Many other major industrial concerns, such as the national transportation networks and agro-industries were also tightly controlled by the government-owned banking system. This situation aggravated the development and strengthening of a capitalist state, which was controlling the process of emergence of social classes, five important classes being a bureaucratic elite, new middle class, modern bourgeoisie, working class and religious groups.

With the unprecedented expansion of bureaucratic agencies and public enterprises during the 1960s and 1970s, a group of young professionals, the bureaucratic elite of state managers, rose to prominence. Taking key positions within the powerful modern state with its increasing financial resources, this new class played a pivotal role in national economic and social development. The state bureaucracy clearly favoured the graduates of foreign universities, placing them in, and quickly promoting them to, such

³²⁸ William Wyrne, *Mission for Peace: Point 4 in Iran*, Indianapolis: Merrill, 1956, pp. 190-204.

³²⁹ See: Richard Cottam, *Iran and the United States: A Cold War Case Study*, Pittsburgh: Pittsburgh University Press, 1988, p. 128; Mohammad Reza Pahlavi, *Answer to History*, New York: Stein and Day, 1980, pp. 22-23.

³³⁰ During that period the average share of the state in total consumption jumped from 10 per cent in 1959 to 35 per cent in the mid-1970s. The average share of the public sector in capital formation increased from 36 to 54 per cent in the same period. As a result, in the mid-1970s, over 50 per cent of the GDP was created in the public sector and a substantial portion of the remainder came from trade, construction activities and other services that were generated mainly by the state's expenditure of oil revenues. See: Government of Iran, (Statistical Centre of Iran), *National Census of Population and Housing*, Tehran: 1956, Vol. I, p. 283; *Ibid*, *National Census of Population*, Tehran: 1976. p. 69; Government of Iran (Bank Markazi), *National Accounts of Iran 1959-1976*, Tehran: 1981, pp. 126-27, 406, 416-419, 422-424.

high posts as managers of state-owned enterprises, department heads, vice-ministers, and so forth. Thus, the period of the White Revolution was marked by a shift of power from the old landed gentry to the rising bureaucratic and professional elements.³³¹ This situation caused social unrest in the country.

This growth of bureaucracy, together with increasing demands for technicians and managers in the public and private sectors, and the rapid expansion of a Western-style educational system resulted in the rise of a non-entrepreneurial modern middle class, including independent professionals, civil servants, military personnel, white-collar employees, technicians in private enterprise and an intelligentsia. A dramatic expansion took place in the size of the civil bureaucracy and in the technical competence of its middle and upper echelons during 1956-76.³³² Although earlier generations of the new middle class had retained a connection with Iran's traditional culture, the generation of the White Revolution became increasingly westernised and isolated from the country's indigenous popular culture, Islamic values and modes of behaviour (as mentioned in Chapter One). It was only in the mid-1960s that large numbers of intellectuals, particularly those from the lower middle class and from rural religio-traditional backgrounds, began adopting militant Islamic ideologies. This trend was especially evident in the mid-1970s among university students, nearly one-third of who came from the bazaar and rural backgrounds.³³³ After the 1953 *coup d'état*, the Pahlavi regime continuously faced difficulties in rallying the support of the new middle class. Most intellectuals, barred from freedom of political activity, remained sympathetic toward the remnants of the National Front or the Socialists. Many writers, teachers, lawyers, physicians, engineers and students were opposed to, or highly ambivalent about, the regime. The rapid growth in the number of students coincided with a worldwide trend toward the radicalisation of youth. Following an abortive attempt at liberalisation in the early 1960s, many Iranian students adopted leftist and revolutionary ideas and formed

³³¹ Ahmad Ashraf, 'From the White Revolution to the Islamic Revolution', in Saeed Rahnama and Sohrab Behdad, *Iran After the Revolution*, London: I.B. Tauris, 1996, p. 32.

³³² In 1956, there were 200,000 professionals, technical and clerical workers in Iran; by 1976 there were nearly a million, two-thirds of whom worked for the state. Between 1960 and 1976, the number of students enrolled at the senior high-school level rose from 250,000 to over 900,000, while the number of students in post-secondary schools increased from about 20,000 to over 150,000. The number of Iranian students studying abroad (mostly in Europe and the United States) increased from 15,000 in 1960 to over 70,000 in 1976 (See: Government of Iran [Statistical Centre of Iran], *Statistical Year Book*, Tehran: 1968, p. 75).

³³³ Mortaza Nasafat, *Sanjesh-e Afkar-e Dudman-e Pahlavi*, Tehran: Institute for Psychological Research, 1975, p. 91.

numerous political, revolutionary or guerrilla organisations, waiting for an opportunity to strike against the regime.³³⁴

A sustained period of growth for the Iranian bourgeoisie began in the late 1950s, when the government started providing low-interest loans.³³⁵ Later, in the 1960s and 1970s, the dramatic increases in oil income led to further capital accumulation by the private sector in at least two ways; first, the state provided credit to business magnates at favourable rates,³³⁶ and secondly, inflation created windfall profits from land speculation and real-estate development.³³⁷ State incentives to substitute domestic products for imports led many importers of industrial goods to establish factories. Such factories increased the contribution of the private sector to capital acquisition in machinery and construction from \$750 million in 1959 to \$6.7 billion in 1976.³³⁸ Huge state construction projects, an expansion of internal markets, rapid population growth and a growing rate of urbanisation allowed hundreds of merchants, industrialists, import traders, contractors, consulting engineers, commercial farmers and others to make fortunes. The most effective mechanism for ensuring the profitability of a venture was protection from imports under exclusive licensing, which in effect created monopolies or oligopolies. Furthermore, the industrial and commercial elite expanded their traditional presence in urban real estate, but still, at this stage, more as investors rather than developers.³³⁹

The bazaar merchants suffered a relative loss in trade as a result of import substitution. In addition, the import of raw materials for industry became increasingly concentrated in the industrial firms or their associated companies. The rapid rise in the import of capital goods led to further expansion of the modern commercial sector, yet the volume

³³⁴ See: Martin Hertz, 'Some intangible factors in Iranian Politics', Tehran: American Embassy, 15 June 1964, pp. 4-12; Torab Haqshenas, 'Communism in Persia after 1953' in *Encyclopaedia Iranica*, Vol. VI, 1993, pp. 105-112.

³³⁵ Subsidised loans were at first provided by the state-owned Industrial Credit Bank, established in 1956, and the Revaluation Loan Fund administered by the National Bank from 1957 on. In the first three years of its operation, the Industrial Credit Bank extended 82 loans totalling \$10.5 million for 70 projects. The Revaluation Loan Fund was much larger, providing 64 million dollars in 1,541 loans over a 3.5-year period.

³³⁶ Salehi-Esfahani, Djavid, 'The Political Economy of Credit Subsidy in Iran, 1973-1978', *International Journal of Middle East Studies*, Vol. 21-3, 1989, pp. 359-79.

³³⁷ There were several examples of entrepreneurs making profit through the back door.

³³⁸ See: Bank Markazi, *National Accounts*, Tehran: 1981, pp. 408-409; Statistical Centre of Iran, *Bayan-e Amari*, Tehran: Markaz Amar Iran publication, 1981, p. 131; *Ibid.*, *Statistical Year Book 1981*, Tehran: *op. cit.*, 1982, pp. 433-486.

³³⁹ Vahid Nowshirvani and Ahmad Ashraf, *Iran and the Development of its Entrepreneurial Elite: 1950s-1970s, paper presented in the Conference on 'Middle Classes and Entrepreneurial Elite of the Middle East'*, Berkeley, 9-12 May, 1991.

of imports rose greatly from \$514 million in 1963 to \$2,570 million in 1972, which reflects that the traditional bazaar merchants also made profits.³⁴⁰ However, they were not satisfied with the system as they were excluded from national politics. Domestic trade expanded and despite the emergence of the rudiments of a modern distribution system, controlled by the manufacturers and large importers, the bazaar maintained its presence in the distribution network of the country. Many new wholesalers prospered by becoming the link between the manufacturing establishments and the retailers.³⁴¹ Despite the much closer economic links among the upper bourgeoisie, and between them and the state sector, and despite their growing size and financial resources, they gained little political power, not because they did not aspire to acquire it and protect their collective interest, but rather because they had not been allowed since the early 1960s to establish autonomous associations, to voice their concerns through their representatives in parliament, or to publicise their views through independent media.³⁴²

During the first half of the 1970s, the number of industrial workers employed at large establishments also increased dramatically as a result of the fast industrialisation.³⁴³ On top of the labour pyramid, there were over 800 medium and large-scale industrial establishments, which were enjoying higher social status, job security and higher wage levels. Members of this labour aristocracy, constituting as much as one-third of the urban manufacturing labour force by 1976, received wages and fringe benefits that were five times greater than those of the lower-salaried industrial worker.³⁴⁴ To the lower echelons of the labour force, one must add over half a million impoverished self-employed in the so-called information sector and those in low-paid services, many of whom lived in the slums and margins of the cities along with poor rural migrants.³⁴⁵ In addition to the above-mentioned segments of the population, Iran's agrarian classes underwent a relatively slow period of change from 1925 to 1960, followed by a period of relatively rapid transformation in the 1960s and 1970s. In the first period, the traditional agrarian relations of land-owning and tenant classes (*Arbab-ru'yati*) continued with some modifications, whereas in the second period traditional bonds were

³⁴⁰ Jahangir Amuzegar, *Iran's Economy under the Islamic Republic*, London: I.B. Tauris, 1977.

³⁴¹ Ahmad Ashraf, 'Socio-economic and Political Role of the Bazaar', in *Encyclopaedia Iranica*, Vol. IV, 1990, pp. 30-44.

³⁴² See: *The Daily Rastakhiz*, 23 June 1975, Tehran; Vahid Nowshirvani and Ahmad Ashraf, *op. cit.*

³⁴³ Statistical Centre of Iran, *National Census of Population*, 1976, pp. 68, 85.

³⁴⁴ See: Fred Halliday, *Iran: Dictatorship and Development*, Harmondworth: Penguin, 1979, pp. 189-90; Hassan Hakimian, 'Industrialisation and the Standard of Living of the Working Class in Iran', 1960-79', *Development and Change*, Vol. 19, 1980, p.13.

³⁴⁵ Farhad Kazemi, *Poverty and Revolution in Iran*, New York: State University of New York Press, 1980, pp. 46-67.

abolished and the new agrarian relations emerged. These quick changes in the situation caused additional imbalances in society.³⁴⁶

The White Revolution began when the *Grand Ayatullah* Sayyed Hosein Borujerdi, the powerful conservative leader of the *Shi'a* community, died in 1961. This situation created a vacuum. In the years after his death, the clerical establishment became more open to new ideas and leadership was divided into three main factions. The largest segment, including the most high-ranking *Ulama*, continued to accommodate the stance of their predecessors. A second group of the *Ulama* collaborated with the Pahlavi regime. The Shah appointed some members of this group as leaders of Friday prayers in Tehran and other major cities; others were attached to the state-controlled distribution of religious endowments, and some served as advisers and officials of the Religious Corps Organization, which was founded as part of the White Revolution.³⁴⁷ Ayatullah Khomeini and his circle often denounced these clerics as 'clerics of the palace'.³⁴⁸ Beginning in the early 1960s, a small group of militant clerics started a third grouping within the *Qom* religious establishments. Capitalising on the resentment of the *Ulama* over such issues as land reform, women's suffrage, and the extension of diplomatic immunity to American military advisers in Iran in the early 1960s, this group rallied around the charismatic Ayatullah Khomeini, who soon emerged as a new object of emulation with the title of the *Grand Ayatullah*.³⁴⁹

In the on-going discussion it is important to mention the position of the clergy and the *mullahs* before and after Reza Shah's regime. Before Reza Shah, a *mullah* often combined many functions, e.g., country vicar, spiritual guide, judge, notary, teacher,

³⁴⁶ *Ibid.*, pp. 56-58.

³⁴⁷ Shahrukh Akhavi, *Religion and Politics in Contemporary Iran*, Albany: Suny Press, 1980, pp. 129-43.

³⁴⁸ Ruhollah Khmeini, *Velayat-e Faqih: Hokumate-e Eslami*, Tehran: Markaz-e Farhanghi-ye Enghelab-e Eslami, 1978, pp. 199-204.

³⁴⁹ Ayatollah Khomeini was exiled to Turkey and Iraq in 1964, went to Paris in 1978, and returned triumphant to his country, Iran, in 1979 as the undisputed leader of one of the major evolutionary movements in modern history. When he was leaving the airport in 1964, he had asked his minder, a SAVAK (Intelligence) Colonel, whether he knew that he was being exiled because he had defended the honour of his homeland. Now, as he re-entered Iranian airspace, he was asked what emotions he felt after nearly fifteen years of exile. 'None!' he replied bluntly. For a man who felt himself permanently imbued with the love of God, a homeland did not mean much. For mystics and puritanical Muslims, it is the Dar al-Islam, the House of Islam, not the patria, which is all-important. He died in June 1989. He was the most radical Muslim leader of this age. In transforming himself from traditional Muslim theologian into the charismatic Iranian ruler who took on the world, he launched an Islamic revival movement, which, with the collapse of communism, quickly evolved for some as the centre-piece in the pantheon of Western demonology, and for others as the inspiration for spiritual and political rebirth. Whether viewed as a hero by his supporters or as a villain by his enemies, Ayatollah Khomeini was undoubtedly one of the seminal figures of the twentieth century, whose influence will extend some way into the new millennium (See: Bager Moin [Head of the BBC's Persian Service], *Khomeini, Life of the Ayatollah*, London: I.B. Tauris, 1999).

preacher, and entertainer. He often taught children and young people the principles of Islam. He officiated at their marriages and legalised their divorces, acted as notary to sign and seal their land, household and water transactions. He preached to them, eulogising the martyrdom of the saints and the Imams. Above all he guided them in their daily religious practices from the cradle to the grave. He was especially needed to ensure their entry to paradise.³⁵⁰ This wide-ranging remit meant that the Iranian clergy as a body enjoyed a special prestige among a highly religious people and individual clerics were particularly valued if, like Ayatullah Khomeini's family, they could claim descent from the Prophet Mohammad (*mpbuh*).³⁵¹

The *Ulama* had long since discovered that their support for Reza Shah's accession to the throne would not protect them from secularisation. In the late 1920s, Reza Shah's new administration, which had an intensely nationalistic outlook, had introduced a series of major reforms designed to turn Iran into a modern state. In two vital areas, the legal and educational systems, these measures continued the process begun after the Constitutional Revolution, which eroded the most important prerogative of the clergy outside the strictly private and spiritual domains. The new criminal and commercial codes were based on French law, and although the civil code enacted in 1928 was largely derived from *Shari'a*, its administration was secularised and brought under the control of the Ministry of Justice. No longer could the *Ulama* exercise their right to interpret and enforce the *Shari'a* through their own private courts or register commercial transactions. Nor did their long, difficult training in jurisprudence in it qualify them to practice under the aegis of the new Ministry of Justice, which set up its own law school and examination system for aspiring members of the legal profession. *Mullahs* were admitted to the school to be re-trained, but unless they attended they could not practice under the new system. Meanwhile, as the state invested more and more money in modern schools and introduced qualifications for civil service jobs that could only be acquired in the new educational system, the *Maktab* and *Madrseh* lost their attraction for ambitious parents and students at all levels of society. Upon return from Turkey in 1939, Reza Shah ordered *Mullahs*, with the exception of those who had qualified as *mojtaheds*, to discard clerical attire, and, most unsettling of all for the traditionalists, forcing women to discard the veil or any other modest form of head

³⁵⁰ See: Nikki R. Keddi, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983; Saeed Rahnema & Sohrab Behdad, *Iran After the Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1996.

³⁵¹ Muhammad Baqir as-Sadr, *Iqtisaduna (Our Economics)*, Volume one Part two, Tehran: World Organization for Islamic Services, 1982.

covering.³⁵² The model of the Ataturk Republic in Turkey certainly influenced the formation of the Pahlavi state in this case, although there was always also popular resistance to this.

After the fall of Reza Shah, throughout Iran the ideals of the Constitution Revolution sprang to life once more. The coalition of clergymen, intellectuals, merchants and the local and tribal chiefs who had staged the revolution again became active in the *Majles*. Newspapers blossomed, revelling in the opportunity to criticise the old Shah and Pahlavi family. Once again, *Qom* became a place of some importance in the life of the nation. Ministers and officials began to visit leading *mullahs* in their homes, apologising for the misdeeds of the past.³⁵³ Outside the clerical elite there were two other religiously oriented groups. The first was made up of Muslim intellectuals with liberal and reformist tendencies including Mehdi Bazagan, Ayatullah *Seyyed* Mahmud Talegqni, Ali Shariati and *Ayatullah* Morteza Motahari, the ideas of whom were discussed in Chapter Two. These men were critical of the inability of the religious conservatives to respond to the requirements of the modern age and attempted to present a modern interpretation of Islam, especially to the young who were attracted by secularism. The second consisted of *Mullahs* and laymen who, rather, were fundamentalists and wanted to revive the golden age of early Islam and establish Islamic government. They believed that Islam was capable of answering all problems and organising every aspect of life and that liberation from the power and influence of the West could only be achieved through the proper implementation of the *Shari'a*.³⁵⁴ Led by a junior cleric called Nawab Safavi this group had formed the *Feda'iyān-e Islam*³⁵⁵ in 1945, which advocated, and on several occasions used, violence, in particular assassination, to pursue their goal.³⁵⁶

Ayatullah Khomeini's own political position during this period was somewhere between that of the clerical establishment and the *Feda'iyān*. On the one hand, as a believer in religious authority and the need for solidarity among the clergy, he was a firm supporter

³⁵² See: Nikki R. Keddi, *Religion and Politics in Iran*, New Haven: Yale University Press, 1983; Baqer Moin, *Khomeini, Life of the Ayatollah*, London: I.B. Tauris, 1999.

³⁵³ In 1943 when Ayatollah Hossein Qomi, who after the death of Isfahani became a senior *Marja'*, and had been exiled to Iraq by Reza Shah, paid a triumphal visit to Iran, the five demands he made of the government were politely received. These included the re-imposition of the veil and entrusting the management of theological schools and endowments to the clergy.

³⁵⁴ M.H. Faghfoory, *The Role of the Ulama in Twentieth Century Iran with Particular Reference to Ayatollah Haj Syyid Abul-Qasim Kashani*, Ph.D. dissertation, 1978, University of Wisconsin, pp. 171-78.

³⁵⁵ A group of Islamic fundamentalists called Sacrificers to the Islam..

³⁵⁶ Baqer Moin, *Khomeini, Life of the Ayatollah*, London: I.B. Tauris, 1999.

of *Grand Ayatullah Borujerdi*. Indeed, although he was still a junior, he had been among the *Mullahs* who helped to raise Borujerdi to the rank of *Marja'*. For a time during the 1940s, he also appears to have been an adviser to him. On the other hand, as the only two political statements that come from this period show, he was radically opposed to secularism, believed adamantly in the rule of the *Shari'a*, and had activist tendencies.³⁵⁷ He had absorbed, in other words, some of the ideas of the *Feda'iyan* perhaps in the course of conversations with Nawab Safavi who, according to the latter's widow, was a frequent visitor to Ayatullah Khomeini's home.³⁵⁸

How did the revenge against Pahlavi's dynasty and its followers emerge? It can be judged from the two statements recorded in 1944 in the visitors' book at a mosque in Yazd by Ayatullah Khomeini. At the top of the page he wrote: 'To read and put into practice.' He began with the *Quranic* verse; 'Say: I do admonish (warn) you on one point, that you do stand up for God, pairs or singly.' In the lines that followed he spoke of the importance of staging an uprising in the name of God: 'It is our selfishness and abandonment of an uprising for God that have led to our present dark days and subjected us to world domination. It is selfishness that has undermined the Muslim world.'³⁵⁹

The second statement was more elaborated and important. It took the form of a short book called *Kashf al-Asrar* (Secrets Unveiled), which Ayatullah Khomeini appears to have completed in 1962 and published anonymously. The book is an attack on secularism. Skilfully deploying the polemical style he had learnt at theological school, in it Ayatullah Khomeini describes Reza Shah as: 'Illiterate soldier who knew that if he did not suffocate them [the clergy] and silence them with the force of bayonets, they would oppose what he was doing to the country and religion.' He argued that 'Reza Shah spent some time unsuccessfully trying to win over Modarres³⁶⁰ and realised that Modarres could not be bought, frightened or influenced by power. He (Reza Shah) then

³⁵⁷ *Ibid.*

³⁵⁸ Hamid Algar, 'Imam Khomeini 1902-1962: The Pre-Revolutionary Years', in Edmund Burke and Ira Lapidus (eds.), *Islam, Politics and Social Movements*, London: I.B. Tauris 1988, p.129. [Algar quotes from a newspaper interview with the widow of Navab Safavi published in *Sorush*, 26 DEY 1360-16 January 1982. Algar goes on to point out that there is a similarity between Ayatollah Khomeini's remarks on monarchy in *Kashf al-Asrar* and the section on monarchy in the programme of the *Feda'iyan*,].

³⁵⁹ Ayatollah R. Khomeini, *Sahifeh-ye Nur*, Vol. I, Tehran: 1982, p.3.

³⁶⁰ *Grand Ayatollah* during the time of Raza Shah.

decided to go ahead with his plans to destroy the clergy in order to 'serve his masters [i.e., the British]'.³⁶¹

There is yet another layer to *Kashf al-Asrar*. In the first statement of Ayatullah Khomeini's ideas on the constitution of an Islamic state, he advised his readers to look at the chapters on government and the clergy with particular attention. Government, he argued, can only be legitimate when it accepts the rule of God, and the rule of God means the implementation of the *Shari'a*. All laws that are contrary to the *Shari'a* must be dropped, because 'only the law of God will always stay valid and immutable in the face of changing times.'³⁶² Western civilisation and foreigners have, in this respect, 'stolen the reason and intelligence from misguided Muslims'.³⁶³ The form of government, he said, did not in itself matter as long as the law of Islam was enforced. But if the government were to be a monarchy the *Mojtahed* should choose 'a just monarch who does not violate God's laws'.³⁶⁴ He also expected the government of Islam to follow religious rules and regulations, ban publications that were against the Islamic principles, and hang those who write against Islam. The 'mischief-makers who are corrupters of the earth (*Mofsed fi'l-Arz*) should be uprooted so that others would avoid betraying religious sanctity'.³⁶⁵ His followers have compared Khomeini's involvement in politics with that of the Prophet Mohammad (*mpbuh*). Khomeini states that the *Imam*, or the leader of the Muslim community, true to the Islamic spirit of intervention in the ordering of people's lives, has the right to fix prices and generally interfere in the regulation of commerce if he feels it is in the interest of Islamic society. He also tackles many political issues in terms of foreign policy, aiming to prevent the Muslim community from falling under the influence of foreigners.³⁶⁶ In chapter two, the diversity among Islamic thinkers on the contemporary economy was indicated. Here we can see one particular response to the powerful impact of Westernisation in Iran.

³⁶¹ Ayatollah Khomeini, *Kashf al-Asrar*, p. 9. The first edition of *Kashf al-Asrar* had no date, no publisher and no reference to the author. In the post-revolutionary reprint the name of the author i.e., Ayatollah Khomeini was added even without date and name of publisher. Ayatollah Khomeini paints a vivid picture of the results of Reza Shah's anti-clerical propaganda. He claimed that during the reign of Reza Shah, the Mullahs had lost their influence over the people to such an extent that no one was prepared to give them a lift in their car. If a *Mullah* was by any chance given a lift, any fault that developed in the car was promptly attributed to his 'evil presence'. He argues 'I myself saw a car run out of petrol in the middle of the road and the driver blamed *Mullah*

³⁶² *Ibid.*, pp. 94-95.

³⁶³ *Ibid.*, pp. 185 & 233.

³⁶⁴ *Ibid.*, p. 105.

³⁶⁵ *Ibid.*

³⁶⁶ Sayyed Hamid Rohani Ziyarati, *Barrasi va Tahlili az Nahzat-e Emam Khomeini dar Iran*, Qom: Entesharat-e Dar al-Feker, 1979, Vol. I, pp. 562-77.

Ayatullah Khomeini's work reflects a widespread concern for the apparent failure of the project to create economic justice, which is essential to Islamic thought. But it should be also noted that his was not the only possible critical response.

It was claimed by the then government that the 1960's White Revolution improved political stability for the industrial workers. In the meantime, the Second Five-year Plan (1957-62) was implemented, concentrating on infrastructure and institution building.³⁶⁷ Application of a 'growth first, redistribution later' strategy of economic development then became the basic philosophy of the regime for the next fifteen years. Industries and urban centres were to gain at the expense of agriculture and rural areas. Accordingly, the Third and the Fourth Five-year Plans (1963-67 & 1968-72, respectively) focused on economic growth measured by the GNP growth rate. These efforts initiated an era of economic growth and the country saw more than 10 percent annual growth rate, which was sustained for the entire period of 1963-72.³⁶⁸

Primarily, pumping more oil and establishing more new consumer goods industries achieved this growth. This situation led to high consumption society, and during this fast-changing environment the general masses of the country were not able to absorb the deep effects of modernisation, which on one side were linked with globalisation while on the other with localisation. Another important factor was that an initial import-substitution industrialisation strategy was followed by a later export promotion, which also became an essential goal of the government. The import-substitution strategy had led to scarcity of the foreign exchange and had become a barrier to expansion of business by multinational corporations in the country.³⁶⁹ With the change to an export-promotion strategy, the roles of foreign sector and private domestic capital became increasingly important in the economy. However, the increasing oil revenue rather than domestic or foreign savings largely financed the expanding investment. The State, therefore, did not need to raise investment capital by reverting to regressive taxation or reliance on foreign savings. Availability of cheap loans from the State made a repressive wage policy unnecessary for boosting profitability of the private sector. Nonetheless, by 1972, disparity in income distribution had widened as had reliance on the capitalist world market for sustaining the growth momentum.³⁷⁰

³⁶⁷ Government of Iran, *Fifth Development Report*, Tehran: PBO Publications, 1978.

³⁶⁸ *Ibid.*

³⁶⁹ Ebrahim Razaeghi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publication, 1996.

³⁷⁰ *Ibid.*

The turning point in the country's economic development, however, came with the so-called first oil shock that resulted in a quadrupling of oil revenue in the period 1973-74.³⁷¹ Initially, this development generated a major economic boom during 1973-75, but soon the economic bust of 1976-77 arrived, creating a major economic crisis. The Fifth Plan (1973-77) was then hurriedly revised upward to spend the windfall. Despite the warnings from planners and professionals and ignoring the absorption capacity of his countrymen, the Shah's ruling elite made the decision to go for high spending to accelerate achievement of the objectives of the White Revolution and to cope with modernisation.³⁷² It can be argued that the economic decisions under the Shah had long been politicised, as has been the case with most semi-peripheral states.³⁷³ A reflection of the far-reaching impact of this so-called modernisation can be realised from the fact that huge amounts of money generated from oil were spent on a variety of items, but most notably on material and human expansion of the civilian and military bureaucracies. The number of government employees doubled between 1972 and 1974 and its expenditure for construction and military hardware reached legendary proportions. This development caused a sharp increase in wages because of a serious shortage of professional personnel to carry out the development projects.³⁷⁴ The country's defence budget rose from \$1.4 billion in 1972 to over \$9.4 billion in 1977. At constant 1974 prices, the increase amounted to an average annual growth rate of about 26 percent. A sizeable portion of the defence budget went to pay for imported military hardware.³⁷⁵ It is noteworthy that following the increase of oil revenue, Iran was promoted to be Regional Jandaram, e.g., Iran participated in Zofar War instead of American. Around 33 billion dollars were allocated to buy guns, mainly from USA, which was more than one third of the national budget. This was a huge burden on the national exchequer. In

³⁷¹ The Iranian oil revenue increased substantially to US \$18.5 billion in 1974 (i.e., eight times higher than 1972) See: A Report on Performance of *Fifth Development Plan of the Shah*, Tehran: PBO, 1977.

³⁷² Personal interview with individuals (I and N) identified in Appendix 3.

³⁷³ Semi-peripheral countries are distinguished by, among other characteristics, their expanding, but limited, home and export markets, technological dependency, and integration into the world economy. Increasing politicisation of the economic decisions on behalf of an expanding private sector, emergence of monopolistic and complex economic structures, uneven development, and speedy destruction of traditional culture following rapid industrialisation and urbanisation are among other major characteristics of semi peripheral societies.

³⁷⁴ Hooshang Amirahmadi, *Revolution and Economic Transition, The Iranian Experience*, Albany: State University of New York, 1990.

³⁷⁵ Indeed, over the 1972-77 periods, Iran's military imports from the United States amounted to well over \$16 billion-See, Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, Albany: State University of New York Press, 1990.

addition, buying armaments also promoted future dependency for buying spare-parts accessories. This situation drained much of the national resources.³⁷⁶

The consequent increase in demand led to shortages of producer and consumer goods and to a sharp rise in prices. Only an open-door policy toward imports brought the situation under control. In 1974, sharp cuts were made in import duties, taxes, and fees and the Iranian Rial was devalued upwards by 10.38 percent to make foreign commodities even cheaper.³⁷⁷ Over 80 percent of the imports were classified among capital and intermediate goods, two-thirds of which were used in manufacturing. The open-door policy particularly enabled the private sector to expand its investment, by 117 percent in real terms in 1975. However, this open-door policy of the government led to the dependency of the Iranian economy on the global capitalist market. This increased to such an extent that Iranian industries soon came to depend on the West for more than 65 percent of their inputs, including technology, intermediate goods and raw materials. The participation of foreign capital in Iranian banking and production also increased substantially. The amount of direct foreign investment from 1973 to 1976 was larger than the amount for the entire preceding two decades. Most such investments took the form of joint ventures with the government or the private sector and were financed largely by the Iranian banking system.³⁷⁸ The inflow of resources and the price rises contributed to a level of inflation that benefited those (mainly in business) who borrowed money, but hit hard at savers, and the countrywide economic change in the 1970s vastly increased the rural-urban divide.

³⁷⁶ See: Ebrahim Rezaghi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publication 1999; Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, Albany: State University of New York Press. 1990.

It is important to mention here that Ali Amini, once Prime Minister of Mohammad Reza Shah, in an interview with Habib Lajvardi (Head of Middle East Research Centre at Harvard Business School) mentioned that whenever he criticised the Shah's mistakes, he was told by him: 'I am not a King like in UK or Sweden, as a prime minister you have to obey my orders'. Habib Lajvardi (interviewer), *Memories of Ali Amini*, Tehran: Nashr-e Gofar, 1997, pp. 169.

³⁷⁷ By the end of the year, Iranian imports had reached the all-time high of U.S. \$10 billion and this increased by another 60 percent in 1975. A 1975 economic accord with the United States obligated Iran to purchase \$15 billion worth of American goods and services over the next five years. See: Jahangir Amozgar, *The Iranian Economy at the eve of Revolution*, London: I.B. Tauris, 1997; Hosain Razavi and Firouz Vakil, *The Political Environment of Economic Planning in Iran 1971- 1983*, Boulder & Co: Westview Press, 1984.

³⁷⁸ Between 1973 and late 1974, some \$12 billion worth of contracts and joint ventures were signed with American firms alone. See: Hooshang Amirahmadi, *Revolution and Economic Transition, The Iranian Experience*, Albany: State University of New York Press, 1990

The boom of the White Revolution also changed the sectoral composition of GNP in favour of construction and services, despite huge industrial investments. Financial institutions and real estate speculators were among the main beneficiaries of the boom. The urban land prices increased by more than seven times in most cities over the 1972-76 period. In 1976, for example, the medium and large-scale industries produced 90 percent of industrial value added while employing about 18 percent of the industrial work force. Agriculture was the least affected by the boom as the state's subsidies for imported food prevented any significant amount of the oil revenue trickling down to this economic sector. The boom also extended the economy beyond its material, human, institutional, and infrastructural capacities. Inventory of goods declined by about 130 percent over the period 1974-75 as economy reached its maximum capacity utilisation in the face of ever-growing demand. Shortages also developed in both the unskilled and skilled labour-force, resulting in substantial wage increase demand for the scarce highly skilled personnel, who had to be imported at very high wages.³⁷⁹ Imports increased, but bottlenecks of capital and intermediate goods were caused at ports and warehouses, and roads, and other means of transportation became severely strained. In 1975, the government paid over \$1 billion to ships waiting to be unloaded.³⁸⁰ Attempts to use more expensive means for faster delivery of imports to private customers' only increased import costs. To these bottlenecks were added the frequent power-cuts started in 1975. This economic over-extension in turn, strained the public administration and led to increased corruption. The combined effect of these bottlenecks led to a substantial reduction in institutional efficiency and in the utilisation rate of the existing capacities, for example, by over 50 percent in the textile and automotive industries.³⁸¹

The strains on supply, in the face of a rising demand, led to hyperinflation and rapid rises in interest rates. The sharp decline in oil revenues in 1975 could reverse the trend but the government decision to maintain the level of its expenditures through deficit spending further exacerbated the situation. The sharp rise in prices and interest rates, in the face of an already high wage bill, significantly reduced the profitability of the private sector, which responded by holding back on new investment.³⁸² The amount of

³⁷⁹ The salary payment to legal foreign workers amounted to US \$3.8 billion in 1977 alone. See: Hooshang Amirahmadi, *Revolution and Economic Transition, The Iranian Experience, op. cit.*, 1990.

³⁸⁰ Jahangir Amozgar, *The Iranian Economy at the eve of Revolution*, London: I.B. Tauris, 1997.

³⁸¹ Hooshang Amirahmadi, *op. cit.*, 1990; PBO, *The Performance of Fifth Five Year Development Plan of the Shah*, Tehran: PBO, 1977.

³⁸² Hosain Razavi and Firouz Vakil, *The Political Environment of Economic Planning in Iran 1971-1983*, Boulder & Co: Westview Press, 1984.

private investment in 1977 fell by over 65 percent relative to the preceding year, leading to the 1976-77 recession. The GDP growth rate dropped from 17.8 percent in 1976 to 7.2 percent in 1977.³⁸³ All economic sectors experienced significant decline, but the hardest hit were oil and industrial production, reflected in a 19 percent drop in the growth of private investment in machinery and a nine percent drop in the growth of the economy's fixed capital formation.³⁸⁴ Although the growth rate of services as a whole also declined, a few sub-sectors - notably hotel and restaurants, financial institutions, and housing rental - continued to prosper. Public revenue was among the immediate casualties of the drop in oil revenue.³⁸⁵ The government had to scale down its development activities to pay its operating expenses. By late 1975, the government owed its various contractors the amount of \$3 billion in delayed payments. By 1977, the state could hardly pay its employees on time and at the end of the year it had a budget deficit of some 20 percent of the general budget.³⁸⁶ The private debt to the banking system also rapidly increased, reaching the alarming level of 52 percent of the non-oil GDP, or \$19 billion, of which \$2.6 billion had been given in loans to the Iranian and foreign capitalists who were fleeing the country even before the Revolution was fully underway.³⁸⁷ This section has noted how the White Revolution contributed at the same time to increased growth, greater prosperity for many and yet created injustice and diminished social cohesion. In chapter two it was clear in all of the Islamic economic thinkers discussions that an effective economic policy had to produce growth, justice and social cohesion: one without the others would be useless. This is the context in which the upheaval of the revolution occurred.

3.4.2 Overview of the Pre-Revolution Economy

On the eve of the 1979 revolution, Iran had just completed nearly two decades of rapid economic growth and human development. Between 1960 and 1978, the Iranian economy was for the most part thriving, vibrant, and expansive, albeit somewhat

³⁸³: Hooshang Amirahmadi, *Revolution and Economic Transition, The Iranian Experience, op. cit.*

³⁸⁴ *Ibid.*

³⁸⁵ *Ibid.*; Sohrab Behdad, *The Structural Limits of Accumulation: Crisis in the Iranian Economy 1973-78*, A working paper, Department of Economics, Granville: Denison University, 1986; Jahangir Amuzgar, *The Iranian Economy at the eve of Revolution, op. cit.*

³⁸⁶ *Ibid.*

³⁸⁷ The Researcher has experience with Irdak Construction Co. (Joint Venture of Iran and Denmark), which received a loan from a bank with the support of fictitious promissory notes. The same applies to Ziaran Meat Processing Company (formed with the cooperation of the American and Iranian Governments), which also borrowed huge amounts of money with the assistance of influential groups.

unbalanced and in some ways fragile. During this period, the country was systematically transformed from a largely agrarian and stagnant economy into a modern, progressive society by way of structural changes in the tradition-bound socio-economic order. Through public planning, guidance and assistance, the economy was led on a path of urbanisation, industrialisation, and diversification. Basic priorities set by the government emphasised rapid growth, sectoral modernisation, improved social welfare, and integration into the global economy. This agenda was a matter of consensus among the regime's supporters. Dissent within government circles was centred mostly on specific strategies and policies, and not on the basic orientation and direction. Thanks to the growing revenues from oil, and the State monopoly, that government undertook a comprehensive programme of multi-billion dollar public investment in infrastructure, industry, agriculture, and hydrocarbons. Through appropriate legislation, management guidance, labour training, and other incentives, the government helped to create a vigorous and exuberant private sector.³⁸⁸ It is clear, however, that as the Iranian economy developed, the state's involvement in the detail of planning, regulation, production and exchange remained a central element of the system. The Pahlavi state much more closely resembled the French and Japanese examples in (respectively) the mid eighteenth and late nineteenth centuries than it did either a 'typical' third-world state or a liberal development state. The role of the governing elite in the direction of business was also central and when the elite fell, the economy would also in effect collapse at the point where it most needed to be adequate. The market or bazaar class retained a certain real independence, but the state had deeply penetrated the industrial and service economy in a relationship, which gave both sides significantly distinctive characters.³⁸⁹

While annual domestic private investment accounted for a substantial portion of gross fixed capital formation - larger than public investment during 1960-1967 - the public sector exercised an increasingly active role in the economy. The growing dominance of the government, however, was not due to an ideological bias, but did allow oil revenues to finance the result of rising public expenditure. And, despite the state's expanding involvement in certain basic economic activities (oil and gas, metals, petrochemicals, and defence industry), the private sectors were predominant in other areas (e.g., automobiles, textiles, pharmaceuticals, and food processing). In agriculture, the

³⁸⁸ See: Jahangir Amuzegar, *op. cit.*; Hoshang Amirahmadi, *op. cit.*

³⁸⁹ *Ibid.*

government owned a number of agro-businesses and farm corporations, some in joint ventures with foreign interests. Small and medium-size farming, however, was largely in private hands. In industry, apart from certain factories producing consumer goods inherited from the Reza Shah's period, the government's involvement was limited to the very large industries and public utilities, high-tech and heavy machinery projects that were not attractive to, and could not be afforded by, the private sector. The state's entry into other smaller projects was also promoted by the need to serve as a catalyst for establishing new industries, helping to renovate others, and offering management know-how to ailing private sector firms.³⁹⁰

Furthermore, an important principle of the White Revolution was the promise that state enterprises would be sold to the public, and more than 30 factories (around 40 %) of those destined for sale were subsequently sold either wholly or in part. In addition, the 1975 Law for the Expansion of Ownership of Productive Enterprises called for 49 percent of the shares of large, private industrial firms, and 99 percent of the shares of state industrial units (except strategic industries) to be sold to the workers of each company, and then to other workers, farmers, and the general public.³⁹¹ As acknowledged even by critics of the Pahlavi regime, the expansion of public sector ownership and management did not crowd out the private sector; the domestic economic boom generated by soaring public expenditure served as a great stimulus to private entrepreneurs. The mining and manufacturing sector that was given the pivotal role in the development process was expected to serve as a powerful driver for growth through its backward and forward linkages in the economy. The rapidly rising oil revenues, surrogating as enormous and painless national savings, fuelled the expansion without the historical necessity of belt-tightening, or heavy foreign borrowing.

Throughout these years, the government was successful in attaining most of its economic, social and defence objectives. Data published by the World Bank show that, as compared to other Third World countries, Iran's annual real growth rate of economy, at nearly 9 percent during 1960-77 was roughly double the average of the countries in

³⁹⁰ See: PBO, *The Performance of Fifth Five Year Development Plan of the Shah*, Tehran: PBO, 1977; Jahangir Amuzegar, *Iran: An Economic Profile*, Washington: The Middle East Institute, 1977; Hossein Bashiriye, *The State and Revolution in Iran, 1962-1982*, London: Croom Helm, 1984.

³⁹¹ See: H.Razavi and F. Vakil, *The Political Environment of Economic Planning in Iran 1971-1983*, Boulder: Westview Press, 1984; M.M. H. Malek, *The Political Economy of Iran Under the Shah*, London: Croom Helm, 1986.

the middle-income category, and higher than the average for any other group of countries in the world. Impressive rates of growth were also achieved in the other main economic variables - investment, saving, consumption, employment, and *per capita* income. Gross domestic investment grew at an average annual rate of more than 16 percent, reaching 33 percent of the gross domestic product in 1977-78. Public consumption rose nearly 18 percent a year, industry by 8.7 percent and service by 13 percent on average. The annual growth rate of agriculture, although lower than the other sectors, was respectable by world standards. Diversification was achieved as industry, oil, and service sectors gradually claimed larger shares of the gross domestic product. The share of agriculture was reduced from 29 percent of GDP in 1960 to less than 10 percent in 1977; by contrast, the share of industry (including energy) went up from 33 percent to about 50 percent, while the service sector's share remained roughly the same.³⁹²

In oil and gas, the average annual growth rate was 14.5 percent a year during 1960-74, but declined to less than one percent per annum in 1974-78. Nevertheless, the sector's progress in the two decades before the revolution was remarkable. Crude oil exports rose from approximately one million barrels per day (mb/d) in 1963 to around 4 mb/d in 1971, reaching a peak of 5.4 mb/d in 1974. By the time of the Revolution, oil exports were about 4.5 mb/d. At the same time, oil production capacity had reached 6.5 mb/d.³⁹³ Domestic oil consumption which was totally supplied by domestic refineries, rose from 80,000 b/d in 1963 to nearly 543,000 b/d by 1979. Refined product exports averaged about 192,000 b/d for the 1960-1977 period.³⁹⁴ The government's revenues from crude oil exports rose from \$723 million in 1960 to about \$22 billion by the time of the revolution. In the meantime, the country's dependence on oil income as a source of foreign exchange rose from 88 percent in 1960 to 97 percent in 1977. Production of natural gas during the same period rose seven-fold. The share of the oil sector in GDP, which was about 15 percent in the early 1960s, reached nearly 35 percent in 1973 before declining to 32.5 percent in 1977-78.³⁹⁵

³⁹² See: World Bank, *World Development Report 1980*, New York: Oxford University Press, 1980; PBO, *Fifth Development Plan*, Tehran: PBO, 1978; Ebrahim Razaqi, *Eqtesad-e Iran*, Tehran: Nashr-e Ney, 1367[1988]; Bahram Tehrani, *Pajuheshi dar Eqtesad-e Iran 1354-1364[1975-1985]* Paris: Khavaran, 1986.

³⁹³ NIOC, Oil Ministry, Tehran: Daftar Barnameh Rizi Talfiqi- NIOC, *Various Reports*.

³⁹⁴ Hoshang Amirahmadi, *Revolution and Economic Transition, The Iranian Experience*, *op. cit.*

³⁹⁵ See: CBI, *Bank Markazi Annual Reports*, Tehran: CBI (various reports).

The manufacturing sector registered an average annual real growth of nearly 14 per cent during 1963-1978, the second highest in the world after South Korea, and more than twice the growth rate of other developing countries in the same group as Iran. Production per worker grew to 10.5 per cent a year in manufacturing, compared to 5 % in agriculture and 8 % in the economy as a whole. The share of employment in manufacturing went up from 16.5 per cent to 19 per cent, partially absorbing the labour released from agriculture.³⁹⁶

In foreign trade, the share of consumer goods in the value of total imports declined from 24 percent in 1963 to 18 per cent in 1977, while the share of capital goods rose from 20 percent to 28 per cent. Although the share of non-oil exports in the country's foreign sales remained low (between \$120 million in 1963 and about \$800 million in 1977), the contribution of industrial goods to total non-oil exports rose from 6 percent in 1963 to 22 percent in 1977. Moreover, inflation was kept at an uncommonly low rate of 2.5 percent a year during 1960-67 and 3.7 percent a year between 1968 and 1973. Even during the oil boom of the mid-1970s, the 1974-77 annual rise in the consumer price index averaged 15.5 percent - still below the average for Third World countries (i.e., 22%). In the overall external balance of payments for much of the 1970s, the Iranian Rial had effectively become a convertible currency. Government finances, while in deficit, were in a manageable order, and internal debt was easily serviceable. Iran's foreign exchange assets were estimated at \$15 billion (with reserves of nearly \$11 billion against, an estimated long-term external debt of some \$7.5 billion).³⁹⁷

Thanks to considerable outlay allocated to education and health, great strides were made in improving social welfare. Infant mortality, malnutrition, endemic diseases, and illiteracy were reduced considerably, while caloric intake, student population, and life expectancy all increased appreciably. The ratio of value added by farm workers of that in non-oil sectors slightly improved. While the gap between rural and urban income, and income inequalities within each sector, did not demonstrably change, absolute poverty was measurably reduced.³⁹⁸ The pre-revolutionary economy certainly succeeded in some respects, but as already explained, it let to acute crises in others.

³⁹⁶ Jahangir Amuzegar, *Iran: An Economic Profile*, Washington: The Middle East Institute, 1977.

³⁹⁷ See: Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris; Haleh Esfandiari and A.L.Udovitch, *The Economic Dimensions of Middle Eastern History*, Princeton: The Darwin Press, 1990; Bank Markazi Jomhuri-ye Eslami-ye Iran, *Hesabhay-ye Melli-ye Iran 1353-1366 [1974/75-1987/88]*, Tehran: 1370 [1991].

³⁹⁸ See: Haleh Esfandiari and A.L.Udovitch, *The Economic Dimensions of Middle Eastern History*, Princeton: The Darwin Press, 1990; PBO, *Fifth Development Plan*, Tehran: PBO, 1978.

3.5 Concluding Remarks

This chapter has explored the historical context of Iranian economic policy today. It has reached back to the past role of a powerful but increasingly illegitimate monarchy from which the Revolution inherited state institutions. The post-1979 government created a new state and a new constitution, but, despite its rhetoric, it did not wholly overthrow the legacy of the past. Conceptions of law, justice and correct administrative procedure were intended to be Islamic after the Revolution, and so they were, in intention. But so they had been beforehand; and to say that they were 'Islamic' is to neglect the diversity of Islamic forms of government and economic policy. They were, therefore, also Iranian, and they reflected particular Iranian debates and compromises on questions of justice, freedom, profit and the right to earn and own. These debates have always been diverse, and often primarily shaped by a reaction to the previous injustices of an earlier system. Diversity has at times failed to avoid incoherence, both under the Shah and under the Revolutionary government. In this context, powerful groups, powerful interests and powerful families have seized parts of the state for themselves. The capture of the state by key groups linked to the Shah's family before 1979 and linked to the clergy and their families afterwards are part of the story of the political economy of Iran since 1953. It has provoked cynicism among the broader population and scepticism abroad. The Iranian state remains, but as I have already indicated, it is a complex and difficult set of institutions, motivated by genuine piety, a genuine sense of what might count as justice and genuine academic debates about the impact of globalisation on developing countries; but at the same time its institutions are driven by jealousy amongst each other, and a search for factional wealth and power no less genuine than the better motives, but often felt more effectively in government actions.

Thus the history of Iran is more than mere 'background' to the story which the thesis unfolds. It provides a form of explanation. The ways in which state-society relationships have evolved over a long period of time, and in particular the peculiar complexity of the state and its institutions and its relationship to the elite and the families, which have captured and divided it provides a long-term explanation. This may have more than a little in common with the explanation of the rise to power of fifteenth century Italian cities, where we can see that the growth of Florence or Milan is intimately linked to the fortunes of the Medici or Sforza families and their associates. Historical sociology suggests that it is not simply the general idea that the state-society relationship matters

that is important, but that it is precisely in the detail of particular state formations and particular economic constructions that one can find explanations of what comes later. Equally, it suggests that the integrity of the state's boundaries and patterns of violence within it, and between the state and external powers sustain particular state formations and political practices over long periods of time. These material relations sustain ideas and ideologies, while at the same time reflecting them. This chapter and its predecessor do not form 'side issues' in the analysis of ownership issues and privatisation policy in Iran. They are not exploring remote influences on the decisions which policy makers face in the first decade of a new millennium. They are setting out the parameters of contemporary policy making. Those parameters are at once institutional, economic, cultural and political, and they reflect deeply engrained social and political practices.

Historical sociology of this kind can lead to a form of pessimism. For the argument appears to be that nothing can change: the past is so deeply embedded in the present that everything is determined. To read this thesis (or, indeed, most historical sociology) in this way would however be mistaken. Past experience shows us how choices have long-term consequences and long-term effects, and how ideas become so deeply embedded in institutions. It suggests that change is difficult and that choices can often go astray because of the existing powerfully embedded structures and practices they encounter. But it does not say that the future is determined; nor does it suggest that no change is possible. It does suggest that changes in policy have the best opportunity to succeed if they are built on an understanding of the past and if they do not fly in the face of a people's preferred ways of life and ideal goals; goals which they have dreamed and discussed and which are (despite some liberal academic rhetoric which suggests that all should have the same world vision –Fukuyama is a case in point) culturally specific to them. So in embedding my argument about the importance of privatisation in Iran in a sense of the embedded past, I have not drafted the thesis to be pessimistic about change but to be, as far as I can, soberly realistic about how it can best come about. Throughout the thesis, the argument will continue to look at the character of economic policy in the context of specific state-society relationships, and in the context of the history of both the growth of the Iranian state and the growth of the Iranian economy in the light of these past structures and practices.

More specifically, the point this chapter has emphasised is that foreign invasions, based either on territorial imperatives (earlier) or on economic objectives (more recently,

especially relating to oil and natural resources) have provoked nationalism and a deep suspicion of foreign power. This has in turn shaped the political culture and institutional and legal forms of the state very deeply. But at the same time there has been a failure to create lasting state institutions, which could deliver the economic aspirations of most people. Even the elite, which dominate the state, have often, not least most recently, been unable to mobilise it effectively. The lack of effective state institutions in Iran is a critical factor in the prospects for Iranian development. In this, it is of course not alone in the developing world. But it is not necessarily helpful at this point to leap to a generalised explanation. Iranian society has rejected imposed models of development in the past and could well do so again. Against this background, therefore, it becomes all the more important to rethink the concept of development, to imagine development in the context of the particular society and its culture, its religious aspirations and values and its (rapidly changing) social fabric. That ambitious goal is one this thesis identifies, and hopefully contributes to; but its fulfilment is left for another place. But in identifying the need for a rethinking of development, which takes more account of the specific conditions and cultures of a society, one re-situates the argument about specific economic policies. This begs a more particular question, not whether there is a uniquely Iranian 'path to development' to which privatisation might contribute (I emphasise that the thesis is not Maoist), but whether there is a distinctive Iranian version of privatisation which combines western and Islamic thought and practice and which can thereby satisfy the contradictory demands which people put on government. This jumps ahead of the argument in the thesis as a whole; but it does so in order to clarify where the argument is to go. The next chapters look more closely at economic policy, and then at the particular question of privatisation in history, theory and practice in Iran in and exploring and analysing these questions.

Chapter Four

CRITICAL REFLECTIONS ON THE MANAGEMENT OF THE IRANIAN ECONOMY AFTER THE REVOLUTION: A GROWING CRISIS OF STATE MANAGEMENT

4.1 An Overview

One of the particular characteristics of the Islamic Revolution³⁹⁹ of Iran is the contradiction between its political, cultural, and ideological radicalism on the one hand and Iran's contemporary national and global situation on the other.⁴⁰⁰ As mentioned in the previous chapter, by the time of the 1979 revolution, Iran had developed into a semi-peripheral⁴⁰¹ imbalanced country.⁴⁰² That is to say that Iran, although not insignificant in itself, was relatively marginalised and relatively powerless in the structure of the global economy. This revolution can be characterised by the class nature of its leadership, which emerged from the middle classes, and with the collaboration of other

³⁹⁸ The Islamic revolution in Iran can be considered as one of the major events of the 20th century. See, Philip G. Philip, 'The Islamic Revolution in Iran: Its Impact on Foreign Policy', in Stephen Chan and Andrew J. Williams, *Renegade States*, Manchester: Manchester University Press, 1994, p. 117.

⁴⁰⁰ See: Saeed Rahnema & Sohrab Behdad, *Iran: After the Revolution: Crises of an Islamic State*, London: I.B. Tauris, 1996, pp. 69-90; *The Guardian*, 13 November 1999; *The Time*, 1st November 1999; *The Daily Ettela'at International*, 1st November 1999; *The Economist*, 20th November 1999.

⁴⁰¹ The terms core, periphery, and semi periphery as derived from world systems. The countries of the core also so called centre countries in some versions are those that became industrialised in the nineteenth century, roughly the so-called developed countries of today (Western Europe, the United States, Canada, Australia, New Zealand and South Africa); the periphery is composed of most Third World countries, whereas the semi periphery has changed since the advent of what world system theorists call the capitalist world economy in the 1650s. Today, the semi periphery includes a few of the largest countries in the Third World and the so-called New Industrialising Countries, e.g. South Korea, Taiwan, Hong Kong, and Singapore, with a handful of countries waiting to be formally admitted to the club such as Malaysia, Thailand, and Chile. See: Arturo Escobar, *Encountering Development: The Making and Unmaking of the Third World*, Princeton: Princeton University Press, 1995; According to Ankie Hoogvelt from the beginning, however, the world economy has been stratified into three layers, not two: core; periphery; and semi-periphery. The reasons for the existence of semi-peripheral nations are both political and economic: politically, semi-peripheral nations are go-between nations, performing a similar function to the middle classes within national stratification systems. They form a necessary buffer in a system so based on unequal rewards that sooner or later it will lead to rebellion. With the world system, the go-between nations also assume an economic role; they seek trade with both core and periphery, See Ankie Hoogvelt, *Globalization and the Postcolonial World: The New Political Economy of Development*, Hampshire: Palgrave 2001.

⁴⁰² Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, Albany: State University of New York, 1990; Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997; Parvin Alizadeh. *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B. Tauris, 2000.

sections of society it became successful in bringing about this change in the country. However, what distinguishes a middle class from a socialist revolution is the cross-class ideology that its leaders brought into the post-revolutionary state. Moreover, as the middle-class did not own any major means of production, it finds economic nationalisation a pre-condition for holding on to political power and controlling the economic society.⁴⁰³ Monopolisation of the political society thus becomes a necessity for the middle-class leadership. However, this class itself is divided into various strata, which differ from each other on the basis of their own economic interests and political roles in the national system. Divisions along ideological and political lines further exacerbate the internal heterogeneity of this class, because this class is a mixture of secular vs. religious, modern vs. traditionalist and socialist vs. capitalist tendencies, which can be called a crisis in an Islamic state.⁴⁰⁴

In the case of Iran, a revolution that sought to dispel foreign influences and safeguard its wishes of autonomous development, would naturally rely upon an indigenous ideology and its traditionalist religious identification.⁴⁰⁵ As mentioned in the previous chapter, ideology - which had already been revived by the uprising against the Shah led by the Ayatullah Khomeini in 1963 and through the extensive religious educational programmes during the 1960s and 70s - also promised reintegration of most dispossessed social groups into mainstream society.⁴⁰⁶ The perceived reintegrative capability of Islam provided the religious middle-class intelligentsia, including the clergy, an added opportunity for the leadership of the Revolution. The Ayatullah's ordinary life-style and spirituality were additional sources of attraction for people whose political leaders lived a spiritless material luxury.⁴⁰⁷ This Islamic leader was also able 'to rally behind him a wide spectrum of political and social forces', convincing them that their demands for national independence, social justice and democracy, would be realised in an Islamic Republic.⁴⁰⁸

⁴⁰³ There are some exceptions - clergy families and associates such as Rafsanjani, Ansari, Asgar Oladi, and Refiq Doost were in business and were wealthy even before the Revolution and supportive of it.

⁴⁰⁴ Saeed Rahnema and Sohrab Behdad, *Iran After the Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1996, pp. 11.

⁴⁰⁵ David E. Apter, *Rethinking Development: Modernization, Dependency, and Post-modern Politics*, Newsbury Park: SAGE Publications, 1987, pp. 98-99.

⁴⁰⁶ See: Asaf Hussain, *Islamic Iran*, New York: St. Martin's Press, 1985; H. Arjomand, *The Turban for the Crown*, Albany: State University of New York Press, 1980.

⁴⁰⁷ Baqer Moin, *Khomeini: Life of the Ayatollah*, London: I.B. Tauris, 1999.

⁴⁰⁸ Ervand Abrahamian, *Iran Between Two Revolutions*, Princeton: Princeton University Press, 1982, pp. 530-537.

It is almost unnecessary to emphasise that the widely proclaimed aims of the Revolution were to achieve traditionalism, economic development, sovereignty and justice.⁴⁰⁹ These aims were subsequently translated into an Islamic vision reflected in the new Constitution and in the first socio-economic and cultural development plan of the country. This Islamic element appeared throughout the Constitution, including the preamble (as well as its 175 articles).⁴¹⁰ All the clauses of the constitution define the state as Islamic and highlight the multiple socio-economic and politico-cultural motives, which provide the driving force of a purely Islamic character to the event. Indeed, it was its particular characteristic, which guaranteed its victory, in contrast to the previous revolution of 1906-7. 'The outline of an Islamic state based on the mandate of the jurists' set out by Ayatullah Khomeini⁴¹¹ provided the decisive co-ordinating impetus to the Islamic people's movement, which in the end led to the foundation of the Islamic Republic.⁴¹² Islam was declared the official religion of the state. An additional distinguishing feature of the state's Islamic character was the national flag, which bears as the special emblem of the Islamic Republic the inscription 'Allah-o-Akbar' (God is great).⁴¹³ It would not be wrong to say that according to the Constitution the real power rests in the hands of the clergy.⁴¹⁴

As explained in Chapter Two, these powers far exceed those of a simple supervisory role, and yet they do not amount to the plenipotential authority, which is bestowed upon the leader according to the concept of *Velayat-e-Faqih* in its absolute form (i.e., as interpreted by Ayatullah Khomeini)⁴¹⁵. The Constitution reserves not only the office of leader for Islamic jurists but also many other key state positions like heads of Judiciary

⁴⁰⁹ M. J. Khalili and S. Manafi, *Fundamentals of The Islamic Revolution (Selection from the Thoughts and Opinions of Imam Khomeini)*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 2000.

⁴¹⁰ In the original text of the constitution, the word used to designate an article is principle (*asl*). This terminology accords with the ideological character of the document in which every article expresses a principle of government. In general they present the following characteristics:

- The state and the revolution leading to the creation of that state are Islamic.
- The definition of the tasks and the goals of the state in accordance with its Islamic character.
- The legislation is bound to the *Shari'a*.
- Positions of leadership will be reserved for Islamic jurists.
- Institutions will be set up, whose task it is to ensure the Islamic character of the state.

⁴¹¹ This is a reference to the publication of Ayatollah Khomeini's books, such as *Velayat-e Faqih* and *Hokumate-e Eslami*, which appeared in 1971 but only reached a wide public after the revolution.

⁴¹² In March 1979, 98.2 percent of people voted in favour of the Islamic Revolution. See: *The Daily Keyhan Newspaper*, 4th March 1979,

⁴¹³ Article 18 of the Constitution.

⁴¹⁴ See: Asghar Schiriazai, *The Constitution of Iran*, London: I.B. Tauris, 1997; Ayatollah Montazeri, [<http://www.iran-press-service.com/articles-200/Apr>]. This point is discussed further in chapters 2 and 6.

⁴¹⁵ Ayatollah Khomeini, *Velayat-e Faqih*, Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works, 2000.

and Revolutionary courts (as mentioned in Chapter Two). Also, the second most important state institution is the Council of Guardians, which has the right of veto over parliamentary resolutions and in practice occupies a dominant position in the legislature. Six of its 12 members must be jurists of *Faqih*.⁴¹⁶ And these six alone have the right to vote on whether or not parliamentary resolutions are in conformity with the *Shari'a*.⁴¹⁷ Likewise, the interpretation of the constitution, supervision of presidential and parliamentary elections and of referendums, is all the functions of this Council.⁴¹⁸ The membership for the Assembly of Leadership Experts, as its name suggests, is similarly reserved for Islamic jurists who determine the choice of leader.

4.2 Basic Goals of the Islamic Republic

At the time of the revolution, the country faced numerous problems, particularly the absence of adequate governance, and of law and order. In this state of vulnerability and insecurity, a huge amount of money was looted from banks and private enterprises. Much capital was transferred abroad and the fear of insecurity and instability drove many people to escape from the country. Most of the banks became bankrupt due to huge overdrafts, fictitious promissory notes and excessive borrowing without the provision of proper guarantees. Even on the eve of the Revolution, as an opposition tactic mechanism against the Shah, most of the factories were on strike, which caused huge financial losses.⁴¹⁹ After the Revolution, when the banks wanted to collect their dues the companies had no means to pay. Most of the owners, and foreign experts and managers of such companies, either left or were forced to leave by irresponsible pressure groups with other agendas (See section 1.3.).⁴²⁰ Moreover, this instability and insecurity led many investors to sell their assets and transfer the capital outside the country (See Section 6.8). These problems were further aggravated by international sanctions, reduction in oil revenue, and the Iran-Iraq war (1980-88). All these factors

⁴¹⁶ Article 91 of the Constitution.

⁴¹⁷ *Ibid.*

⁴¹⁸ *Ibid.*, 98, 99, and 118.

⁴¹⁹ See: Saeed Rahnema & Sohrab Behdad, *Iran After the Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1996; Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, Albany: State University of New York Press, 1990; Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997.

⁴²⁰ During that state of anarchy violent workers and revolutionary organisations interfered in the management affairs of the companies and created an insecure atmosphere for the management. This situation caused low productivity, qualitatively and quantitatively.

forced the government to nationalise banks and other financial and industrial institutions. In this way some of the companies directly came under the supervision of the government whilst others were confiscated.⁴²¹

Under the leadership of Ayatullah Khomeini, who had his own view of an Islamic system, the militant *Ulama* and their followers brought an Islamic ideology-based revolution in the country. Therefore, the country's system underwent a series of changes. According to Ayatullah Khomeini, this ideology aimed to create an Islamic society based on social justice, which was economically egalitarian, self-reliant, politically independent, and anti-imperialist.⁴²² Ironically, it is not possible that spiritual ideologies can bring ideal physical changes overnight, as in the contemporary age it is not possible to materialise the dream of development by ignoring global and domestic forces (see Chapter One). It is particularly true in the context of Iran, where oil, the major source of national income (which is the lifeblood for every developmental activity), has been under the control of multinational corporations. Moreover, it was not possible for an inexperienced government to implement the ideological objectives of the new Constitution (1979) in a de-stabilised situation.⁴²³ Furthermore, at the time of the Revolution a majority of entrepreneurs, investors, managers and professionals born and bred in Iran had fled due to the insecurity created by irresponsible self-declared revolutionaries. By their departure, the country lost not only a major source of financial capital (See Section 6.8), but human and social capital as well. This huge loss was unbearable for a country, which was at the very beginning stage of the revolution. These were not the only people whom the country lost; for the people who remained in the country, their financial and mental resources could also not be adequately utilised in the national developmental process. These people remained engaged mainly in short-term return projects. Another aspect of the situation was that with the change of ownership of enterprises, the government became a major employer and its bureaucratic control and inexperienced management led to a big decline in the efficiency of these enterprises.⁴²⁴

⁴²¹ Ebrahim Razaghi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publishing Institution, 1996, pp. 36-38.

⁴²² M. J. Khalili and S. Manafi, *Fundamentals of The Islamic Revolution (Selection from the Thoughts and Opinions of Imam Khomeini)*, Tehran; The Institute for Compilation and Publication of Imam Khomeini's Works, 2000.

⁴²³ For example, confiscation of property, execution of previous regime leaders, abandoning, ignoring and threatening the experienced managers and professionals, and replacing them with new inexperienced workers and opportunists (*The Ettela'at International*, 21 June, 1999).

⁴²⁴ See: Parvin Alizadeh, *The Economy of Iran, The Dilemmas of An Islamic State*, London: I.B. Tauris, 2000; Jahangir Amuzegar, *Iran Nameh*, Bethesda: Iranian Study Foundation, Spring, 1995, pp. 229-248;

While it is not possible to put a single figure on this decline in efficiency, a number of different figures (brought together throughout this chapter) are clear indicators that enable one to draw this conclusion, including figures on GDP, capital formation, employment, inflation, prostitution and drug addiction as well as family earnings.⁴²⁵

Under the new Constitution, by ignoring the personal responsibility of its own citizens, the state was called upon to provide them with a cradle-to-grave welfare system which resembled something more like make-believe than a plausible platform.⁴²⁶ A cursory look at the people's rights under Articles 28 to 31 of the Constitution - the rights to free education, a suitable dwelling, all basic necessities such as food, clothing, and health care, the opportunity to work, social security and respectable retirement, disability and old age benefits - reflects the reality of good wishes of a Third World country rather than real practicability. Therefore, these wishful dreams were far from a credible agenda. Although the regime's national economic planning claimed for substantial growth of output, the uncertainty about property rights, government ownership of large enterprises, and a distrust of the private sector and foreign investment, could not produce sufficient goods and services to fulfil the needs of the country. Furthermore, the government tried to artificially keep alive the dying commercial sector of the country by injecting oil money to subsidise most of the government enterprises. This situation created an environment where the government acted as a charity organisation to feed orphans.

In fact, the oil money⁴²⁷, which should have been utilised for investment and other productive projects, was consumed to feed the people whilst keeping them idle. The dominance of the fiscal linkage together with its lack of automaticity in generating potential spread effects, necessarily meant that the government had to play the leading role in initiating development which itself was dominated by influential political interest groups⁴²⁸. As a result, the dream of a just society, one of the major goals of the Islamic

Saeed Rahnama & Sohrab Behdad, *Iran After the Revolution: Crisis of An Islamic State*, London: I.B. Tauris, 1996

⁴²⁵ Parvin Alizadeh, *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B. Tauris, 2000; Hosein Azimi, *Iran Today: Development Discussion*, Tehran: Islamic Culture Publications Office, 1999.

⁴²⁶ See: Asghar Schirazi, *The Constitution of Iran: Politics and the State in the Islamic Republic*, London: I.B. Tauris, 1998; Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997

⁴²⁷ Massoud Karshenas, *Oil, State and Industrialization in Iran*, Cambridge: Cambridge University Press, 1990.

⁴²⁸ Robert E. Looney, *Economic Origins of the Iranian Revolution*, Elmsford: Pergamon Press Office, 1982.

revolution remained questionable because the poor people became poorer whilst the rich became richer.⁴²⁹ This over-subsidisation (without increase of efficiency) through oil revenue caused a drying-up of resources for the coming generation, which ultimately reduced the hopes of future development and caused further imbalance and injustice.⁴³⁰

By the end of the war with Iraq, a good number of the new technocrats, and many moderate clergymen came to the conclusion that the early revolutionary objectives would not be easily achieved, and that the regime's very survival could not be guaranteed without rethinking the revolutionary agenda and relaxing central command, a view that was shared by Ayatullah Khomeini. It was also widely recognised that unless these perceptions became a firmly established national posture in the contemporary globalised structure, the slogan 'Islam is the solution' would have little effect.⁴³¹ Moderate intellectuals were convinced that Iran's continued technological and diplomatic isolation threatened the very survival of the revolution and the Islamic Republic through deteriorating economic conditions, middle-class impoverishment, popular discontent, and rising social tension. Challenged by sweeping external pressures for change, stung by criticisms of their post-revolution stabilisation strategy, and the emergence of popular sentiments against various restrictions, the political leadership finally decided to embark on a new course. Among these strategic changes, a structural adjustment⁴³² aimed at the marketisation of the economy, including privatisation, was introduced.⁴³³

⁴²⁹ Housien Azimi, *Iran Today: Development Discussion*, Tehran: Islamic Culture Publications Office, 1999.

⁴³⁰ One of the major objectives of the Constitution was to create the Islamic model of consumption (leading simple life based on Islamic values) but ignored the reality of the effect of modernisation on the contemporary life style of the people. In fact, the Persian life-style has developed for centuries and by mixing with Western culture during the Pahlavi regime, it reached its peak. After the Revolution, in spite of clear clause in the Islamic Constitution, the influence of Iranian Westernised life-style is still reflected in the life of most of the clergies and higher authorities. With the exception of the simple life of late Ayatollah Khomeini and a handful of clergies, a review of existing life-style of other clergies and authorities indicates that they are provided with every luxury of life, which a common man cannot imagine. One of the injustices, which contrast with Islamic teaching, is that many of the charities created and administered by clergies are exempted from all taxes, which constitutes a substantial part of GNP. In addition, these clergies are exempt from prosecution in the common courts, and have access to (foreign) medical facilities not available to the common man

⁴³¹ Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997, pp. 197-201.

⁴³² Marcos Arruda, 'A Creative Approach to Structural Adjustment: Towards a People-Centred Development', in John Cavanagh, Daphne Wysham and Marcos Arruda, *Beyond Bretton Woods: Alternatives to the Global Economic Order*, London: Pluto Press, 1997, pp. 132-144.

⁴³³ *The New York Times*, 24 January 1989;

The launching of the five-year development plan for the first reconstruction period (1989-94) set the stage for the new direction toward deregulation, privatisation, free enterprise, and a return to the mechanisms of the free market. In contrast to the early policy of avoiding foreign financial assistance considered a threat to economic independence, Rafsanjani's government began to seek long-term external credit from the World Bank and elsewhere.⁴³⁴ The post-ceasefire economic recovery, and the need to sustain growth after several years of slump, prompted the leadership to take bolder steps regarding reconciliation with the outside world. In a related gesture of coming to terms with the past, the Islamic Republic called on expatriate Iranian professionals, industrialists, technicians, and managers to return to Iran and participate in the country's reconstruction. They were allowed to have Iranian passports in addition to their foreign ones. Another major policy change occurred when, during the Conference of the representatives from the Group of 77 (held in Tehran in November 1991), President Rafsanjani declared his government's intention to expand private ownership and to open the economy to the outside world.⁴³⁵ Later on, several hundred state enterprises were offered for sale to the private sector⁴³⁶ through the stock exchange and other means.⁴³⁷

4.3 The Journey So Far

The Islamic Republic's foregoing agenda thus called for specific measures to enhance the economy's efficiency through productive full-employment, growth, creating social

⁴³⁴ Liesl Graz, 'Iran under Rafsanjani', *The Middle East International*, 5 January 1990.

⁴³⁵ *The New York Times*, 28 May 1991.

⁴³⁶ Firoozeh Khalatbari, *The Tehran Stock Exchange and Privatisation of Public Sector Enterprises in Iran: A Study of Obstacles to Private Sector Development*, Tehran: Neshr-e Nei, 1994.

⁴³⁷ The reconversion to a market economy has been reflected in several other decisions, which contrast with previous revolutionary slogans and early vows. For example, under a scheme established during the Shah's reign, and now actively followed by the new regime, the Financial Organization for the Expansion of Proprietorship of Production Units is engaged in purchasing shares of state enterprises and offering them to their workers and other state employees. Another manifestation of the regime's economic liberalisation has been its fairly relaxed position toward private foreign investment, joint ventures, and association with multinational companies. A showcase of the new pragmatic approach has also been the designation of several 'Free Trade Zones'. The free trade areas were created by the *Majles* (in February 1990) with a number of special incentives, e.g., no taxes, unrestricted transfer of principal and profit of investment, minimum applications of Islamic law, even the waiver of majority ownership, and foreigners are allowed to enter Free Trade Zones without visas. In June 1999, two other major steps were announced which represented important turnarounds of previous Islamic foreign policy – the guarantee of the foreign investment in the 'Free Trade Zones' and the opening of foreign banks and credit institutions.

The relationship between Iran and Saudi Arabia has seen a complete reversal, from Saudi Arabia being seen as an anti-Iranian ally of the West to now being seen as part of an Islamic brotherhood with Iran.

See: 'Island of Laissez-Faire' *The New York Times*, 2 July 1991; *The Economist Intelligence Unit*, Iran: County Report No. 3, Third Quarter, 1991, pp. 79-81.

equity through fair distribution of income, and securing balanced growth through eventual self-sufficiency in strategic products. Measured by these performance criteria, the economy's balance sheet for the first two plans portrays a mixture of some success and many setbacks⁴³⁸. While state officials and some publications are usually replete with glowing reports of accomplishments in almost all aspects of the economy, the regime's economic woes have been too transparent and too overwhelming for anyone - including the leadership - to dispute.⁴³⁹ In his Friday prayer of August 9, 1999, Hashemi Rafsanjani (the then president) gave a candid summary of the state of the nation⁴⁴⁰. From the economic and material viewpoint, he declared, the country was in a very serious plight. Gross Domestic Product (GDP) had fallen precipitously since the Revolution, with the result that per capita GDP was down by nearly 50 per cent. Due to a considerable fall in private investment, and the government's inability to undertake sufficient public capital formation, unemployment had increased at an alarming rate. Employment had shifted into middleman activities, smuggling, and illicit trade. Inflation had soared from less than 10 percent a year in 1979-80 to nearly 29 percent in 1988-89 (23% in 1998-99)⁴⁴¹. The basic needs of almost 50 per cent of the people in society - water, electricity, education, health, roads, and employment - were still unmet, despite the government's repeated promises to give priority to depressed regions. While the country was impoverished during 1980s, the new national poverty was not equitably shared - the government had been unable to prevent economic 'leaches' from amassing fortunes in the black market at the expense of the poor, in reality made further weakened and impoverished. The government had incurred large foreign and domestic financial obligations. Infrastructural facilities had not been properly maintained. Five hundred municipalities had had to reduce public services due to lack of revenues. Factories were neglected and mostly obsolete. Warehouses were empty and the people had to rely on government subsidies for their daily living⁴⁴². Implied in these frank statements is a tacit admission that none of the basic objectives of the Islamic regime had so far been achieved. Many had hardly been approached and some have been unceremoniously set aside. Higher income growth, larger per capita income, and fuller

⁴³⁸ Jahangir Amuzegar, A View in Iranian Political Economy after the Revolution, in *Iran Nameh*, Vol. 4. 2000, pp. 578-627.

⁴³⁹ See: Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997; Parvin Alizadeh, *The Economy of Iran: The Dilemmas of An Islamic State*, London: I.B. Tauris, 2000; Saeed Rahnama & Sohrab Behdad, *Iran After The Revolution: Crisis of an Islamic State*, London: I.B.Tauris, 1996.

⁴⁴⁰ *The Ettela'at International*, 14 August 1991.

⁴⁴¹ *Ibid.*

⁴⁴² *Ibid.*

employment have not materialised. Inflation has intensified and income redistribution has not favoured the poor. No Islamic consumption pattern has been established and Islamic justice; virtue and brotherhood remain to be seen.⁴⁴³

4.4 Efficiency Considerations

The Iranian economy during the post-Revolution period suffered serious internal and external imbalances. Symptomatic of these imbalances were reduced output and per capita income, chronic unemployment and under-employment, double-digit inflation, budgetary deficit, and a frequent balance of payment gap.⁴⁴⁴ Iran's GDP at constant factor cost of 1973-74 was nearly the same in 1989-90. With an addition of nearly 30 million people to the country's total population since the Revolution, and an inflow of some US\$ 300 billion in oil export revenues, the real GDP in 1990-91 (Rls. 12, 045 billion) and in 1997-98 (Rls. 12,117 billion) was still around 6 percent below the total output in 1977-78 (Rls. 12,851 billion). The per capita real income of 1998-99 was much less than 50 percent of 1977-78. Economic growth, which was around 10 percent before the Revolution, dropped to less than 2 percent (during two decades of post-Revolution on average the growth rate was 2.3 percent), with an unemployment figure of around 14.5 percent.⁴⁴⁵ The GDP figure itself, as the basis of per capita calculation, was inflated by the significantly large contribution of the services sector as the latter partly reflected the salaries of semi-idle employees in the enormously enlarged bureaucracy. Despite large government subsidies on food, energy, utilities, housing, and other necessities, annual consumer prices increased at a double-digit rate for most of the period (in 1997-98 it was 23.09 and increased further in the next year).⁴⁴⁶ Almost one

⁴⁴³ See: Housein Azimi, *Iran Today in Development Debates*, Tehran: Islamic Cultural Publications Office, 1999; Parvin Alizadeh, *The Economy of Iran: The Dilemas of An Islamic State*, London: I.B. Tauris, 2000; Personal interview with individuals (M and Q) identified in Appendix 3.

⁴⁴⁴ See: *The Iran Economics Monthly Magazine*, September 1998, Tehran; IMF, *IMF Staff Country Report No. 99/37*, International Monetary Fund Washington D.C., May 1999.

⁴⁴⁵ According to the World Development Indicators of 1999, trends in long-term economic development of Iranian economy for the period of 1965-97 are as under:

Average annual growth of GNP = 1.5 % while per capita = -1.4%.

Average annual growth of population = 2.8%.

Average annual growth of value added agricultural production = 4.6%.

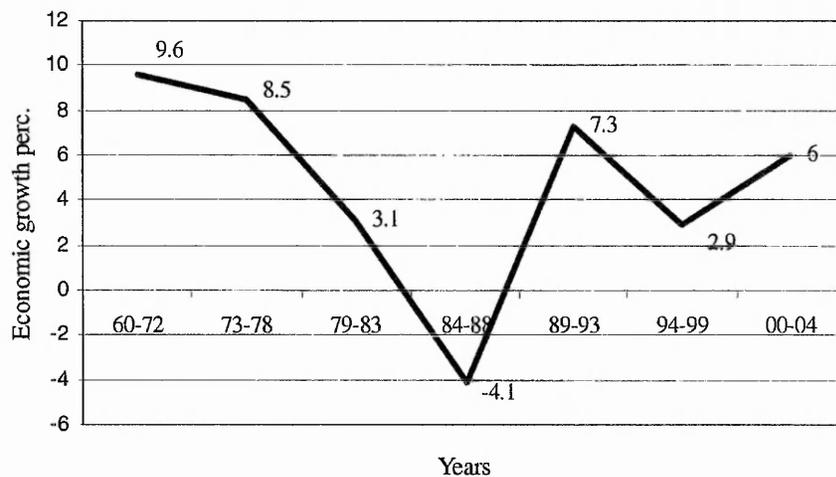
Average annual growth of value added of industry = - 0.2%.

Average annual growth of value added in services = 1.5%.

⁴⁴⁶ Furthermore, other factors such as long queues for rationed goods, increased air pollution (placing Tehran among the world's unhealthiest cities), more frequent power blackout, occasional shortages of goods and services, and various other daily irritants, should also be counted against the index figures.

third of the new entrants in the labour-force during the period could not find gainful employment, and the rest were nearly all employed either by the government, or were engaged in low paid service jobs.⁴⁴⁷

Figure 4.1: Growth Rate of GDP during Pre- and Post-Revolution Periods at Constant Factor Cost of 1982



Sources: Derived from the statistics of:

- *The World Bank, World Bank Report 1980*, New York: Oxford University Press, 1980.
- Central Bank of Iran, *National Accounts* (various issues).
- *The Monthly Iran Economics*, November 1999.
- Government of Iran, *Third Five-Year Development Plan 2000-2004*, Tehran: 1999.

Notes:

- The 6% growth rate of Third Five-Year Development Plan (00-04) is proposed by the government.
- It is important to mention here about the reliability of the data on this country. It was realised during this research that in general there was a:
- Lack of adequate information.
- Data on many aspects of the Iranian economy have been relatively fragmented and inconsistent, packed with discrepancies.
- Figures on many aspects of the economy, such as employment, unemployment, crime, accidents, national debts, foreign exchange resources and defence expenditures were not regularly published.
- On some occasions there were differences in published data on the same subject by different government agencies, e.g., Bank Markazi, PBO, as well as incompatibilities in figures supplied by a given agency on different accounts.
- In addition to the shortcomings of official data – some of which Iran shared with other countries – there is a matter of divergence between official and private estimates.
- In many cases, an official decided and interpreted the data, rather than being generated by the whole government department.
- Some data were in unpublished form lying in office files and in many cases such information was in Persian language.

⁴⁴⁷ The Iran Economics Monthly Magazine – Volume One, Oct. 1999, Tehran, pp. 42-43.

The economic planning and budgetary process of the pre-Revolutionary regime, which was often criticised by the pro-Revolutionaries as oblivious to the country's 'real' needs, seems to have continued in the same fashion as before. The reputable *Monthly Magazine of Iranian Economy* reveals in its issue of November 1999 that with regard to socio-economic development planning, Iran is on the edge of disappointment. This is mainly due to the reason that similar imported models of international lending, not necessarily bad in themselves, are being used without proper consideration of the actual situation and the in-depth understanding of the real problems of the country. Possibly this was the main reason that pre and post-Revolutionary development plans have not been fully successful.

As stated in the previous chapter, Iran had many ups and downs in its history and thus one of the impacts of this uneven situation was an imbalance in the state of ownership including that of the natural resources. This instability affected nearly every sector of the economy particularly the socio-economic conditions of the working classes of the country. Table 4.1 presents an overall picture of the Iranian economy. The figures show that the country's population during the past two decades has doubled while the efforts and allocation of resources to provide basic facilities to the masses has not been matched with the population growth. Figure 4.2 indicates that, due to inflation, the gap between household income and expenditure has been widening, resultantly causing an actual decline in the standard of living. This situation not only caused the cumulative deficit in household budgets, but also has prevented private capital formation, which ultimately adversely affects the whole process of privatisation. This suggests that the Iranian state has been unable to deliver one of its most cherished goals, a greater equality of income distribution in the context of steady growth. Whilst external pressures and problems clearly contribute to this, one cannot and should not pretend that there are not also purely domestic factors which inhibit both a more equal distribution of resources and a more successful growth rate, factors which, the thesis will suggest later, a more developed policy on privatisation would help to address.

**Table 4.1: A Comparative Overview of Pre and Post-Revolution
Five-Year Development Plans**

Item	Pre-Revolution 5 th Plan 1973-78	Post-Revolution				
		Non-plan Period 1979-89	1 st Plan Period 1989-94	Non-plan Period 1994-95	2 nd Plan Period 1995-2000	3 rd Plan (Proposed/estimated) 2000-05
Population in million (at the end of the each period)	35	52	57	58	65	73
GDP growth rate (average %age)	8.5	0.6	7.0	2.9	2.8	6.0
Total Oil revenue (US\$ billion)	109	142	72	15	73	65
Average per year	22	14	15	15	15	13
Agriculture (billion Rls. per year)	1,747	2,090	3,144	3,605	3,936	*
Industry & mines (billion Rls. Per year)	2,030	2,020	2,641	2,141	3,590	*
Services (billion Rls. per year)	4,817	4,540	4,926	5,885	6,385	*
Foreign debts (US\$ in billion at the end of each period)	*	5.8	23.2	22.7	22.0	25.0
Capital formation (average billion Rls. per year)	1,849	1,865	1,689	2,346	2,380	*
Non-oil exports (per year average in billion US\$)	0.6	0.6	2.3	4.8	3.2	8.0
Imports (per year average in billion US\$)	*	11.7	22.2	12.21	14.0	*

Sources: Computed from:

- Central Bank, *Iran's National Accounts*, Tehran (various issues).
- Government of Iran, Plan and Budget Organisation Reports, Tehran (various issues).
- *Ibid*, *Five Year Development Plans* (various issues).
- *The Monthly Iran Economics* (various issues).
- The Salam Iran, [[http://www. Salamiran.org/iraninfo/General/Basic/](http://www.Salamiran.org/iraninfo/General/Basic/)]

Notes:

- All figures are computed on the basis of constant factor cost of 1982.
- The figures for Third Five-Year Plan (2000-05) are projected, proposed or estimated by different sources.
- (*) Figures were not available.

As mentioned earlier, one of the objectives of the post-revolutionary regime was to discourage rural to urban migration, but the situation of the past two decades indicates that the government has been unsuccessful in this regard.⁴⁴⁸ In addition to the dislocations caused by the war, a number of other factors such as lure of city jobs, and

⁴⁴⁸ Housein Azimi, *Today Iran in Development Debates*, Tehran: Islamic Cultural Publications Office, 1999; Parvin Alizadeh, *The Economy of Iran, The Dilemas of An Islamic State*, London: I.B.Tauris, 2000;

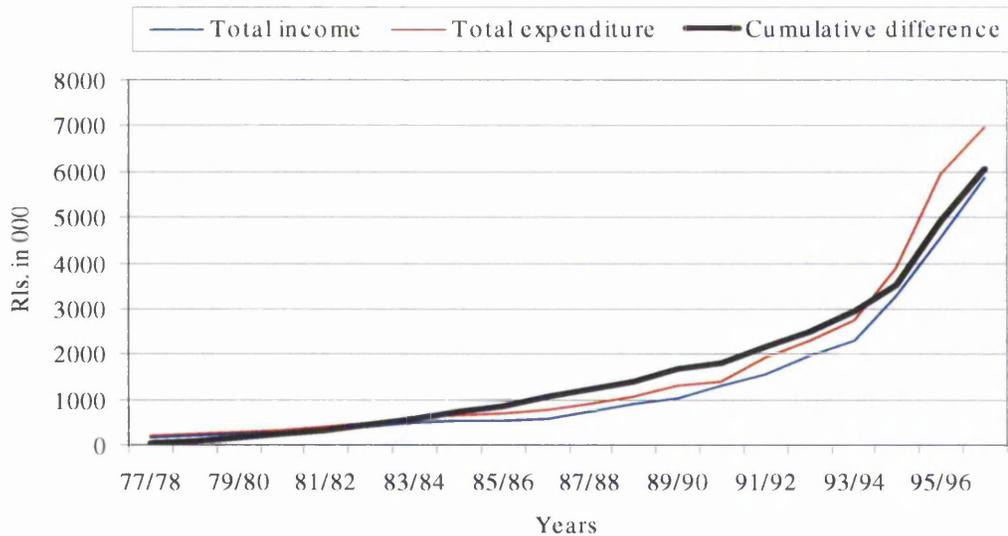
the expectation of receiving welfare benefits, which were promised during the early days of the Revolution, have encouraged a continuous outflow of rural people from their villages.⁴⁴⁹ It is not only the large cities that continued to be the magnet for rural migrants (e.g., Tehran province absorbing around 40 % of the total migrants of the country), a number of small towns which have acquired the status of municipalities but without municipal corporations, are also the poles of attraction for migrants⁴⁵⁰. These towns, which lack adequate facilities and on industrial base, expand without proper town planning and create further problems for migrants.⁴⁵¹ The differential between income and expenditure noted earlier (Figure 4.2) was also pronounced in the rural sector and was one of the main reasons underlying the high rural to urban migration. This mass migration enhanced the existing problems of urban life. The data show that said income-expenditure differential in the urban sector is more than that of rural sectors.

⁴⁴⁹ Despite the adoption of several policy measures designed to improve village life and redistribute social services in favour of less developed locations, rural migration has continued steadily. Other measures, which have failed to stem this migration, include: mandatory service obligation in the deprived areas by new government employees and professionals cadres such as physicians, dentists, and teachers, significant wage and salary differentials favouring employment in underdeveloped provinces, special budgetary allocations for small rural and tribal projects, and special quotas for students from deprived areas in the country's universities.

⁴⁵⁰ Statistical Centre of Iran, *Population Growth Survey of Iran: Final Report, 1973-76*, Tehran: The Statistical Centre of Iran; *Ibid.*, *Iran Statistical Yearbook 1991*, *op. cit.*, 1991; *Ibid.*, *Iran Statistical Yearbook 1996*, *op. cit.*, 1997.

⁴⁵¹ These small towns are becoming the centres of crime. Personal interview with an individual (M) identified in Appendix 3.

Figure 4.2: Average Annual Budget of Households in Rural Sector (Rls. in 000 at 1982 prices)



Sources: i) Central Bank of Iran, *National Accounts* (various issues).
 ii) Statistical Centre of Iran, *Annual Statistics* (various issues).
 iii) The Monthly Iran Economics, October 1999.

4.4.1 Industry

This sector includes manufacturing, construction, electric power, and mines as well as transport and communications (which are categorised as services in the Central Bank of Iran' national accounting system). No sector of the Iranian economy in the Shah's regime came under more blistering attacks from the opposition and the victorious revolutionaries than the industrial (mainly the manufacturing) sector. As a result, industry allegedly failed to meet the country's basic requirements. Excessive protectionism, unwise availability of tax exemptions and easy credit, inappropriate use of foreign technology and expertise, and the reliance of domestic enterprises on foreign technicians, raw materials and processed goods, were said to create a system of assembly-plant operation and fragile 'dependent capitalism' at the mercy of external crises.⁴⁵² In short, industry was blamed for failing to meet agriculture's needs for heavy machinery, the oil sector's requirements for exploration and refining, and even its own

⁴⁵² By some estimates, as much as \$ 20 billion was invested in manufacturing during the Shah's rule, of which two-thirds was in the private sector. More than 200 joint-venture companies were set up with foreign firms. Personal Interview with an individual (Y) identified in Appendix 3.

needs for spare parts and raw materials.⁴⁵³ The target of these indictments was principally the manufacturing sector that was concentrating on consumer goods, particularly big-ticket items consumed by the well to do (passenger cars, household appliances, leisure products and the like). From its inception, the Islamic Republic was bent on radically altering the Shah's industrialisation drive. But, unlike other major sectors, industry was troubled by many incapacitating problems of its own which defied political or ideological solutions. In the wake of the revolution, manufacturing enterprises experienced an accelerated decline in capacity utilisation, due mostly to disruption of supplies and a drop in sales. Essential problems involved private industrial enterprises whose owners or managers had left the country; closed debt owed by these companies to the faltering banking system; labour agitation; confusion regarding ownership and administration of abandoned units; constant threats by new managers to shut down operations and dismiss workers unless assisted by the government; and the intrusion of Islamic pressure groups into the enterprise's decision-making process.⁴⁵⁴

Adverse external factors affecting industrial performance included Iran's initial public isolation from the international centres of industry and technology; the freezing of Iranian foreign exchange assets abroad after the American hostage crisis; Western economic sanctions affecting imports of vital machinery and spare parts; and, not least, the difference of oil export volumes and revenues caused by the Iran-Iraq war and the behaviour of the volatile global petroleum market. By far the most vexing problem for the industrial sector, however, related to its extreme vulnerability to external shock, and its early-stage dependence on imported inputs of raw materials, spare parts, technology, talent, and even capital.⁴⁵⁵

Although the nature of the sickness of the industrial sector is qualitatively different from that of agriculture, the overall health of the former has not been better than the latter. In fact, due to shortages of raw materials and machinery, and damages incurred during the war, in some years this sector showed negative growth. During the pre-revolutionary period, the average growth rate of this sector in the Fifth Five Year Plan (1973-78) was recorded around 18 percent, but had fallen to 5 percent in the post-revolutionary Second

⁴⁵³ Ebrahim Razzaqi, *Gazette of Iranian Economy*, Tehran: Amir Kabir Publishing Institution, 1996, pp.36-38.

⁴⁵⁴ *Abrar Eqtesadi*, 23/09/2001, Mohamad Tabibian *et al*, *Unsuccessful Wish for Freedom: A View of Political Economy Experience in Recent Years*, (unpublished), 2001.

⁴⁵⁵ *The Monthly Iran Economics Magazine*, March and May 1989.

Five Year Plan (1995-00).⁴⁵⁶ It is important to mention that many socio-economic ills are not only limited to this sector but also stretched over the agricultural, services, oil and energy sectors. For instance:⁴⁵⁷

- Generally the appointments to managerial posts are made on political grounds rather than qualification and experience.⁴⁵⁸
- In most of the industries and institutions, particularly in the confiscated and nationalised ones, there are various pressure groups (within each unit) claiming themselves as the supporters of the Islamic Revolution (whilst in reality they are supporters of themselves) and they do not let management work efficiently unless their demands are satisfied even by unfair means⁴⁵⁹.
- In many cases, members of the *Majlis* (MPs and some of the clergy of 'Friday prayer') use industries and services located in their constituencies to promote their own political interests and wishes, which may sometimes be based on sincerity and high regard but not based on rational thinking nor for the interest of the nation as a whole.⁴⁶⁰
- It became a common practice after the Revolution that whenever a government changes it brings a mini-revolution within every organisation, thus new bosses with new rules and practices replace the previous management. The steady change in the rules and daily practices cause further problems and complications for all clients and concerned quarters.
- After two decades of Revolution the status of ownership of many shares of industries and other commercial institutions particularly of confiscated ones are still in the state of ambiguity. There are numerous examples of intervention by revolutionary bodies for the benefit of one shareholder against another. Thus in this cloudy environment and with struggles between different shareholders the companies' capacities are not utilised properly.

Interestingly, the initial industrial policy position also seems to have undergone a significant turnabout. The previous regime's emphasis on rapid industrialisation, which

⁴⁵⁶ See: Central Bank of Iran, *National Accounts 1978-79*, Tehran: Central Bank of Iran, 1979, p. 3.

⁴⁵⁷ These composite views are based on various personal interviews and communications with different managers, industrialists, intellectuals and workers. Personal interview with individuals (AD, J, N, S and U) identified in Appendix 3.

⁴⁵⁸ Personal interview with individuals (C and G) identified in Appendix 3.

⁴⁵⁹ Personal interview with individuals (K and O) identified in Appendix 3.

⁴⁶⁰ Personal interview with individuals (L and O) identified in Appendix 3.

had been bitterly attacked by the victorious revolutionaries as shortsighted, harmful, and based on unsound principles, seems to have come in full force. Not only has the much-criticised dependence of industry on imports of raw materials, machinery, spare parts, and technology failed to decline since the revolution, but also the pattern of planned industrial development is hardly distinguishable from the Shah's time. In the recent five-year plan, industry is once again expected to serve as the main engine of growth, alongside oil and gas.⁴⁶¹ One fifth of the total fixed capital investment during the Third Plan is to be absorbed by industry. The broad objectives of the industrial sector once again refer to reducing dependence on imported inputs, expansion of the technological base, encouragement of non-oil exports, and an improvement in industrial management. Two-thirds of the total investment in industry is still to be provided by the public sector.⁴⁶² But while the new strategy favoured intermediate and capital goods industries at the expense of consumer goods, its orientation is still toward large, import-substituting industries - a strategy for which the old regime was severely and rather unfairly criticised by many domestic and foreign analysts. Protection of home industries is expected to increase, as was the case in the past. The Shah's plans to supply a major portion of the country's electric power needs through nuclear energy were rejected by the revolutionaries as inappropriate, wasteful, and foreign-dependent. All this seems now to have changed.⁴⁶³

According to a report from PBO issued in August 1999, a few government companies still account for 70 percent of the industrial sector and the growth of this sector in 1996-97 was 5.5 percent. In the following year the services sector has been growing to a point of 43 percent per year, whereas the industrial sector's growth was only 7.8, which reduced to 2.1 percent in 1999.⁴⁶⁴ The true weakness of Iran's manufacturing process, however, continued to lie in its dependence on oil revenue for the purchase of imported inputs; in its neglect of employment generation; and its experience of a fall in demand due to a decline in national income as well as low capacity utilisation. To sum up, the Iranian manufacturing sector has suffered from years of negative growth, low capacity utilisation, small-scale operation, ageing technology, overstaffing, inexperienced

⁴⁶¹ See: PBO, *Plan Document of Third Five Year Development Plan (2000-04)*, Tehran: PBO, 1999; IMF, *Islamic Republic of Iran: Statistical Appendix* (IMF Staff Country Report No 99/37), Washington, D.C.: IMF, May 1999.

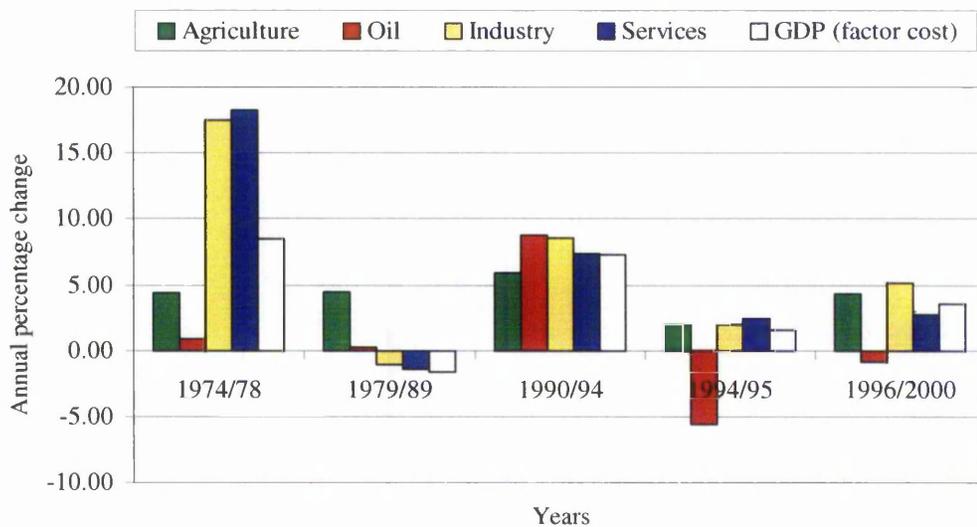
⁴⁶² Government of Iran, *Third Five Year Plan 2000-04*

⁴⁶³ Personal interview with individuals (S and T) identified in Appendix 3.

⁴⁶⁴ *The Monthly Iran Economist*, September 1999, pp. 15-18.

management, lack of easy access to raw materials and parts, high cost of transport and warehousing, replacement of efficiency criteria by ideological considerations, excessive price and exchange-rate regulations, additive and unhealthy protection against foreign competition, and the politico-economic crowding out of the private sector. Keeping in view the problems of this sector, which is one of the most neglected, least developed, and politically manipulated, due to low efficiency; the quality and quantity of output is at a low ebb and pressed down under huge debts, the demands a careful strategy compatible to the current requirements of the country.

Figure 4.3: Sectoral Trends Pre- and Post-Revolution (1974-2000)



Source: Derived from the statistics of Central Bank of Iran (various reports); PBO (various reports) and The Monthly Iran Economics Magazine (various reports).

4.4.2 Agriculture

In agriculture, the well-publicised objectives of national self-sufficiency in food within two decades, as declared by the Islamic regime in 1979-80, still seems far from realisation. According to Mahnameh Sobh-e, Iran has not been so heavily dependent upon the import of food for centuries as it is in these days.⁴⁶⁵ Exchange allocation for food imports has grown from US\$ 2 billion in 1979-80 to US\$ 5 billion in 1997-98.⁴⁶⁶

⁴⁶⁵ Mahnameh Sobh (currently the government is spending a huge amount of foreign exchange on the import of food staples, e.g., wheat, rice and pulses, etc. See *Mahnaemeh Sobh-e Iran*, Sept. 2001.

⁴⁶⁶ In many cases the founders of Islamic revolution criticised Pahlavi's regime for every evil of the society. For instance, it was promised by the post-revolutionary regime that they would give top priority to agriculture, as it is one of the most depressed sectors of the country. Thus it was expected that the

Although the post-revolutionary regime claimed that agriculture was on their top priority list, this sector is still one of the least developed sectors of the economy. In spite of the fact that the growth rate of this sector has been considerably more stable and higher in general as compared to other sectors,⁴⁶⁷ it is still lagging behind and is beyond the expectations of the people.⁴⁶⁸ It is noteworthy that the stability in this sector is mainly due to the fact that a major part of this sector (including landownership and agricultural business) is already in private hands. The land and farms which were confiscated during the post-revolution period are either sold or in the process of privatisation. Recent liberalisation of facilities and incentives (e.g., export incentive and import liberalisation) and continuity in the democratisation process has promoted the investment opportunities in the country. In a seminar held in June 2001, the Minister of Agriculture in Iran also expressed similar views.⁴⁶⁹ It is mentioned in Chapter Three that Mohammad Reza Shah, as a part of the 'White Revolution', conducted land reforms, which distorted the potential productivity of the agricultural sector. But after the Revolution the government decided to redistribute the confiscated land as well as any other land that was not cultivated, among the peasants. Although this was based on good intentions, it needed technology and capital, both of which were lacking on the part of the government. It follows from all of this that the primary solution is to accelerate the involvement of the private sector.⁴⁷⁰

The existing situation of the industrial and agricultural sectors reveals that a number of internal and external factors (higher population growth, drainage of financial and human capital due to war, inadequate development strategies and inefficiency on the part of the government, particularly with regard to the enhancement of job opportunities)

government policies would enhance the productivity and efficiency by efficient utilisation of existing resources. It was further expected that such policies would be helpful in curbing the problem of rural to urban migration. Although it is boosted by the present regime that the overall share of agriculture in the GNP has risen in the post-Revolution period, in fact, this improvement was partly due to the fall in overall real GNP and substantial reduction of the share of oil in the national income. Furthermore, the policy of continuing rationing after the Iran-Iraq war, and the inefficiency of a Jihad established to benefit the rural sector exacerbated the rural to urban migration and the poor performance of the agricultural sector. See *The Iran Monthly Economic Magazine*, November 2001; *The Daily Asia Newspaper*, 16th January 2000.

⁴⁶⁷ This is particularly true for Second Five-Year Development Plan 1995-00.

⁴⁶⁸ This development is mainly due to the initiation of wide-ranging activities of Jihad, which constructed a network of market-farm roads, provision of clean water and basic health services, rural electrification, and enhancement of rural literacy. The development in these areas was undoubtedly helpful in filling certain gaps in the standards of living between rural and urban sectors. Nevertheless, the absolute living standard of the peasantry in comparison with urban households could not be substantially changed due to its own deep-rooted centuries old problems.

⁴⁶⁹ *The Economic Ibrar*, 17 and 23rd June 2001.

⁴⁷⁰ *The Iran Economics*, March 2001.

contributed to a rise in unemployment.⁴⁷¹ Figure 4.3 indicates the projected labour supply and demand in the first decade of 21st century. It is an alarming situation for this country⁴⁷² that if concrete measures are not adopted, the gap between supply and demand is expected to increase, and may be out of control in the Fourth Five Year Plan (2005-10).⁴⁷³ According to *Monthly Bors*, Iran was among the top ten countries where unemployment was at the peak.⁴⁷⁴ Needless to say the unemployment problem also generates further social problems, causing the destruction of social capital. The increase in the crime rate is one of the most obvious impacts of unemployment. In his recent interview, the Iranian Minister for Justice revealed that during last decade (1990-99) nearly 34 million cases were registered in the courts.⁴⁷⁵ It is interesting to note that this figure is equivalent to nearly half of the total population of the country. Assuming one claimant and one defendant in each case, the figure becomes doubled, which means every citizen has been involved in a court case. One may question how many US \$ billions loss it's cost the national economy and how much damage was done to the social capital and human resources? Is this situation helpful in establishing a 'just society', which was one of the prime objectives of the founder of the Islamic Revolution?⁴⁷⁶

⁴⁷¹ See: *The Iran Economics, July 2000; The Economic Ibrar*, 9 June 2001.

⁴⁷² Iran is considered third in oil export while second in its gas reserves. See *Iran Economics* Feb. 2000.

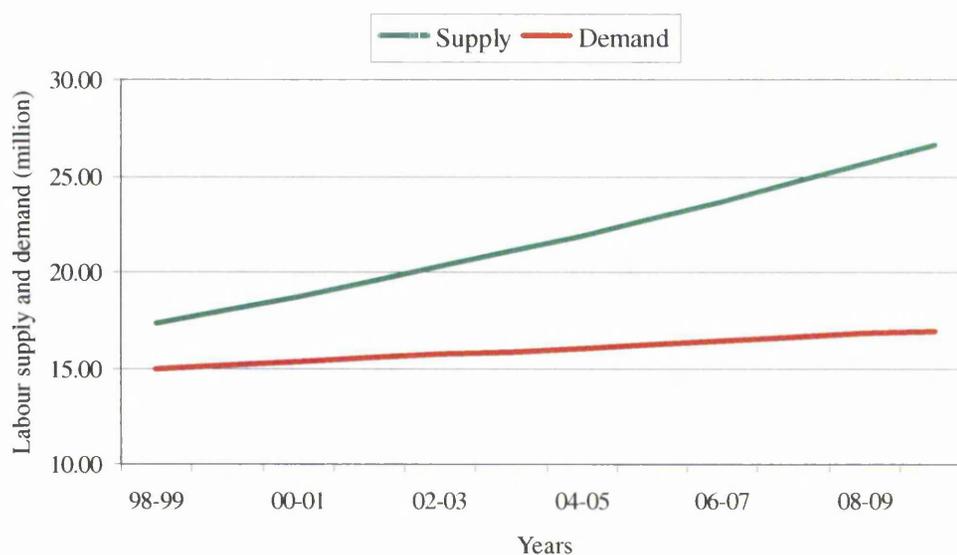
⁴⁷³ According to the Minister of Economic Affairs, due to ignorance and mismanagement, the country could not absorb enough foreign investment and he believed that to be able to overcome the existing unemployment problem, the country needs at least 8-9 billion dollars foreign investment per year. In the view of an academician, to be able to create jobs for the existing three million unemployed, the country needs at least 20 billion US\$ of investment and in future, every year the country needs at least 8 billion US\$ as foreign invest which is three time more than the national oil revenue. See: *Daily Economic News*, 9 June 2001; *Daily Ettela'at Newspaper*, 9th February 2002.

⁴⁷⁴ The World Bank, *World Development Indicators*, Washington D.C: *The World Bank*, 1999, pp. 58-61.

⁴⁷⁵ Hujat-al-Islam Shoshtary, Minister for Justice (quoted in *The Resalat Daily Newspaper*, 18 November 1999).

⁴⁷⁶ This discussion reflects that all national problems are interlinked with each other; therefore, a comprehensive approach is required to overcome this situation. It can be argued that a better national economic situation is helpful in curtailing the social problems. In the long run, privatisation can help to improve the socio-economic situation of the country, which ultimately can promote social and human capital.

Figure 4.4: Projected Labour Supply and Demand in the First Decade of the 21st Century



Sources: Government of Iran, *Yearly Statistics*, Tehran: 1996-97; *The Monthly Iran Economics* March 2001; *Asia Daily Newspaper*, 15th Feb. 20001, Interview with individuals (M and N) identified in Appendix 3.

Assumptions:

- Growth rate of supply based on PBO calculations
- Forecast demand is based on the actual trend during 1998-2000 (180,000 new job opportunities)

Notes:

- This diagram is based on the government estimates derived from the previous trends of growth of labour supply and demand.
- It is estimated that growth rate of labour supply is around 4% per year. However, in addition to this there is a further increase in the supply due to the increasing of proportion of young people in the population, increase of the number of women who intend to work due to their educational background and for economic reasons, and the increase in the part-time re-employment of retired persons. On the demand side the absorption capacity of the industrial and service sectors are at saturation point. Moreover, due to limited capital formation (See Sections 4.4.3 and 6.8) by the public and private (local and international) sectors the demand for labour has not increased enough to match the supply.

4.4.3 Political Economy of Oil

It is the deprived agro-rural sector, the oppressed poor and unemployed, and the unstable economy, which hinders capital formation and the privatisation process - the oil sector too, which is the lifeblood of this economy, has not been managed adequately. Despite strong early commitments to eliminate the dependence on foreign markets, and the promises of a genuine drive towards eventual economic self-sufficiency without oil,

this still looks far from being achieved. This situation indicates that the revolutionary regime's policies for energy and oil have steadily diverged from its revolutionary slogans.⁴⁷⁷ The opposition had castigated the Shah's oil policy of producing 6 Mb/d of crude oil as inimical to Iran's long-term national interest, thus during the first months of the Revolution, virtually all political factions were in favour of reducing oil production. Yet the need for foreign exchange and, domestically, not being able to generate sufficient value-added items in various sectors, forced the authorities to push for maximum use of existing capacity and to persistently demand higher quotas within OPEC.⁴⁷⁸

With the new focus on oil and gas expansion as a major engine of economic growth, the present regime has once again been exposed to the same type of criticisms lodged against the Shah's strategy. The reliance on oil revenues for the financing of current consumption has resulted in the depletion of an exhaustible resource in order to feed the present generation at the cost of an unborn generation; this is against the spirit of the Islamic Constitution. It is not difficult to conclude that if each petro-Dollar is not wisely used and invested to generate production and value-added items, it will drain future resources. This situation will push the country towards more borrowing and commitments to international donor agencies to implement their models for development, also against the ideology of the Revolution. This situation has been strongly criticised by the founder of the Islamic Revolution, his followers- socialists and nationalists- who considered it the path to 'neo-colonialism'.⁴⁷⁹ Moreover, the treatment of oil as an 'annual income', rather than as the exchange of one asset (a mineral) for another (a cash deposit), has distorted not only the government's overall fiscal position (and the country's future productive capacity), but also the Iranian Rial's equilibrium rate of exchange. Such a situation has discouraged non-oil exports, while encouraged imports and foreign dependent domestic production, resulting in the stimulation of capital exports rather than the promotion of internal investment (Table 4.1). As a consequence, the economy has become more volatile in the short-run because of the fluctuating oil prices in the global market which is mainly in the hands of Western based multi-national corporations.

⁴⁷⁷ M.G. Renner, 'Determinants of the Islamic Republic's Oil Policies', in H. Amirahmadi and M. Parvin, *Post-Revolutionary Iran*, Boulder: Westview Press, 1988, p. 183.

⁴⁷⁸ *The Iran Economics*, Sept. 1999.

⁴⁷⁹ During the early days of Revolution, Iran had not borrowed any money from foreign lenders, however, now (1997) this country is debtor of US\$ 23.4 billion (Central Bank of Iran).

The above discussion raises the question that that whilst the country has been enjoying oil revenues for one century, it did not bring a real positive change in the lives of the masses? Is it possible to separate the Iranian socio-economic structure from the contemporary globalisation process, which has its strong effects on the psycho-economic framework and consumption pattern of the country? Can an Islamic country like Iran survive on its own without being affected by major global players of armaments the makers and breakers of international peace? Unfortunately, the experience of past decades does not provide a positive answer to these questions. It is commonly believed that this country sold its inherited capital and considered it as income and promptly spent it on consumable items and armaments. Since the government had enough money, it could not motivate the people to work hard for their wages, rather it was spent on subsidies and non-productive projects including war. This situation left the government unable to invest consequently there was not enough capital formation on the part of the government as well as the people. Therefore, in these circumstances, the oil, which could have been a useful source of capital formation, was also consumed either on imposed war or post-war reconstruction, or on repayment of international debts and to fulfil the current expenditure needs of the people.

Table 4.2: Oil, Capital Formation and Growth during the Last Three Decades (Pre- and Post-Revolution)

Item	Decade Pre-Revolution 1970-1979	First decade Post-Revolution 1980-1989	Second decade Post-Revolution* 1990-1999
Total oil revenue (\$ Billion)	109	142	152
Capital gross formation at 1982 prices (Rls. billion)	18,493	18,647	20,445

Sources:

- Central Bank of Iran, 'Balance Sheets (different years)'.
- Economic Affairs Ministry, *Statistics of Economic Indicators - 1970-1997*.
- *The Monthly Iran Economic Magazine*, Sept. 99.

Note:*

Export Revenues during 2000-2002 are \$bn 25 and 21 consequently, Based on researcher personal interview with the officials of PBO, Ministry of Finance and Oil Ministry of Iran during his stay in March 2002 in Iran.

The above self-explanatory table reflects that the Iranian government did not invest the petro-dollars received during the past three decades properly, and per head capital formation (one of the main bases of privatisation) has been reducing, due to high population growth.⁴⁸⁰ Due to the depreciation of the capital equipment, the national capital has been reducing by huge amounts each year and it has affected the whole nation's economy. It was generally believed that before the Revolution, the Shah had not managed to spend properly and produced consumption –based society, but the Islamic Republic with many good faiths and claimed ideology has also not been able to respond adequately to the current needs of the nation.

4.4.4 Finance

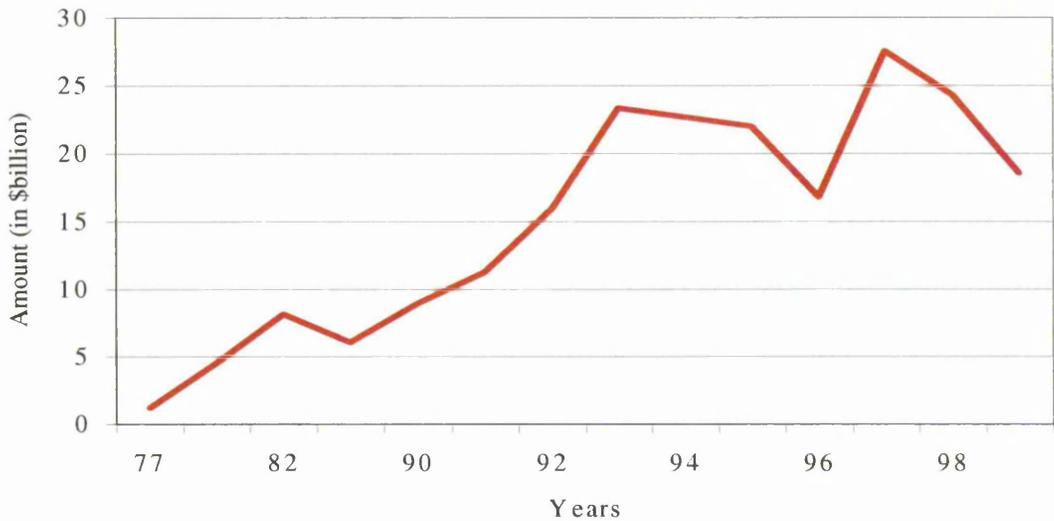
On government finance, the present regime has been unsuccessful in reducing its dependence on oil income. The promised substitution of oil revenues by taxes on domestic products and incomes, in order to reduce 'dependency on the outside world', has been unfulfilled. Although the share of government budget in GDP has declined measurably in recent years, the budget deficit has not yet been effectively dealt with by raising income taxes. The total cumulative deficit for two decades was almost totally financed by borrowing from the central bank. In addition, the substantial fall in central government expenditure after the Revolution was realised almost totally at the expense of public investment. The fall in government expenditure on development projects, the declining share of taxes in GDP, and the rising debt were, of course, partly caused by extraneous circumstances. Yet the government itself was also partly responsible, by keeping the tax administration weak and understaffed, and by failing to prevent the proliferation of tax exemptions, deductions, and tax holidays. The tax burden as a whole was gradually shifted from income taxes to excise duties. Collected individual income taxes were increasingly concentrated on factory workers and civil servants who could not escape the withholdings. Professional cadres, service traders, and the super-rich easily evaded paying their share (e.g., through the establishment of religious

⁴⁸⁰ It is understandable that war affected every aspect of the national economy but it was possible to stop the continuation of war in 1985 on the basis of the proposals of Organisation of Islamic Conference (OIC), which offered the compensation. It was the best time for Iran to accept these proposals politically and financially, however, the Revolutionary authorities did not accept the offer. Again these Revolutionary leaders are claiming that they were and are right, thus instead of investing national resources on infrastructure and industrialisation, they are still buying guns and other modern armaments from countries such as Russia, China and North Korea (*The Daily Ettela'at*, 15th Nov 99, London).

foundations and other similar organisations, which are only required to report to the spiritual leader's office).⁴⁸¹

The budget deficit - large by any measure or definition - would still not seem extraordinary or intractable for a country at war and suffering from several other economic handicaps. What made the growing budget deficit a particularly troublesome phenomenon was its method of financing. The need to reduce dependence on foreign resources with low cost borrowing was an important slogan of the revolutionary authorities. Although this situation isolated the country from the international financial markets, the real problem was started by mismanagement in a highly political environment and an inability to attract Iranians to investment. This led to huge government payments for current expenditure. These financial problems were further aggravated by the inability to enhance the required capital formation, which forced the country not only to borrow from the central bank but also to borrow directly, and indirectly borrowing from foreign countries at higher cost through buy-back projects and deferred and letters of credit payments, and with various barter and buy-back agreements. This situation left the country under a high burden of foreign debts comparing with the last years of the Shah (Figure: 4.5).

⁴⁸¹ Personal interview with individuals (AA and P) identified in Appendix 3.

Figure 4.5: Trend of Foreign Debt (US\$ billion)

Sources:

- i) The World Bank, World Development Report 1996, New York: Oxford University Press, 1996.
- ii) Personal interviews with individuals (K, M, and P) identified in Appendix 3.

Note: Outstanding foreign debt in 1999 comprised of: Finance Projects, \$3.711 bn.; Rescheduling Agreements, \$1.6 bn.; Long Term Loans, \$1.5 bn.; Short Term L/Cs, \$2.9 bn.; Oil Pre-financing Agreements, \$1.8 bn.; Arrears, \$69 (million); Unreleased Debt (including unpaid L/Cs, \$1.0 bn.

The country's financial system is completely dominated by the politicians, whose main emphasis is on the philosophy of the Islamic revolution rather than the realisation of globalisation. Unfortunately, this approach has not been successful so far. After several years of losses, the country is now at the stage of being forced to borrow at high cost to fulfil the requirements of the ideology. Several examples of financial mismanagement can be quoted here; however, due to the limited scope of this chapter only few are presented in the following discussions.

In 1998, Italy granted a suppliers credit of US\$ 1.2 billion. President Khatemi proudly declared this credit as a victory for Iran. Due to the low ranking of Iran in risk management, SACE (Official Export Insurance of Italy) charged a 12 percent interest rate⁴⁸² (excluding insurance charges, themselves around 3%), which was nearly double the rates of LIBOR (around 6%). In addition, it was a 'suppliers credit', which means it

⁴⁸² This was in spite of the fact that the receipt and payment of interest is strictly prohibited in *Shari'a*.

is compulsory to buy machinery, materials and engineering work from the supplier irrespective of quality and competition.⁴⁸³

The Shell Oil Company made a buy-back contract for exploration of crude oil from the Norouz, and Souroush oil fields in the south of Iran. The company was to invest US\$ 800 million with the interest of US\$ 205 million and a fee of US\$ 450 million for engineering work. In fact, this loan of US\$ 800 million increased to US\$ 1405 million, which was to be compensated from the oil produced with the price at the time of delivery and all these are guaranteed by the central bank of Iran. Who controlled the detail of US\$ 800 million and who was the controller of the quality of the imported machinery and materials? There were no guarantees and assurances in this regard.⁴⁸⁴

According to the Head of International Affairs of the National Iranian Oil Company⁴⁸⁵ during the pre-Revolution period, this country was sacrificing the national future for short-term gains, due to economic and political pressure, and improper knowledge and skills. He referred to the contract of 'Total' (a French company) with Iran for the development and exploration of the Siri A and Siri E oil fields in the Persian Gulf. Total was to invest US\$ 2 billion and would get US\$ 4 billion including the principal and interest (US\$ 600 million) and fee (\$1.4 billion) within a short period. Another contract was made with Premier of UK and Bow Valley of Canada for the development of the Balal oil field in the Persian Gulf (near Lavan Island). The investment was US\$ 169 million and would receive US\$ 279 million including interest of US\$ 31 million and a fee of US\$ 79 million. Similar contracts were also made with ELF (France), ENI (Italy) for increase of productivity at the Douroud fields in Persian Gulf near Kharg Island, where the investment was US\$ 540 million, which was to be paid of US\$ 1 billion.⁴⁸⁶

⁴⁸³ *The Monthly Iran Economics*, June 1999.

⁴⁸⁴ 'The Daily Jomhori Islami', cited in *The Daily Ettela'at International*, 18 November 1999 [During the Islamic Revolution, most of the institutional structure of the country particularly of the oil industry was destroyed, experienced people were expelled and human and financial capitals were drained out. After bitter experience of two decades, recently the government sent some of the young graduates to the Imperial College, UK, to become qualified for the control of the work of the international oil companies, such as Shell. But how can some-body expect from a young graduate to be competent enough to control the huge international projects?].

⁴⁸⁵ Mr. Parviz Mina.

⁴⁸⁶ See: *The Hamshahri Daily Newspaper*, 20 October 1999; *Daily Entekhab Newspaper*, dated 18/01/2001; Parviz Mina and Faraokh Najamabadi, *Iranian Benefits in signing Buy Back Oil Contracts*, Iran Nameh, Bethesda, MD: Iranian Study Foundation, Autumn and Winter 1999

The above paragraphs reflect some important issues. These include:

- During the post-Revolution period many Iranian experts were forced to leave the Iranian oil industry. Foreign companies charge high salaries of international standard to Iran while they are paying less to the Iranians who are employed by them.
- These new investors, who directly or indirectly had already been in the Iranian oil business during the pre-Revolution regime, knew most of these oil fields.
- During the Revolution, the political situation compelled the owners and managers of many companies to leave their businesses. The expatriate owners sued the government in the International Court of Justice, Hague. The government lost most of the cases and paid a huge amount as compensation. For example National Cash Register (NCR), Amaco Oil Co., Sedco Drilling Co., Sun Oil Co., Gulf Associates, Starrett Housing Co., Kimberly Clarke Co., Control Data Corporation (CDC), Dupont Co., Univac Computer Co., Honeywell Computer Co.⁴⁸⁷ Due to lack of knowledge and skills of some of the Oil ministers after the Revolution, most of the fields were either left without work or pumped drastically and became dead. Thus the country needs to pay more because it does not possess the required knowledge and skills. The researcher (who has been a Member of the Board of National Oil Iranian Co. [NIOC] and head of administration) personally knows one of the ministers who during his earlier period was engaged with Palestinian freedom fighters and became oil minister during post-Revolution period (1981-8). One day when the oil drillers went on protest, he sent a note to the administration department indicating that there was no need to keep these people employed; he would recruit revolutionary people who know how to drill water wells from villages. Unfortunately, during his ministerial period, the oil industry lost the vast majority of its experienced engineers, technicians, internationally qualified accountants and administrators.⁴⁸⁸ This type of environment is one of the main reasons for the country being drained of its qualified professionals, who were the essence of the oil industry.

⁴⁸⁷ Personal discussion with Messers Ahmad Hajazi (Chartered Accountant, Ex-Consultant to the Hague Court, A. Shoja-al-Dini, (Certified Accountant, and Ex-Consultant to NIOC for handling cases in the Hague), during March 2002.

⁴⁸⁸ Personal interview with: Ali Salehin, Ex-Head of Personnel and Administration of Abadan Refinery (March 2002); Darab Ghaleh Golab, head of administration and personnel planning of Abadan Refinery (February 2001); Khoda Rahm Bakhshandeh, Ex-Managing Director of Abadan Refinery (March 2002); Bahman Soroushi, Ex-Deputy of Ahvaz Oil Fields-NIOC (February 2001).

- It is widely believed in the country that the ruling clergy, who claim themselves to be the representatives of God and trustees of the national resources⁴⁸⁹, were responsible for not only the expulsion of indigenous Muslims, but involved foreign non-Muslims and borrowed money from them on high interest rates all against the spirit of the Islamic Revolution. According to Islamic philosophy, the trustee must be knowledgeable to safeguard the divine resources and legitimate property rights⁴⁹⁰. The post-Revolution experience raises various questions as to whether these trustees were really the custodians and protected the rights of owners as preached by Islam. Furthermore, was the ideology of the Islamic revolutionary leader to eliminate the dependency upon foreigners? But was it possible in this contemporary age to ignore the process of globalisation?

In the area of foreign trade and exchange, the regime was partly successful in bringing foreign purchases and exchange transactions under state control. The government exercised a near total control through its virtual monopoly of exchange earnings and its foreign currency allocation. Some discretion was also exercised over the initial price and distribution of imported goods. Customary tariffs and special profit taxes also served as supplementary devices to manage bilateral trade, and other special arrangements were successfully used to change the direction of trade.⁴⁹¹ However, some of the other goals were harder to attain. The economy's dependence on the outside world, which was meant to decline, actually increased both in absolute magnitude and as a percentage of GDP. The share of consumer goods in total imports, which was to be brought down substantially in favour of capital goods, increased slightly to an annual average of 19.6 percent (compared with 18.4% before the revolution). However, non-oil

⁴⁸⁹ See: Parvin Alizadeh, *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B.Tauris, 2000; Seyyed Mahmood Taleqani, *Islam and Ownership* (translated from Persian by Ahmad Jabbari and Farhang Rajaei), Lexington: Mazda Publishers, 1983, p. 7. Personal Interviews with individuals (J,N, and W) identified in Appendix 3; Ash-Shaykh Abu JaFar Muhammad Ibn Yaqub Ibn Ishaq Alkulayni Arrazi, *Al-Kafi: The Book of Excellence of Knowledge*, Volume One, Tehran: World Organization for Islamic Services, 1978; Qur'an 12: 55 (Surah 12: Yusuf, (Joseph) said: "Set me Over the storehouses Of the land: I will Indeed guard them, As one that knows.

⁴⁹⁰ Murtada Mutahhari, *Polarization Around the Character of Ali Ibn Abi Talib*, Tehran: World Organization for Islamic Services, 1981.

⁴⁹¹ In many cases the imported goods were more expensive than direct payment. For example, during 1988 when the author was in charge of the procurement department of Gol-e Gohar iron ore mine in Kerman province the government ordered steel be bought through bartering system rather than open market, and this doubled the cost for the country.

exports have been increasing since the revolution and in 1999 reached about 3.4 US\$ bn.⁴⁹²

In the field of banking and credit, the transformation to Islamic banking was carried out without interruption in the internal financial market, largely because the change was essentially limited to the nomenclature. The regime's initial hopes of using the nationalised and Islamised banking system as a means of restructuring the economy remained unfulfilled. The Islamic modes that were supposed to shift investment funds away from consumption and non-productive services towards socially justified productive projects fell short of expectations. While short-term deposits were easily attracted under various incentives other than interest, banks were less successful in raising long-term deposits, or providing long-term loans. This was mainly due to: i) fluctuations of money market, ii) variation in the price of Iranian Rial in relation to major foreign currencies, and iii) politico-economic instability within the country.⁴⁹³ In fact, by a wide variety of regulations, direction and supervision, the state financial institutions were not able to compete for deposits or loans, and their efficiency steadily declined. Thus as indicated before, the banking system was one of the poorest performing sectors of the economy. The main reasons of the failure of the banking system were the removal of experienced staff, nationalisation, appointment of managers on political basis, and, last but not least, the politicians rather than the national interest directed the banking resources.⁴⁹⁴

4.4.5 Education and Skills Development

It is an obvious fact that human development also directly relates to the industrial development and internal stability of a nation. As discussed in Chapter Three, during the pre-Revolution period, the initiation of industrialisation and private sector development allowed the country to enhance its human capital. Unfortunately, after the

⁴⁹² See: IMF, *Islamic Republic of Iran: Statistical Appendix*, Washington, D.C.: IMF, 1999; Faridoon Khavand, 'Iranian Economy', in *Iran Nameh*, Bethesda, MD: Autumn, and winter 1999; Jahangir Amuzgar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997.

⁴⁹³ Foundation for Iranian Studies, *Iran Nameh*, Tehran: Foundation for Iranian Studies, Autumn and Winter 1999.

⁴⁹⁴ See: M. Hashem Pesran, 'Economic Trends and Macroeconomic Policies in Post-Revolutionary Iran', in Parvin Alizadah (ed.), *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B. Tauris, 2000; Hossein Farzin, 'The Political Economy of Foreign Exchange Reform', in Saeed Rahnama and Sohrab Behdad (eds.), *Iran After the Revolution: Crisis of an Islamic State*, London: I.B. Tauris, 1996.

Revolution many private owners and managers of private and government agencies left (or were forced to leave) their jobs and went abroad (See Section 1.3). Many other people were either sacked from their existing positions or voluntarily left the industry, some of them being offered employment in services sector.⁴⁹⁵ Thus in the post-Revolution era, the slogan of the Islamic Republic of Iran was: ‘the compatibility between religion and the general concepts of development will provide for a particularly positive atmosphere to.’ However, was this slogan enough to develop a huge country of multi-million people living in an age of globalisation with the fast pace of technology?

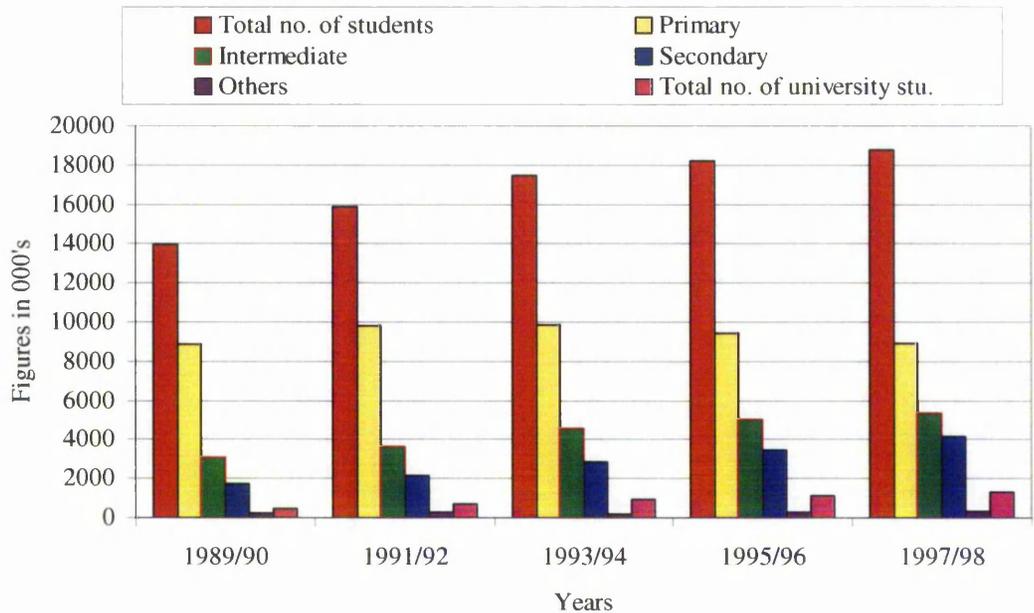
To prevent the Iranian economy from a drastic relative technological decline, the overall technological upgrading of private and public industries, offices, and educational institutions is of the utmost priority. There are no good cultural, religious, or national excuses for falling behind this fast-paced technology. Today with the help of Internet Technology, most trade and most communications are implemented instantly. For every single step that Iranian businesses are falling behind, millions of dollars of potential trade will be lost forever. Although the emphasis on the above slogan has partially been successful in enhancing literacy rate and level of human capital (Figure 4.6), it has not been successful in filling the gap between supply and demand of human capital. In fact, this partial success was mainly claimed by the increase in the number of literate and trained people, but the quality of this human capital remained at low level. Although there has been an enormous emphasis on achieving 6% per year growth rate during third Five-Year Plan (2000-05), can it be possible to achieve these targets with the existing stock of manpower? Is it possible to improve the situation with the existing

⁴⁹⁵ In Iran after the Revolution, the new regime fired, forced into retirement, or repurchased services of many of the country’s managers and technocrats on the pretext that they were non-revolutionary or co-operated with the ancient regime. The ‘cleaning’ (paksazi) of the public offices became a major first step of the Islamic Republic. The new regime also alienated a significant number of the country’s professionals, who were alleged to have expertise but not commitment to the Revolution. For example, in 1976, 1047 experts with a BS or BA degree or above worked in the Plan and Budget Organisation. Following the Revolution, the PBO was closed for a while, and when it reopened in 1981, the number working there had declined to 210. The organisational and managerial bottlenecks have led to errors in planning, implementation, and administration and to the inefficient use of resources in the productive units and public offices. The shortage of skilled personnel has been even more damaging to the economy. In the pre-revolutionary years, many experts were brought from abroad. Following the Revolution, not only did these people leave, but also many educated and professional Iranians also migrated, largely to the West. The Islamic Republic has invited them many times particularly after the War but it was not welcomed.

See: Taqi Banki, Baznegari-ye Tajrobeh, in *Barnameh Va Tous-‘ah*, No. 4 & 5 (Spring 1365); The Jomhoury Islami Daily Newspaper, 24 Esfand 1367, pp. 11-12.

inefficient⁴⁹⁶ and bureaucratic government, inefficient and undisciplined manpower and with the ignorance of the private sector?

Figure 4.6: The State of Education in 1990s.



Sources:

- Latest status of education, PBO, summer 1989.
- Personal Interview with Mr.M. Khademi-Head of Education and Personnel Planning of PBO (Oct. 2001).
- *Iran Statistical Yearbook 1996*, Tehran: Statistical Centre of Iran, 1997.

4.5 Equity Considerations

The Islamic Republic's early national welfare policy in general, and its immediate social welfare engineering in particular, exhibited a clear populist and a strong lower-class bias. Ayatullah Khomeini and his supporters portrayed the revolution as the uprising of the poor and the deprived against the rich and powerful. The plans, as well as the annual budget documents, have always officially been committed to this goal. In the first two years after the revolution, the regime seemed active in pursuing its goal of redistribution of wealth. The takeover by the poor of residential properties vacated by

⁴⁹⁶ There are many problems in this regard which are already described by government officials – non-availability of appropriate leadership, over-elaboration of decision-making processes, missing technology and information systems, etc.

their owner (or occupants), of factories abandoned by their owners (or managers), of farms unattended by their landlords, and of other property left by emigrating followers of the Shah's regime, was ostensibly tolerated (if not surreptitiously sanctioned) by the State. Despite repeated declarations by many religious leaders that such actions were not allowed under Islam, wholesale confiscation of the assets of several thousand individuals and families continued. More directly, the state launched a series of welfare measures - ranging from wage increases, price controls, and food subsidies, to land distribution, tax exemptions, and cash payments to special families - ostensibly designed to reduce poverty and income inequality. Yet the consensus of informed opinion points to no notable success in this regard. Data published by the United Nations and the World Bank, based on information received from Iranian authorities, show that life expectancy at birth, adult literacy, daily per capita calorific intake, access to health services, availability of safe water, per capita energy consumption, and the number of students enrolled at all levels of education, have increased under the revolution. At the same time, infant mortality, population per physician and per nurse, and the primary pupil-teacher ratio have increased. Hospitals present a picture of mismanagement where basic life-supporting drugs are not available (the patients mainly from oppressed classes have to buy these from the open market at high prices). In general there has been a declining trend in the quality of life, which is mainly due to the decrease in the real per capita income.⁴⁹⁷

4.6 Concluding Remarks

Earlier chapters have shown that Islam has its own distinctive developmental approach. However, the interpretation and the implementation of this model by the ruling clergy in Iran have created severe ambiguities. A clerical state is an anomaly, both for Iran with her past, and for this community in the modern era. There is no direct historical precedent for the leadership of the *Ulama* in Iran, who have exhibited overall a notable ambivalence toward political activity. Indeed, the philosophical foundation of the Islamic Republic rests on a doctrinal re-interpretation of religious dogma, which

⁴⁹⁷See: According to Housein Azimi, in many cases the income per family has been below poverty line (see, *The Daily Ettala'at, International*, 7 July 1999); Jahangir Amuzgar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997; Parvin Alizadeh, *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B.Tauris, 2000.

continues to be contested by some of the leading Iranian *Ulama*. As the foregoing discussions indicate, the Iranian economy's overall performance since the Revolution has largely failed the test of both equity and efficiency. In terms of such basic common indicators as rapid growth, full employment, labour productivity, price stability and external balance, the results have not been encouraging. Moreover, despite extremely harsh political measures against its domestic opposition and strict control of private economic activity, the government has been unable to deliver on its own promises. The economy's dependence on oil has not been diminished; agriculture has not shown the desired growth, and thus self-sufficiency in food grains has not been accomplished. Distribution of income has not been turned in favour of the poor, and a consumption model has not yet been formulated. Instead, as mentioned in the beginning of this chapter, per capita income has declined, the infrastructure has deteriorated and labour productivity has fallen. The theocracy has unashamedly adopted some of the Shah's policies, which were mercilessly denounced during and shortly after the revolution. Thus, maximum oil production and exports have again taken centre stage in the plans. Similarly, there was more emphasis on industry rather than agriculture, as well as more concentration on services rather than production. Foreign private investment is encouraged with many privileges granted to the foreign investors (although without success), even then they are not encouraged according to the expectations of the state. Certain strategies of the Shah's regime, e.g., foreign borrowing and encouraging foreign investment, which were harshly criticised by the revolutionaries, are now gaining respectability and even Islamic legitimacy. Growing corruption in public institutions appears to add to the harmful effects of all this, although it is very difficult to estimate its exact volume.⁴⁹⁸

⁴⁹⁸ It is noteworthy that one of the wishes of the Ayatollah Khomeini was to introduce a true Islamic state based on Qura'nic principles which strongly forbids corruption. In addition, to eliminate social evils, Ayatollah Khomeini introduced a clergy-based judicial system. The sincerity and the devotion of Khomeini with regard to Islam were beyond doubt. Unfortunately, due to various weaknesses within the state-system, his objectives could not be implemented. For instance, in the State address on 15th December 2001, Existing Supreme Leader Ayatollah Khamenei asked for the judiciary to initiate a process of wholesale crackdown or rampant corruption. This came after the strong words issued by the Head of Judiciary who revealed that the state judicial system had become a mess, which was against the teachings of Islam. See: Daily Iran News Paper, 15 December 2001; *Daily Norooz Newspaper*, 2 February 2002.; M.J. Khalili and Manafi Ansari, *Fundamentals of The Islamic Revolution: Selection from the Thoughts and Opinions of Imam Khomeini*, Tehran: The Institute for Compilation and Publications of Imam Khomeini's Works, 2000.

All this was the result of a highly unrealistic Islamic populist stance at home and of the ambitions to export the Islamic revolution abroad,⁴⁹⁹ the choice of an outdated economic model throughout much of the last two decades and the determination to reverse the irreversible in traditional Persian culture. Lastly, it is important to say that the Shah adopted an imported model of modernisation in ignorance of traditional culture while the present regime imposed a strict Islamic model with their own interpretations, which again is not fully compatible with the daily lives and traditions of ordinary Iranians. It is worth mentioning that the main causes of the failures during the post-revolutionary period are ambiguities in the definition of ownership and confusion in the state authoritative structure, ignorance of the past, neglecting the requirements of capital formation, both domestically and externally, missing the place of institutions in the development schemes, negligence of the process of globalisation (both its benefits and risks), high dependency on oil and neglecting other avenues of growth, and last but not least, ignoring the people (see Chapter One) who should have been the centre of every developmental activity. In an environment where the ideology can be claimed ideal, but implemented in an unprofessional way, it can hardly bring fruit, particularly in an already unstable state. Continuation of this situation would leave limited room for the privatisation process.

This chapter therefore brings a wide range of evidence together, all of which tends to argue that the recent economic model, which has been tried, has been inefficient at best and, with some exceptions, sometimes harmful. At the same time, that model cannot truly be said to rest on deep-rooted traditions for much of it is of recent invention. But this model of management and the underlying state organisation (see Chapter Two), the chapter argues, fails to meet people's needs as well as the criterion of growth or that of social justice promised by Ayatullah Khomeini (see Chapter Two). By the criteria of sound Islamic economic principles, it fails. But that emphatically does not mean that Iran therefore needs to abandon Islamic economic thinking. It may need to find more effective ways of implementing that thought in practice. This thus opens wide the possibility of a programme of privatisation, managed within these principles. However, the situation is not totally disappointing. There is a positive side to the picture as well. Nations learn from their experience and the same is also true for the Islamic Republic of

⁴⁹⁹ In the beginning of the Revolution, the country started to export its ideology to other countries of the Muslim world. In this process it tried to make alliances with the other countries, like Syria by giving huge loans and privilege, e.g., a loan through oil allocation. After several years of enjoying that money, Syria began to make alliance with USA, and it is not clear how the money will be repaid back to Iran.

Iran. Sariolghalam argued that as the clergy develops, learns, adapt and changes, it creates new hopes for development.⁵⁰⁰ During the post-revolution period, after various ups and downs, in 1997 a moderate and liberal cleric Mohammed Khatami was elected as the President of the country.⁵⁰¹ In spite of various difficulties he promoted and strengthened the participatory and sustainable human development process.⁵⁰² This situation created a positive image of the country in the international community, which accelerated the national and regional development.⁵⁰³ He liberalised many rules and regulations to create a healthier atmosphere for local and foreign investment (including Iranians abroad).⁵⁰⁴ In June 2001, he has been re-elected for another four years. He took various measures, e.g.:

- Level of human development particularly in case of women has gone up in the country.⁵⁰⁵ Now the country has made agreements with Japan, Italy and Kuwait to export its human capital, in the form of skilled and semi-skilled workers.⁵⁰⁶
- Iran's balance of trade has improved in recent years, which is an encouraging sign for future development.⁵⁰⁷ For instance, the drastic increase in oil prices in 2000 has ensured that the Iranian government has enough foreign reserves to settle the majority of its debt.
- The negotiations for a huge project for the export of natural gas through a gas-pipeline from Iran to India (via Pakistan) are also under consideration.⁵⁰⁸
- Similarly, consultation with various countries for the provision of a corridor through Iran for trade between North and South are also in progress.⁵⁰⁹
- Due to de-regulation and the promotion packages for exporters the non-oil exports are increasing at a reasonable rate.⁵¹⁰

⁵⁰⁰ Stephen Chan and Andrew J. Williams, *Renegade States: The Evolution of Revolutionary Foreign Policy*, Manchester: Manchester University Press, 1994, p. 127.

⁵⁰¹ Khatami is a clergy, an intellectual (author of at least two famous books), and a moderate politician.

⁵⁰² M. Arruda, 'A Creative Approach to Structural Adjustment: Towards a People-centred Development' in J. Cavanagh, D. Wysham and M. Aruda (eds.), *Beyond Bretton Woods: Alternatives to the Global Economic Order*, London: Pluto, 1994.

⁵⁰³ After revolution, Iran's foreign relations with its neighbours and major global players were friendly enough. Khatami adopted a different approach and worked hard to improve country's image in the world. Such efforts caused many benefits for the country and the region, e.g., better coordination with the OPEC influential members and promotion of international trade.

⁵⁰⁴ The country has amended a law related to foreign investment as well as new law for private insurance and banking.

⁵⁰⁵ See: UNDP, *Human Development Reports* (various issues), New York: Oxford University Press.

⁵⁰⁶ Personal interview with an individual (H) identified in Appendix 3.

⁵⁰⁷ It was estimated that during mid-2001, Iran had US\$ 16 billions foreign reserves in Western banks (See *Iran Mania News*, 1 July 2001).

⁵⁰⁸ Personal interview with an individual (AA) identified in Appendix 3.

⁵⁰⁹ *The Abrar Eqtesadi*, 21st of August 2001

⁵¹⁰ Personal interview with an individual (Y) identified in Appendix 3.

It can be hoped that the above measures and the re-election of Khatami are encouraging signs for the future of privatisation in the country.

Chapter Five

PRIVATISATION: COMPARISONS, EXPERIENCES AND EXPECTATIONS

5.1 Introduction

By the 1990's privatisation had become a global phenomenon. Capitalist and socialist states (especially in Eastern and Central Europe post 1989), have adopted the strategy, as have under-developed countries where it is thought that consumers would benefit from the extension of market forces.⁵¹¹ For the first time in modern history, privatisation was discussed during the 1970s as a development strategy. It was adopted by a number of countries as a new tool to solve their economic and administrative problems. Privatisation embraces de-regulation, a range of policies ending de-nationalisation and competitive tendering, along with the introduction of private ownership and market harmonisation. The process contains certain social goals and objectives, e.g., the equitable distribution of income and wealth, encouraging the private sector with their skills and experience to enter more fully in to trade and industry, thereby restricting the business of government and role of the state.⁵¹²

Eystan Sheshinski and Luis Felipe Lopez-Calva⁵¹³ argue that privatisation has been a key component of the structural reform program in both developed and developing economies aiming to achieve a higher micro-economic efficiency and foster economic growth, as well as reduce public sector borrowing requirements through elimination of unnecessary subsidies. They believe that microeconomic theory tells us that incentive and contracting problems create inefficiencies due to public ownership, given that

⁵¹¹ Dennis J. Gayle and Jonathan N. Goodrich, *Privatisation and Deregulation in Global Perspective*, New York: Quorum Books, 1990; Madsen Pirie, *Privatisation: Theory, Practice and Choice*, Aldershot: Wildwood House Limited, 1988; John Moore, *Privatisation Everywhere: The World's Adoption of the British Experience*, London: Davlyn Design and Print, 1992.

⁵¹² Colin Chapman, *Selling the Family Silver*, London: Hutchinson Business Books Ltd., 1990; Nikolaos Zhahriadis, *Markets, State and Public Policy: Privatisation in Britain and France*, Ann Arbor: University of Michigan Press, 1995.

⁵¹³ Eytan Sheshinski and Luis Felipe Lopez-Calva, *Privatisation and its Benefits: Theory and Evidence*, Development Discussion Paper No. 698, Harvard Institute for International Development: Harvard University. April 1999.

managers of State Owned Enterprises (SOEs) pursue objectives that differ from those of private firms (*political view*) and face less monitoring (*management view*). Not only are the managers' objectives distorted, but the budgets they face are also softened. Mackenzie (1998) believes that from the macro-economic perspective, no conclusive evidence can be drawn, but the trends are favourable in terms of public sector deficit, attraction of direct foreign investment as the macro-economic effects of privatisation programs are more difficult to evaluate, e.g., given the level of aggregation, it is difficult to isolate the effect of privatisation on variables like GDP growth, employment level, and fiscal deficit, because of the diversity of events taking place at the same time.⁵¹⁴

In this chapter, section 5.1 to 5.4 review the general arguments about privatisation worldwide, its many and varied forms and also the short term problems. Section 5.5 discusses the British experience in some detail. The UK cycle of privatisation has been running for longer than most others, and is widely looked upon as an example from which others can learn; the program illustrates risks, advantages, successes and failures. But there are limitations in the appropriateness of lessons for countries such as Iran and these too are discussed. The latter part of the chapter then explores the effects upon Egypt and Pakistan, where there is a close similarity with Iran. Developing countries with a history, culture and tradition rooted in Islam face similar structural constraints, including a shortage of internally generated capital. Each has resources, especially in their human capital and skills, long experience of trade and in the sophistication of their urban elite.

5.2 The Origin and Definition

It is commonly believed that the term 'privatisation' originated from an American policy maker, John Diebold, who coined the term during his campaign to transfer government-owned services from the public to the private sector in the USA.⁵¹⁵ However, the words 'privatise' and 'privatisation' appeared first in the 1983 edition of *Webster's Ninth New Collegiate Dictionary*, where the earliest recorded use is given as

⁵¹⁴ G.A. Mackenzie, 'The Macroeconomic Impact of Privatisation,' *IMF Staff Papers*, Vol. 45, No. 2, 1998, pp. 34-45.

⁵¹⁵ Lord King, 'Lessons of Privatisation', *Long Range Planning*, Vol. 20, 1987, pp. 18-22.

1948.⁵¹⁶ In fact, privatisation is an umbrella term, which is used to refer to a range of policy initiatives in different countries and as such exhibits differing forms and motives. The major aim of privatisation is to increase efficiency and to reduce the drain on government resources caused by the persistent losses of public enterprises.⁵¹⁷ In order to secure significant efficiency gains in output and increased industrialisation, it is thought that the private sector should be fully associated with all sectors of the economy such as manufacturing, energy, transport, communication, health and education. Privatisation has been prescribed as a means of improving the efficiency, and hence profitability, of public enterprises. However it has meant much more than merely transferring assets to the private sector, and is generally seen as part of a broader experience aimed at liberalising the economy. This in turn is intended to free resources and to stimulate innovation as well as growth. It is intended to change economic culture and values, and to promote entrepreneurial dynamics

Privatisation has become a world-wide movement in both developed and developing countries principally as an instrument for economic development. It is believed that the, poor profit performance, discounted cash flow and heavy debt of state-owned enterprises (SOEs) have contributed to reducing Asian and Third World countries economic efficiency in generating surplus capital.⁵¹⁸ It is hoped that privatisation will yield a higher return on the capital invested, which, in turn, will accelerate socio-economic development.⁵¹⁹ However, due to the socio-cultural and politico-economic gap between East and West, some policy makers and theoreticians argue that the Western privatisation models are not easily applied to Third World countries, unless they can be tailored to the specific needs and conditions of the respective countries.⁵²⁰

Needless to say, privatisation is now a fact of life in almost every country. Statistics indicate that the closing figure for global privatisation revenue in 1999 was around 145 billion US dollars.⁵²¹ This phenomenon has not been confined to countries with liberal ideologies. Major privatisation programmes are found in countries moving from a

⁵¹⁶ *The Washington Post*, January 13, 1986.

⁵¹⁷ Nikolaos Zahradiadis, *Markets, States and Public Policy: Privatisation in Britain and France*, Ann Arbor: The University of Michigan Press, 1995.

⁵¹⁸ Dennis J. Gayle and Jonathan N. Goodrich (eds.), *Privatization and Deregulation in Global Perspective*, New York: Quorum Books, 1990; R. Mandal, *Privatisation in the Third World*, New Delhi: Vikas Publishing House PVT Ltd., 1994.

⁵¹⁹ John Redwood, 'Privatisation: A Consultant's Perspective', in Dennis J. Gayle and Jonathan N. Goodrich (eds.), *Privatisation and Deregulation in Global Perspective*, New York: Quorum Books, 1990

⁵²⁰ Personal interview with an individual (Q) identified in Appendix 3.

⁵²¹ Data Bank of City Business Library, London. *Privatisation Yearbook 2000*, 2000.

centralised to a market economy (e.g., Poland, Czech and Slovak Republics), as well as in developing countries such as Egypt, Iran, Pakistan and a few others that remain under Communist regimes, e.g., China and Cuba. It is important to note that privatisation programmes have not been homogeneous. A wide variety of techniques have been used, and whilst most are drawn from experiences with corporate mergers and acquisitions, some are truly new techniques designed to meet specific objectives. Also, some have been followed more rigorously for example in Poland, where others have been cautious, or less effectively implemented.⁵²² In others privatisation has become a means of enriching a corrupt elite without efficiency gains, for example in Russia.⁵²³ Elsewhere it has been both effective and efficient.⁵²⁴

5.3 Effects of Privatisation

The global experience of more than 50 developing countries, and countries in transition, has shown that privatisation, in terms of improved profitability and general economic benefits, can indeed work.⁵²⁵ However, the important factor for investors is to demonstrate flexibility in dialogue with governments, within the bounds imposed by commercial good sense. It can be argued that those private investors who show such flexibility towards the conditions of each country will be the beneficiaries.⁵²⁶ Here the important question is how Third World governments see privatisation in the context of globalisation. Generally such governments have tended to resist any change, considering it a threat to their position and status. Most transactions occur in strategic sectors that were traditionally under public control; utilities, natural resources, railways, steel and financial services. Despite this worldwide explosion the state sector remains strong in many developing countries and particularly in Iran where the state-owned enterprises drain national budgets and continue to dominate many other activities.

⁵²² See: Irena Grosfeld, 'Prospects for Privatisation in Poland', in *European Economy Commission of the European Communities, No. 43*, Paris: Commission of the European Communities, 1990, p. 143; Paul Hare and Irena Grosfeld, *Privatisation in Hungary, Poland and Czechoslovakia*, London: Centre for Economic Policy Research, 1991, p. 301.

⁵²³ NIIO, *Privatisation: Conditions – Experiences*, Tehran: NIIO, 1994.

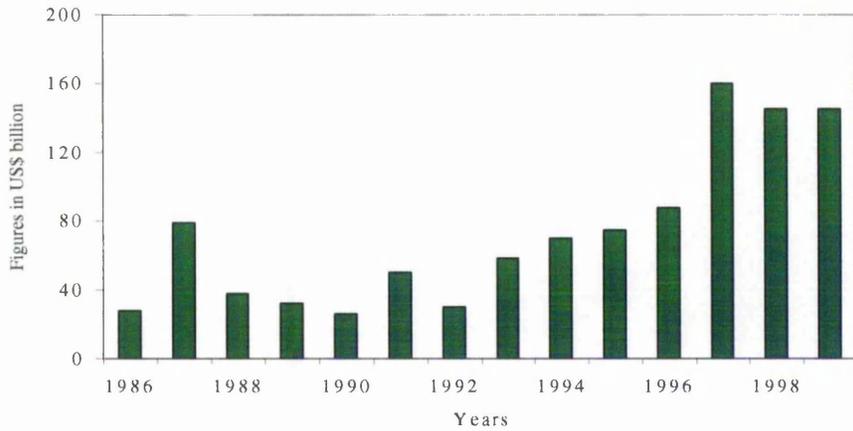
⁵²⁴ *Ibid.*

⁵²⁵ Data Bank of City Business Library, *Privatisation Yearbook* (various years).

⁵²⁶ *Ibid.*

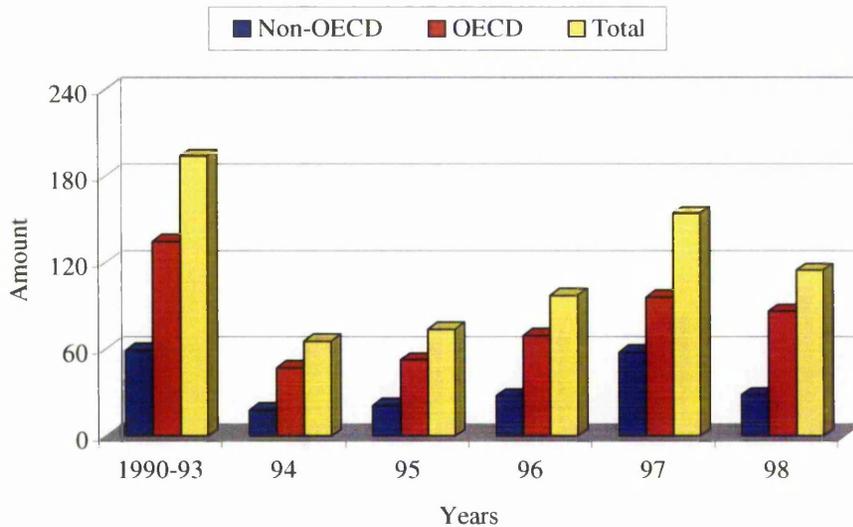
Beset by political pressure, the fear of job losses and unsure of their ability to manage the process, politicians all over the world have long hesitated before taking the first step. However, those who have failed to take the plunge are now in the minority. The recent figures from the World Bank suggest that over a hundred countries (including over 75 developing countries) have now launched privatisation programmes, as summarized in figures 5.1 and 5.2 below for the years 1985 to 1999.

Figure 5.1: Global Privatisation Revenues (US\$ billion)



Source: Data Bank, City Business Library; *Privatisation Yearbook-1991-99*, London: 2000.

Figure 5.2: Global amount raised from privatisation (US\$ billion)



Source: Data Bank, City Business Library; *Privatisation Yearbook-1991-99* (various), London: 2000.

5.4 Ownership, Market Structure and Privatisation

It is hard to sustain a general argument that ownership patterns and efficiency are always interrelated,⁵²⁷ efficiency depends upon competition, management, environment and enterprise itself.⁵²⁸ Hartley and Parker believe that economic performance depends upon competition, managerial freedom, accountability, information technology and the external and internal environments.⁵²⁹ A careful study of the privatisation process in the contemporary world reveals that any single theory is not enough to fulfil the requirements of the process.⁵³⁰ This is particularly true for developing countries like Iran where throughout history in general and in post-revolutionary period in particular, the ongoing conflicts over values and the private/public distinction, has been an arena for the pursuit of other (often ideological) disputes which have been left unresolved because the power structure has not been clearly captured by a defined group of interests.⁵³¹ Here, the most of the national resources have been controlled by the state, and the definition of ownership is unclear due to religious boundaries as well. In this type of environment the existing under-developed state system is incapable of implementing the Western model, or at least cannot implement one without major modifications.⁵³²

The objectives of privatisation thus form part of an overall economic development process, often imposed by international donor agencies, such as the IMF and the World Bank, as a condition for lending. It is generally suggested that privatisation should fulfil the objectives listed in table 5.1.

⁵²⁷ Eytan Sheshinski and Luis Felipe Lopez-Calva, *Privatisation and its Benefits: Theory and Evidence*, Cambridge: Harvard Institute for International Development, April 1999 (Development Discussion Paper No. 698).

⁵²⁸ Pitelis Christos and Clarke Thomas, *The Political Economics of Privatisation*, London: Routledge, 1993, pp. 29-34.

⁵²⁹ Parker D. and Hartley Keith, Status Change and Performance: Economic Policy and Evidence, in Ott Attiat and Hartley Keith, *Privatisation and Economic Efficiency*, London: Elgar, 1991, pp. 108-126.

⁵³⁰ See, for example: Dennis J. Gayle and Jonathan N. Goodrich (eds.), *Privatisation and Deregulation in Global Perspective*, Westport: Quorum Books, 1990; Peter M. Jakson and Catherine M Price (eds.), *Privatisation and Regulation*, Harlow: Longman Group Ltd., 1994; Nickolas Zahariadis, *Markets, States and Public Policies*, in *Privatisation in Britain and France*, Michigan: The University of Michigan Press, 1995; Viqar Ahmed and Rashid Amjad, *The Management of Pakistan's Economy*, Karachi: Oxford University Press, 1995.

⁵³¹ Ronen Palan and Jason Abbot with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999, pp. 37

⁵³² See: Richard Hemming and Ali M. Mansoor, *Privatisation and Public Enterprises*, Washington D.C.: IMF, 1988; Dennis J. Gayle and Jonathan N. Goodrich, 'Exploring the Implications of Privatisation and Deregulation', in Dennis J. Gayle and Jonathan N. Goodrich (eds.), *op. cit.*, pp. 1-5.

Table 5.1: Privatisation Objectives in Both Worlds

Developed Countries	Developing Countries
<ul style="list-style-type: none"> • Improve the efficiency of the hitherto publicly-owned corporations and important sectors of the economy by restoring market discipline in certain key areas • Reduce state involvement in enterprise decision-making and resolve the problems of management and control which so often beset relations with nationalised industries • Reduce state financial burden • Contribute to the development of the domestic financial market • Gain political advantage • Handle inflation and growing unemployment • Transfer ownership to citizens • Ease problems of public sector by weakening the public sector unions 	<ul style="list-style-type: none"> • Improve efficiency, productivity and profitability of enterprises through competition and elimination of state intervention • Create a liberal economic environment • Relieve budgetary strains on the government • Facilitate access of private sectors to financial resources • Insulate the economy from political interference • Broaden the capital market and widen indigenous ownership • Release resources for social and physical infrastructure • Create a more favourable environment for foreign investment • Bring workers and employees into share ownership

Sources: W. Liebermann, 'Privatisation and Themes of 1990s,' *The Journal of World Business*, Vol. 28-1, 1993, pp. 9-17; John Vicker and George Yarrow, 'Regulation of Privatised Firms in Britain,' *European Economic Review*, 1988, Vol. 32, pp. 465-72; M. Peter Jackson and Catherine M Price, *Privatisation and Regulation*, London: Longman, 1994, pp. 1-23; Madsen Pirie, *Privatisation, Theory, Practice and Choice*, Aldershot: Wildwood House Ltd., 1988, pp. 17-36.

Although the majority of goals of both developed and developing countries are similar, the major difference is that the industrialised countries depend on their own internal resources to implement a privatisation policy, whereas the developing countries depend upon international agencies to sustain their desire to privatise. Developing countries often lack both social and economic institutionalisation, which may have led to state economic control in the first place. But 'developing countries' vary in their resource endowments and the efficiency of their capital markets. These generalisations are of limited value until we consider particular examples.

5.5 UK Policies Towards Private and Public Sectors

It is important to note that only the efficient utilisation of resources can improve the productivity and profitability of industries and that leads to the economic development

of a country.⁵³³ Hutchison has studied the economic performance of seventeen British companies, according to the following hypotheses: i) the performance of privately owned enterprises is superior to public-owned enterprises, and, ii) the change in the British government in 1979 had a positive effect upon the business community. The analysis used comparative studies of public versus private enterprises, based on statistical analysis and general trends between ownership and performance.⁵³⁴ This research shows mixed results; the publicly owned enterprises were found to exhibit higher labour productivity whereas privately owned enterprises produced higher levels of profitability.⁵³⁵

In 1992, the World Bank sponsored a research project in three regions, Europe, Latin America and Asia. The project involved case studies of 12 major privatised enterprises in the UK, Malaysia, Mexico, and Chile. The results indicated that 11 out of the 12 privatised enterprises examined had improved domestic and world welfare and that productivity went up in nine enterprises, staying stable in the other three. Generally post-privatisation companies showed higher profits, faster growth and greater access to investment.⁵³⁶ It is also interesting to note that organisations such as the World Bank and the IMF, in their studies of, and recommendations to, developing countries, have chosen the UK as the exemplar model.⁵³⁷ The United Kingdom has pioneered the largest privatisation program to date, subsequently becoming a leading advisor and exporter of these ideas to other countries.⁵³⁸

The intention here is not to make a simple comparison between Iran and the UK, due to the existence of fundamental differences between the two. The researcher's emphasis is merely on the review of the administrative structure in the UK and an examination of the relevance of some of those issues to Iran's situation. Public sector enterprises in the UK economy evolved from the nineteenth-century onwards. By the early twentieth century, many activities, including housing and the emerging telecommunications

⁵³³ Vane Howard, 'The Thatcher Years: Macroeconomics Policy and Performance of the UK Economy, 1979-1988', *The National Westminster Bank – A Quarterly Review*, May 1992, pp. 26-33.

⁵³⁴ George Hutchison, *Privatisation Policies in Britain*, London: V.K.C. Ltd. 1992, pp. 82-145.

⁵³⁵ *Ibid.*

⁵³⁶ The World Bank, *Summary Report of Two-day World Bank Conference on the Welfare Effects of Privatisation held in Washington D.C. on June 11-12, 1992*, Washington D.C.: The World Bank, 1992, pp. 1-99.

⁵³⁷ Jason Fox, Nicholas Tott and Herbert Smith, 'United Kingdom Significant Developments', in *Privatisation International Yearbook – 2000*, London: PriceWaterhouseCoopers, 2000, pp. 108-30.

⁵³⁸ Nikolaos Zahariadis, *Markets, States, and Public Policy*, Ann Arbor: The University of Michigan Press, 1998, pp. 51-54.

industry were under government control and ownership. During World War II, many enterprises came under the control of the central government for strategic and defence reasons.⁵³⁹ Political division marked the post-war period when the Labour Party favoured nationalisation⁵⁴⁰ and public control, whereas the Conservative Party favoured relative denationalisation and liberalisation. The political dominance of these two parties saw conflicting and competitive policy stances on nationalisation and privatisation. For example, the Labour government from 1945-51 succeeded in nationalising such amenities as coal, steel, electricity and road haulage. The coming to power of the Conservatives in 1951 marked a complete change in policy as the new government set about denationalising these industries and affirming their commitment to free enterprise and a less centralised state. This yo-yo pattern was to continue until 1979 when the Conservatives began their large-scale privatisation programme throughout eighteen years of uninterrupted power. The recent history on the stance of British governments to (de) nationalisation is summarised in Table 5.2.

⁵³⁹ Peter Pugh and Carl Flint, *Thatcher for Beginners*, Cambridge: Icon Books, 1997, pp. 3-5.

⁵⁴⁰ Following the coming to power of the Labour party in May 1997, it took a step further with a new emphasis on Public Private Partnership (PPPs) and implementation of Private Finance Initiative (PFI) and originated Partnership UK (PUK) for the implementation of PPP/PFI. Its aim is to provide resources at the early stages of a PFI/PPP project on order to improve the formulation and development of transactions. It is the government's belief that Partnership UK (PUK) will help to create a flow of well-structured projects that will result in a reduction in the cost of delivery of projects and will speed up their implementation. The government has indicated that it expects PUK to grow, over time, to become a billion-pound company. The public and private sectors will contribute the initial capital base in equal amounts. The government will make an initial capital injection and will provide additional financial support (which is likely to be in the form of guarantee). Private sector capital will be drawn down on a phased basis to meet on-going requirements. Partnerships UK (PUK) will also borrow from the financial markets. PUK will be majority owned and controlled by the private sector, and will thus be a public-private partnership. See: HM Treasury (various).

Table 5.2: British Government Policies towards Nationalisation and Denationalisation

Period	Party in power	Nationalisation and denationalisation
1945-51	Labour	<i>Nationalisation of:</i> iron and steel industries, coal mining, electricity, gas, railway, inland waterways, road haulage, airways, Bank of England, and Cable and Wireless Co.
1951-64	Conservative	<i>Denationalisation of:</i> iron and steel industries, most road haulage and sales of council houses. <ul style="list-style-type: none"> • Affirmed its belief in the system of free competitive enterprises and its opposition to any further measure of nationalisation. • Commitment to ensure improved commercial standards of operation and less centralisation in those industries already nationalised.
1964-70	Labour	<ul style="list-style-type: none"> • Extended public ownership and control over steel and water supply industries. • Set up Industrial Reorganisation Corporation. • Transferred the private steel monopoly into public ownership and rationalised its structure. • Imposed restrictions on sale of council houses.
1970-74	Conservative	<ul style="list-style-type: none"> • Expressed its total opposition to further nationalisation. • Commitment to repeal the Industrial Expansion Act of 1968, which gave the government power to use taxpayers' money to buy its way into private industry. • Lifted Labour's restrictions on sale of council houses.
1974-79	Labour	The aircraft and shipbuilding industries were taken into public ownership and National Enterprise Board was set up.
1979-97	Conservative	Initiated a radical programme of denationalisation and deregulation of industries and services (detailed elsewhere in thesis).
1997-to date	Labour	Inevitably, the speed and scale with which the privatisation programme was implemented has now left relatively few major industries or businesses that remain as potential candidates for privatisation. The Post Office has for some time been viewed as a prime candidate, but full-scale privatisation is politically controversial and successive Labour governments have fought shy of taking it on. In December 1998, the DTI ruled out a share sale in the foreseeable future. The London Underground, the last major part of the UK rail network still in the public sector, has been viewed as ripe for privatisation. However, in spite of resistance on safety grounds, the government has announced that it intends to go forward with a 'public private partnership' scheme ⁵⁴¹

Sources: V.V. Ramandham, *Privatisation in the UK*, London: Routledge, 1988; Nickolaso Zahriadis, *Markets, State and Public Policy*, Ann Arbor: The Michigan University Press, 1995; Peter Pugh and Carl Flint, *Thatcher for Beginners*, Cambridge: Icon Books, 1997; Bryan Hurl, *Privatisation and the Public Sector*, Oxford: Heinemann Educational Publishers, 1995; *Data Bank of the City Business Library*, London; Lord Norman Lamont, Chancellor of Exchequer during the John Major's regime (personal interview at 12th May 2000, London); *The Financial Times*, 1st May 2001.

⁵⁴¹ Announced on BBC Channel 1, 10.00pm News, 9 July 2001.

Notes:

- Sir William Beveridge (Director of London School of Economics 1919-37, and later Master of University College, Oxford, government advisor during WW-II, Member of Parliament and House of Lords) had suggested in his report to the House of Commons in 1942, the establishment of the Welfare State. In his view social insurance should be a part of a general policy of social progress. Social security can only be achieved through co-operation between the individual and the state. He suggested that special benefits should be provided for unusual expenses in connection with birth, marriage and death, and pensions and free medical service should be available for all.
- Notwithstanding the decision to rule out full scale privatisation of the Post Office and London Underground there remains probably more than £25 billion of privatisation potential locked away including the BBC (worth around £8 billion) and the Crown Estates (£25 billion). Other potential candidates for privatisation include the Tote (Horserace Betting Totalisator Board), The Royal Mint and NATCS (National Air Traffic Control Services).
- In the above table the "other" shares of the companies include; Amersham International, Association of British Ports, Wyeth Farms, Sealink, Arrow Ship, International Aerodio, Ferranti, Fairey Engine etc.

The Thatcher government instigated a programme of privatisation which turned more than 60 major (and dozens of smaller) businesses over to the private sector and which has produced nearly £70 billion for the UK treasury over the past 20 years. Broadly, this scheme fell into three phases. It began with the privatisation of industries, which operated in already competitive markets, like Amersham International in February and Britoil in November 1982. The next stage saw the privatisation of the larger utility companies like British Telecom, which was sold in November 1984 followed by British Gas in December 1986. The final stage involved the privatisation of those companies, which either needed considerable re-organisation in order for them to compete in the market place or which provided a socially desirable service. These included British Coal, the various subsidiaries of British Rail, and some parts of the civil service infrastructure.⁵⁴²

5.5.1 Key Stages in the UK Privatisation Experience

The privatisation programme in this country has been implemented via organised and systematic planning. According to John Moore,⁵⁴³ managing the successful transfer of business from the public to the private sector may take two to three years and can be divided into three basic parts. First, identification of suitable candidates; secondly, the viability of the companies to survive and flourish in the private sector, and where necessary injecting new talents and systems, reorienting and reorganising the business.

⁵⁴² Data Bank, City Business Library, April 2000, London, and HM Treasury (various).

⁵⁴³ John Moore, *op. cit.*

Thirdly, the marketability of the company at a price, which fairly reflects the Exchequer's interest.⁵⁴⁴ These stages of transfer are predicated on the basis of a unified, tailored and stable administrative system.

In 1979, when the government decided to privatise the state-owned enterprises, its first task was to identify the 'right' candidates. Then it hired management consultants and merchant banks to undertake a comprehensive feasibility study and privatisation action plan for implementation. This study had to consider all the relevant factors, e.g., financial availability, growth potential of the national economy, political stability and a consistent favourable economic policy. Next came the selection of consultants and advisors in the areas of share and assets evaluation and underwriting, stock brokering and financial aspects. After finalisation of the structural adjustment, a regulatory framework was developed in respect of a price package and customer care. An introductory framework for monopolistic companies was drawn up to enable them to be transferred from public to private. At the final stage of the process, advisors for sale were selected (i.e., brokers, solicitors, merchant banks and advertisers). The implementation of privatisation by these agencies requires co-ordination within the public administration.⁵⁴⁵

5.5.2. The Impact of Privatisation

Evaluating the impact of a major policy programme or managerial reform initiative is always problematic.⁵⁴⁶ Logically, evaluation would be in relation to whether the stated objectives were accomplished or not, but this assumes that explicit and consistent objectives were actively stated, and that the stated objectives were the real objectives being pursued. Even where the objectives are explicitly and consistently stated, it is often extremely difficult to identify and measure precisely the real impact of particular

⁵⁴⁴ John Moore, *Why Privatise?* London: HM-Treasury, 1986, p. 3.

⁵⁴⁵ It is important to note that unlike many other developing countries such as Iran and Pakistan, the UK government has no formal 'privatization commission'. A unit in the Treasury undertakes this work. Each industry and privatization programme was attached to a State Minister or Secretary of State. The Treasury assumed responsibility for the timing of the sale including the assessment of the enterprises for sale as well as guiding the relevant departments in 'corporate image advertising' to increase the sale of shares. It needs to be emphasized that the success of privatization cannot be judged solely on the implementation process itself. Its impact on and performance in the marketplace must also be taken into consideration.

⁵⁴⁶ Eytan Sheshinski and Luis Felipe Lopez-Calva, *Privatisation and its Benefits: Theory and Evidence*, Development Discussion Paper No. 698, April, 1999, Harvard Institute for International Development-Harvard University.

initiatives.⁵⁴⁷ Indeed, even when the measurement of impacts is possible, evaluators are still confronted with decisions about the relevant time scale for impact and evaluation. For example the impact of education on economic growth is seen as a long-term investment, 20-30 years, whereas, tax cuts to stimulate retail demand would be expected to have a rapid impact, say six months to one year. Finally, evaluation is inherently about costs and benefits, and therefore unintended, as well as intended, consequences need to be identified and assessed. However, for the most part in the UK the inconsistent and often incoherent objectives that can be identified have been ignored in concentrating on the much more pragmatic objectives of cost containment and the generation of capital receipts. Measuring the impacts on social and economic efficiency has proven to be difficult, as are controlling exogenous factors, such as inflation or recession at an international level, or the growth of external control over key sectors. In fact, for a variety of reasons, the assessment of the impact of privatisation is not a straightforward task.⁵⁴⁸

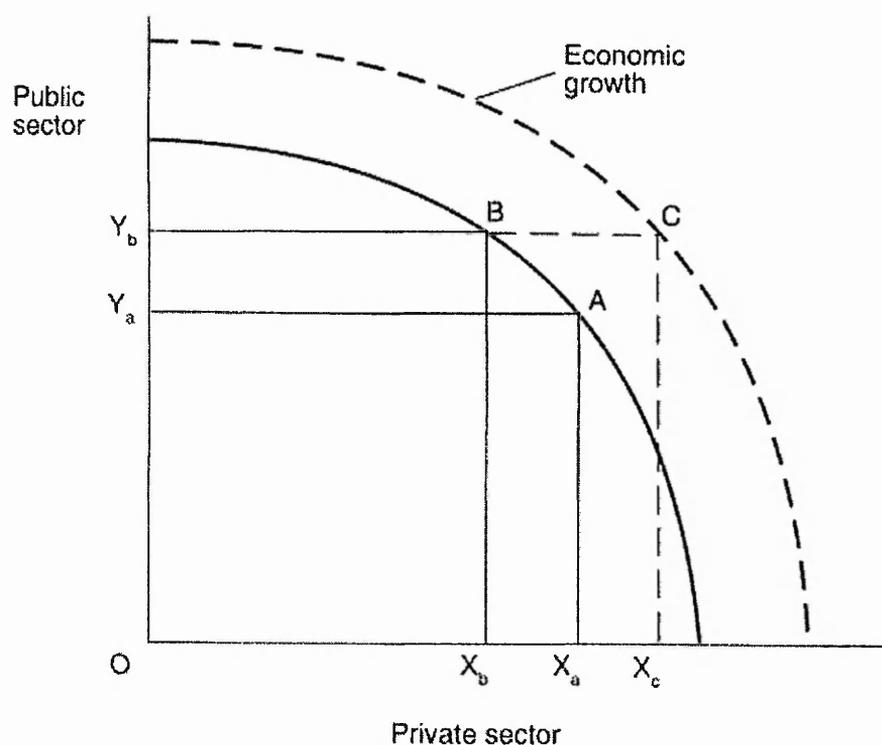
Nigel Lawson has also highlighted the difficulties in evaluation of the impact of privatisation in the macro-economic context. He believes that: 'There is no utilitarian calculus that permits the numerical comparison of the benefits of, say, an extra military aircraft as against a new hospital. In the end, there has to be a political decision'.⁵⁴⁹ Since the establishment of the 'Welfare State' and the nationalisation of most industries in the immediate post-war period, economic problems and attitudes have changed. After offering so many false cures, economic policy makers have now turned their attention to a critical evaluation of the public sector. A basic economic problem for policy makers is that if the public sector grows bigger as a proportion of the GDP, then private sector consumption, investment and exports are correspondingly lower unless economic growth is sufficiently large to allow the private sector to increase absolutely while this relative shift takes place (figure 5.3).

⁵⁴⁷ *Ibid.*

⁵⁴⁸ Dennis J. Gayle and Jonathan N. Goodrich, *Privatization and Deregulation in Global Perspective*, New York: Quorum Books, 1990.

⁵⁴⁹ Nigel Lawson, Ex-Chancellor of the Exchequer, quoted in Bryan Hurl, *Privatization and the Public Sector*, Oxford: Heinemann, 1995, p. 25.

Figure 5.3: National Production Possibility Curve



Source: Bryan Hurl, *Privatisation and the Public Sector*, Oxford: Heinemann, 1995, p. 25.

Is a national production possibility curve at full employment output showing the trade-off between the shares of output for the public versus the private sectors (a national cake)? If the proportion of the GDP for the public sector rises, then the shift from A to B reduces the private sector by $X_b - X_a$. Correspondingly, the public sector share rises by $Y_b - Y_a$ as resources are shifted into it. If economic growth is positive then it is possible to have the national cake and eat it - in the sense that a shift from A to C gives more public sector output as well as extra $(X_c - X_a)$ private sector output. There is no trade-off in any direct opportunity cost, in the sense that one must fall to allow the other to rise.⁵⁵⁰ This would be the ideal situation, with public and private sectors both growing in an environment of mutual benefit.

The following is a table of economic indicators examining the extent to which growth or stagnation can be attributed to privatisation. Referring to the National Production Possibility Curve of Nigel Lawson, Ex-Chancellor of the Exchequer, any economic shift

⁵⁵⁰ Bryan Hurl, *Privatisation and the Public Sector*, Oxford: Heinemann Educational publishers, 1995, pp. 25-27.

arising from public or private sector has an impact on the overall economic growth and it is only sensible to measure it in terms of the movement of total economic growth. A quick examination of this table reveals that the movements of GNP and inflation follow the same trend, there exists an upward movement in capital formation, unemployment fluctuates and there is an increase in the balance of payment. It is interesting that privatisation in the 1980s happened at a time of substantial growth. It is not possible to quantify whether the growth made privatisation successful or vice versa.

Table 5.4: Indicators of the UK Economy

	GDP at market Price	GDP (% change)	Balance of Payment Current Account (£m)	Employment (000)	Unemployment (000)	Inflation	Inflation (% change)	Fixed Capital Formation (£m)
1974	15.2	-	-3.184	22.804	599.5	29.1	-	17497
1975	19.2	26.32	-1.524	22.723	940.9	36.1	24.05	21035
1976	22.7	18.23	-722	22.557	1301.7	42.1	16.62	24504
1977	26.5	16.74	53	22.631	1402.7	48.8	15.91	27036
1978	30.6	15.47	1.123	22.789	1382.9	52.8	8.20	31060
1979	36.0	17.65	-453	23.173	1295.7	59.9	13.45	36925
1980	42.1	16.94	2.843	22.991	1664.9	70.7	18.03	41561
1981	46.3	9.98	6.748	21.892	2520.4	79.1	11.88	41304
1982	50.6	9.29	4.649	21.414	2916.9	85.9	8.60	44824
1983	55.2	9.09	3.529	21.067	3104.6	89.8	4.54	48615
1984	59.1	7.07	1.482	21.238	3159.9	94.3	5.01	55181
1985	64.8	9.64	2.238	21.423	3271.2	100	6.04	60718
1986	69.8	7.72	-871	21.387	3292.9	103.4	3.40	65032
1987	76.8	10.03	-4.983	21.584	2953.4	107.7	4.16	75158
1988	85.5	11.33	-16.617	22.258	2370.4	113	4.92	91530
1989	93.6	9.47	-22.512	22.661	1798.7	121.8	7.79	105443
1990	100.0	6.84	-19.035	22.918	1664.4	133.3	9.44	107577
1991	104.4	4.40	-8.176	22.262	2291.9	141.1	5.85	97747
1992	108.3	3.74	-9.831	21.863	2778.6	146.4	3.76	93942
1993	114.3	5.54	-10.311	21.35	2919.2	148.7	1.57	94715
1994	117.0	2.36	-1.458	21.553	2889.3	152.4	2.49	100081
1995	121.0	3.42	-3.745	21.807	2503.4	157.6	3.41	116360
1996	123.0	1.65	-600	21.99	2310.5	161.4	2.41	122042
1997	127.0	3.25	6623	22.341	1907.8	164.3	1.80	131246
1998	130.2	2.52	-655	-	-	167.1	1.70	145373
1999	132.8	2.00	-12.761	-	-	170.1	1.80	152989

Sources: Central Statistical Office/ Data Bank of City Business Library/ Economic Trend reports

Note: 1990=100

5.5.3 Success of Privatisation: The Outcome of Surveys

In an attempt to examine the impact and effect of the privatisation process in the UK, the researcher has reviewed a number of surveys carried out by different organisations including his own fieldwork. The conclusions of these surveys are summarised below:

5.5.3.1 Finance - Evaluation as an Assessment of the Performance of Privatised Industries

The following is a summary of a report prepared by NERA (National Economic Research Associates) in 1996 focusing on the finance and financial flow between nationalised industries and the public sector. In total, 33 privatised companies (Associated British Ports, BAA, British Airways, British Gas, British Steel, BT, the 17 privatised electricity companies and 10 water and sewerage companies) account for about 75 percent of the entire UK privatisation proceeds. Table 5.5 reflects the flow of funds from the public sector before and after privatisation for the period 1979 to 1995.

Before privatisation, it was generally the government that was injecting funds to public enterprises whereas after the transfer of shares to the private sector the situation is reversed with the government receiving proceeds from the sale of shares in the companies, and dividend payments in respect of any residual share holding (particularly in companies such as BT, National Power and Powergen). This is in addition to tax revenues, (which in most cases have risen significantly since privatisation as well as interest from debt repayments. Two of the main findings are that: (i) the sale of shares in the 33 companies in the sample generated average proceeds of £ 3.5 billion a year between years 1984-85 to 1994-95; and (ii) from 1996 to 1997 onwards the government has received further net inflows of between £3.3 billion and £ 5.8 billion a year.

Table 5.3: Combined Financial Flows for all 33 companies

Public Sector Flows*										
(£million)	1980	1981	1982	1983	1984	1985	1986	1987-89	1990-92	1993-95
Net Privatization Proceeds				44		1255	1246	9255	12842	13835
Other Flows to Public Sector										
External financing repayments	-1199	-1438	-1366	-232	10	-804	81	5180	1742	
Debt repayments and share redemptions				25		44	61	1919	2554	4364
Interest received on government debt	665	1092	1076	1143	1122	1080	1099	3665	2281	1200
Corporation tax received	37	25	182	215	242	137	392	4097	5793	7340
Dividends received	15	7			1	11	269	950	1122	507
Other										
Total Other Flows	-482	-314	-108	1151	1375	468	1902	15811	13492	13411
TOTAL FLOWS TO PUBLIC SECTOR	-482	-314	-108	1195	1375	1723	3148	25066	26334	27246
Private Sector Flows**										
(£million)	1980	1981	1982	1983	1984	1985	1986	1987-89	1990-92	1993-95
Share (and Debt) Purchases				-46		-1409	-1246	-9545	-13416	-14492
Other Flows to private sector										
External financing repayments***				-25	10	108	-129	-2143	-8421	-3820
Interest received	655	907	919	917	856	795	796	1922	2931	4754
Dividends received					1	2	212	1579	4907	8868
Total Other Flows	655	907	919	892	867	905	879	1358	-583	9802
TOTAL FLOWS TO PRIVATE SECTOR	655	907	919	846	867	-504	-367	-8187	-13999	-4690

Notes:

* Cash flows from the companies to the public sector. Negative signs indicate that the companies were net recipients of public sector funds.

** Cash flows from the companies to the private sector. Negative signs indicate that the companies were net recipients of funds from the rest of the private sector.

*** A negative entry indicates that the companies were net recipients of financing from either the public sector or the private sector.

However it must be noted that, within this overall picture, there are substantial differences in the ways in which individual privatisations have affected public sector finances:

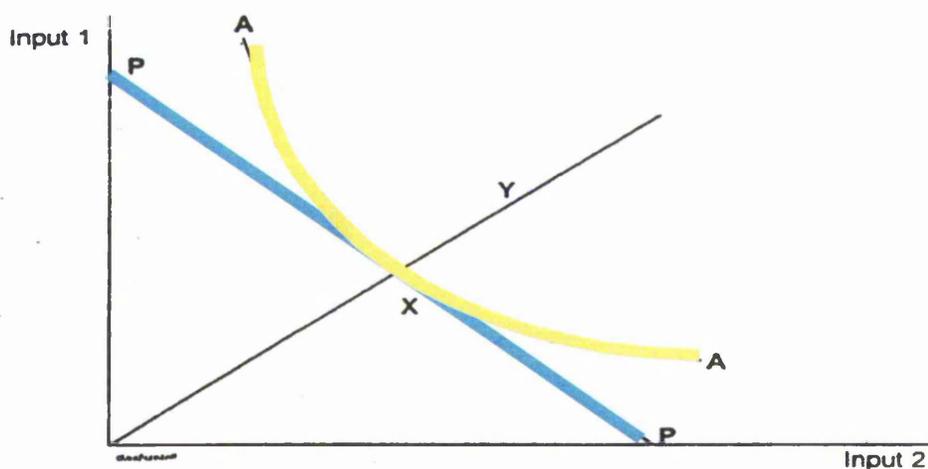
- Some of the companies (Associated British Ports, BAA, British Airways, British Steel, and the water and sewerage companies) now have little or no direct impact on financial flows to and from the public sector apart from corporation tax payments.
- In the case of BT, the government has continued to receive over £1 billion a year in the form of tax, dividends, interest and debt repayments. This is in addition to the £14 billion it received at the initial sell-off. By contrast, BT's net contributions to public funds in the four years before privatisation were between £50 million and £625 million. This situation has repeated itself with the privatisation of the electricity companies in England, Scotland and Wales.
- Despite the fact that the British Gas sale made substantial contributions to public sector finance in the first seven years of privatisation, (much of it in the form of debt repayments and interest), it has now paid off all of its public sector debt and contributes only corporation tax payments, currently running at £200 to £300 million a year.

5.5.3.2 Efficiency - The Performance of Privatised Industries

The view that a transfer from public to private ownership would improve cost efficiency performance has been a constant throughout economic analysis. By introducing more effective incentive structures and creating new threats in the form of takeover and bankruptcy, privatisation can potentially increase a manager's efforts to control and reduce costs. However, cause and effect are not entirely straightforward in practice, especially if competitive pressures are muted. Effective competition, in conjunction with privatisation, is likely to deliver the strongest safeguard against cost inefficiency. Measuring the effect of privatisation on productivity is a complex task, because it is affected by factors such as the level of demand, technical change and the wider macroeconomic and global situation. Given these technical difficulties and the limited research available on the post-privatisation experience, it is perhaps not surprising to

learn that no clear-cut conclusions have emerged from the empirical studies carried out. A necessarily tentative conclusion from this analysis is that the growth of effective competitive pressures in telecommunications, domestic energy and the rail sector will be a continuing source of improvement in the cost efficiency of the industries concerned over the next 5-10 years, whether or not other measures of efficiency are effected.

Figure 5.4: Productive efficiency



Note: Input 1, such as quantity of capital
 Input 2, such as quantity of labour
 AA = efficiency frontier

Following the pioneering approach of Farrell in the 1950s, a company is said to be productively efficient if it is operating on the 'efficiency frontier'. This efficiency frontier - the line AA in Figure 5.4 - shows the minimum or best practice combinations of input: 1 (e.g. labour inputs) and input: 2 (e.g. capital inputs) required to produce a specified level of output.⁵⁵¹ The slope of the line PP in the figure gives the relative prices of the factor inputs. If the ratio of prices is equal to the ratio of the marginal products of the inputs (point X in the figure) the firm is said to be allocatively efficient. If it is operating at a point such as Y, the firm is said to be allocatively efficient but not productively efficient as more of both types of input are being used to produce the output than are strictly necessary.⁵⁵²

⁵⁵¹ Although the discussion is couched in terms of just two inputs, the analysis applies equally to situations where there are multiple inputs.

⁵⁵² Bryan Hurl, *Privatisation and the Public Sector*, Oxford: Heimemann, 1995, pp. 41-43.

Productive and allocative efficiency combine to determine the firm's cost efficiency since, for a specified level of output, cost may be reduced either by producing the same output with fewer inputs, or by substituting inputs to use a more efficient mix. The key assumptions are, first, that the cost efficiency of a firm is determined primarily by the choices of its managers. Secondly, it is reasonable to suppose that managers' efforts in their choices reflect a trade-off between the 'psychic' costs of additional effort and the benefits which it yields. The benefits, which are relevant here, may be summarised in terms of income, but there may be wider non-pecuniary (non-monetary) benefits to be considered as well, such as the ownership status of the firm, the degree of product market competition and negotiated changes in labour practice, as well as the status and prestige of key management groups.⁵⁵³ It is claimed that there are several ways in which a change in the ownership of a firm might affect managers' conduct and hence the cost efficiency performance of the firm.

- Privatisation could encourage further changes in the operation of the firm's internal managerial labour market, such as the introduction of new reward structures, which help to ensure that these objectives are achieved.
- It may be argued that a privately owned company is exposed to stronger external threats, in the form of take-over or bankruptcy, than a public-sector organisation.
- In the same way that market power increases managerial discretion over the price and quality of service on offer, so it may also increase managerial discretion over the extent to which efforts are expended in the desire to improve cost efficiency. The effectiveness of managerial performance becomes more difficult to monitor if high costs can be passed on in high prices without profitability suffering too much. Hick's statement that 'the best of all monopoly profits is the quiet life' encapsulates the idea that lack of competitive pressures allows substantial profits to be earned without requiring managers to exert themselves unduly. By contrast, vigorous competition in the product market place is likely to encourage cost economising through a series of mutually reinforcing effects such as attempts to increase labour productivity. This is the antithesis of the "quiet life" as it usually involves negotiations between

⁵⁵³ In spite of private ownership, there are various business entities running in a state where the profitability is declining (e.g., BT, M&S, British Airways etc). Therefore, it is not only the matter of ownership; other factors, such as general global or regional recession, also have influence in this regard.

employers and unions over wages and conditions, the adaptation of working practices, and the introduction of new cultures and technologies.⁵⁵⁴

Analysis of UK economic cycles from 1980 shows that companies privatised in the early and mid-1980s (such as BT, BG, BAA) have all benefited post-privatisation from the cyclical upswing and high levels of economic activity experienced in the mid to late 1980s. A recurrent problem in assessing the effect of privatisation on performance is the need to specify a counterfactual - what would have happened if the firms remained in the public sector? In the case of productivity or cost efficiency performance, the approach in empirical studies has been to compare pre- and post-privatisation. As mentioned earlier, this task is complicated because of measurement problems.⁵⁵⁵

5.5.3.3 Safety Report by NERA for the CPS (Centre for Policy Studies) in 1996

This report focuses on safety, and examines the performance of privatised firms in protecting employees, consumers and the general public from accident and injury. Using official data supplied by the Health and Safety Executive (HSE) supplemented by information collected from other government agencies, the analysis suggests that the 'privatisation effect' is complex and much more than just a matter of reducing costs to improve shareholder returns. The principal findings (supported by data presented in Appendix 4) were that:

- The incidents of all types of serious injury to employees have been declining fairly steadily across the economy as a whole since the mid-1980s, reflects not just improvements in occupational safety but also changes in industry and occupational structures.⁵⁵⁶
- Occupational safety standards have improved over this period in nearly all of the privatised firms and industries. In some cases, notably British Gas, British Steel, and

⁵⁵⁴ J. Hicks, 'Annual Survey of Economic Theory: The Theory of Monopoly – Econometrica', Vol. 13, 1935, pp. 1-20, in NERA, *Efficiency – The Performance of Privatised Industries*, London: Centre for Policy Studies, 1996, p. 56.

⁵⁵⁵ Dennis J. Gale and Jonathan N. Goodrich, *Privatisation and Deregulation in Global Perspective*, Westport: Greenwood Publishing Group, 1990, pp. 40-42.

⁵⁵⁶ The recent train accidents in 2000-2001 again prove that factors other than ownership are important.

in the electricity and water industries, the extent of improvement has been significantly greater than elsewhere in the economy.⁵⁵⁷

5.5.3.4 Financial Review (Fieldwork) by the Researcher (May 2000)

In the review of available literature it was found that the emphasis of most authors was on the pre-tax profit or loss. This data is presented in table 5.5, for a number of large national companies. A more detailed review and analysis, taking into account other indicators such as turnover of total assets (TTA), profit margins (PM) as well as Return On Capital Employed (ROCE) is presented in Table 5.6. This information has been obtained from various sources, and includes original data not presented publicly elsewhere.

Table 5.4: Pre-Tax Profit (Loss) To Financial Year Ending (figures in £m)

Year	British Areospace (81)	Cable & Wireless (81)	Amersham International (82)	Associated British Ports (83)	Enterprise Oil (84)	British telecom (84)	British Gas (86)	British Airways (87)	Rolls-Royce (87)	BAA (87)
81	70.6	64.1	4.1	-10.3	-	570	-	-141	-	-
82	84.7	89.2	8.5	5.5	-	936	430	-108	-93	40
83	82.3	156.7	11.2	14.5	124.8	1.031	803	74	115	29
84	120.2	190.1	13.7	-6.4	-	990	909	185	26	46
85	150.5	245.2	17.1	20.8	138.7	1.48	712	191	81	64
86	182.2	287.3	17.5	17.2	111.1	1.81	782	195	120	76
87	-	330.5	22.1	-	-	2.067	1.062	-	-	84
90	372	-	16.5	62	195	-	-	-	226	-
91	154	626	15.5	32	117	3042	828	152	52	250
92	-1.145	643	19	-37	107	3063	1044	249	-184	188
93	-201	918	26.3	56	110	2667	-176	179	76	287
94	208	1088	43.5	78	94	2756	1199	280	101	322
95	234	1083	43.3	88.4	201.2	2662	-	327	175	366
96	425	1262	50.8	93.5	355.4	3019	-	585	-28	418
97	233	1317	-	99	259.8	3203	-	640	276	407
98	973	-	-	110.6	-	3214	-	580	325	480

Sources: Annual reports; City Business Library Data Bank; HM-Treasury by personal contact.

⁵⁵⁷ *Independent*, 18 October 2000; BBC-1, 10 pm. News, 22 June 2001. Both reports revealed that after privatisation, there were different bodies responsible for different functions. The accident of British Rail at Hatfield and Ladbroke Grove occurred due to the said fragmentation of rail management.

Note: At first the researcher wanted to review a vast span of privatised companies but due to a shortage of data the survey had to be limited to the above companies. However, in some cases (marked by -) the author was not able to trace the relevant figures.

Table 5.5: Performance Analysis (Figures in £m)

		1990	1991	1992	1993	1994	1995	1996	1997	1998
British AeroSpace	PBT	372	154	-1145	-201	208	234	425	233	973
	PM (%)	5.2	3.6	0.0	0.9	6.2	6.9	8.9	5.5	16.2
	TTA (%)	116.8	106.3	93.4	108.8	91.2	75.1	83.7	92.9	77.8
	ROCE (%)	12.2	8.3	0.0	1.5	6.6	8.4	13.4	9.0	26.1
Cable & Wireless	PBT	531	626	643	823	1088	1084	1262	1317	1214
	PM (%)	26.2	26.1	22.5	24.0	25.2	23.7	25.6	24.6	21.3
	TTA (%)	53.4	59.5	64.5	59.3	63.7	65.2	61.2	62.6	53.8
	ROCE (%)	26.7	19.8	20.3	23.5	22.6	19.8	21.9	20.7	19.2
Amersham International	PBT	16.5	15.5	19.0	26.3	43.5	43.3	50.8	-	-
	PM (%)	10.7	8.5	9.1	10.6	14.2	13.8	15.6	-	-
	TTA (%)	114.4	97.6	116.7	101.1	111.0	91.0	95.6	-	-
	ROCE (%)	18.1	15.3	12.6	15.7	22.5	21.0	18.7	-	-
Associated British Ports	PBT	62.4	32.1	-36.6	56.1	80.3	88.4	93.5	99.0	110.6
	PM (%)	35.5	22.3	1.3	39.2	48.4	51.1	50.4	46.5	44.8
	TTA (%)	22.9	37.1	22.2	21.0	19.0	17.9	17.5	18.8	19.6
	ROCE (%)	13.1	8.3	0.4	9.7	10.7	10.8	10.1	10.2	10.7
Enterprise Oil	PBT	195.8	117.1	107.6	110.4	93.9	201.2	355.4	254.8	-
	PM (%)	45.6	33.4	31.8	27.9	25.7	36.7	41.7	33.1	-
	TTA (%)	26.2	21.9	21.3	22.9	26.7	30.2	37.3	34.9	21.0
	ROCE (%)	14.5	9.7	8.3	6.8	7.6	13.3	19.0	14.0	-
BT	PBT	2642	3042	3063	2160	2770	2496	3012	3203	3214
	PM (%)	26.0	27.5	27.2	20.6	23.1	21.5	23.4	23.7	23.2
	TTA (%)	64.3	64.1	62.1	62.4	60.6	64.7	61.4	59.6	67.2
	ROCE (%)	24.2	24.7	22.6	16.1	18.3	17.6	20.5	19.9	22.8
British Gas	PBT	1294	1846	840	-176	1199	-	-	-	-
	PM (%)	18.9	22.2	12.0	1.7	15.2	-	-	-	-
	TTA (%)	66.0	65.6	61.6	58.4	57.8	-	-	-	-
	ROCE (%)	18.1	23.0	11.2	1.4	10.4	-	-	-	-
British Airways	PBT	314	152	249	182	342	462	565	640	580
	PM (%)	8.3	5.0	7.5	6.9	8.9	10.5	11.4	10.9	9.8
	TTA (%)	129.8	123.1	106.2	96.7	89.2	79.2	77.3	80.7	-
	ROCE (%)	22.5	12.9	15.5	11.7	14.0	10.8	12.5	12.0	10.8
Rolls Royce	PBT	226	52	-184	76	101	175	-28	276	325
	PM (%)	7.4	2.9	0.0	3.2	4.2	6.1	0.4	7.6	8.4
	TTA (%)	132.2	118.4	119.3	108.9	101.9	98.4	99.3	95.7	94.1
	ROCE (%)	17.0	6.0	0.0	6.8	6.3	11.3	0.6	14.0	14.3
BAA	PBT	256	250	188	287	322	401	443	549	480
	PM (%)	35.1	31.4	27.7	37.8	34.4	34.6	35.4	40.0	32.9
	TTA (%)	26.6	26.9	29.1	29.0	28.8	27.1	25.6	25.0	26.1
	ROCE (%)	14.0	10.5	9.0	12.8	12.8	11.8	11.5	12.5	11.1

Sources: Annual reports; City Business Library Data Bank; HM-Treasury by personal contact

Notes: PBT= Profit Before Tax; PM= Profit Margin; TTA= Turnover to Total Assets; ROCE= Return On Capital Employed

From the tables, it is the researcher's belief that on the whole profits have increased since privatisation. However, a host of factors must be considered in the evaluation process, as it is simply not enough to say that pre-tax profits have gone up. The tables show that in the case of BA, pre-tax profits, which had been rising since the switch to privatisation, gradually began to decline in 1998. Here the review of different growth indicators clearly demonstrates that despite an upward trend in pre-tax profit, the other indicators did not show any growth and that as a whole the company's profit was declining.⁵⁵⁸

5.5.3.5 Empirical Study of Privatisation and Cost-Efficiency Performance by other Surveyors

Parker and Martin⁵⁵⁹ address most directly the relationship between privatisation and productivity performance, in regard to eleven privatised firms (ABP, BA, BAA, BG, BAe, BT, Britoil, BS, Jaguar, NFC, and Rolls Royce). These authors concluded that throughout the late 1970s, labour productivity increased more rapidly than TFP (Total Factor Productivity)⁵⁶⁰ in nearly all of the industries studied. The disparity was especially marked in the pre-privatisation and post-announcement periods. Though, they could not agree whether this enhanced performance was due to industry, market, and the management or by reason of the change in ownership.

5.5.3.6 Results of Other Surveys - Impact of Privatisation on Shareholdings

John Moore states that privatisation has increased share ownership because small buyers were given priority in the allocation of shares at discounted prices. Employees have also taken the opportunities offered. Some 99 percent of the eligible work force of Amersham International and Cable & Wireless bought shares, whereas BT and BA's relevant percentage were 96 and 89.⁵⁶¹ The UK government also offered discounted shares to the general public and stakeholders of the companies to increase share

⁵⁵⁸ *The Financial Times*, 23 May 2000

⁵⁵⁹ Parker, D and Martin, S, 'The impact of UK Privatisation on Labour and Total Factor Productivity (TFP)', *Scottish Journal of Political Economy*, Vol. 42, 2, pp.201-220, 1995.

⁵⁶⁰ TFP measures change in the efficiency with which all of the inputs are deployed.

⁵⁶¹ John Moore, British Privatisation - Taking Capitalism to the People, *Harvard Business Review*, Jan/Feb.1992.

ownership. As noted before, the number of shareholders has increased by more than 20 percent since privatisation began. This percentage would be even higher, but some of the buyers sold their shares after the first week as they focused on short-term profit rather than long term investment. Data presented in Appendix 5 indicate that shares of 19 companies were issued at a discounted rate of £13.34 bn, and that the ownership diffusion was less than it might have been due to original buyers selling on to institutions for a profit. As a result most companies have shown a decrease in the size of their share registers, e.g. BT's share register was 3.37 million at the start of privatisation and is currently 2.12 million. Table 5.10 below shows that the result of the diminishing number of shareholders is the increasing concentration of ownership of these enterprises.

Table 5.6: Percent of Shareholding of the Top 19 Percent Shareholders

Company	Shareholding (%)
British Gas	76.70
British Telecom	91.20
Cable and Wireless	90.44
Jaguar	91.14
Water	81.00
Electricity Supply	76.00

Source: HM Treasury, *Guide to UK Privatisation*, London: 1994.

5.6 Privatisation Experience in the Developing World

Privatisation, with its economic, social and political objectives, is a relatively new experiment for developing countries. This process is a response to the prevailing economic and political situation of these countries. They have been adopting privatisation policies in one form or another since the early 1980s. Here due to the complexity of the problem, not only does the government have to find potential buyers but it also has to convince its people that privatisation is in the best interest of the nation. Privatisation strategies, policies and programmes are as varied as the countries

themselves reflecting the specific characteristics of their circumstances and their economic position. The developing countries set ambitious goals for privatisation, e.g., improved efficiency, stimulation of capital market development, and reduction of internal and external debt level; improvement of resource allocation within the country consequently providing a greater attraction for overseas investment. There is considerable debate about the fulfilment of these objectives. Some observations about the developing countries, to identify the trends and experiences during the last decade and the prospects for the 2000s is required; the tendencies of privatisation and why developing countries follow the developed countries? There is evidence that in various developing countries, including Iran, Pakistan and Egypt, the trend of privatisation, particularly in the energy sector, is increasing because they realise there are examples from the developed countries to follow.⁵⁶²

It is important that the overwhelming evidence from various government reports, World Bank missions and scholarly studies suggests that SOEs have consumed far more resources than they have generated, thereby depleting national resources.⁵⁶³ Pakistan Railways is a good example continually running at a loss this has meant that for the past several years' successive governments have been reluctant to invest in this sector.⁵⁶⁴ Lord Lamont believes that public enterprises in some developing countries have become a vehicle for corruption, nepotism, and misappropriation of the funds and, indeed, an instrument for furthering the political and material interests of the ruling parties.⁵⁶⁵ Rondinelli also analysed the rapidly increasing public debts, inadequate revenues and inefficiency of the SOEs in the developing countries. In his view:

many SOEs in the public sector industry lose large amounts of money every year, further depleting the government treasury. SOEs account for a good deal of the external borrowing and absorb capital from financial markets that could be used by private investors to expand businesses that create jobs and increase tax revenues.⁵⁶⁶

Kirkpatrick discussed the fiscal impact of the public enterprise sector. He argued:

Employment opportunities have been lessened by the adoption of capital-intensive technology in production, improvement in employees' wages and employment conditions have created a privileged labour elite, subsidies on output have failed to reach the lowest

⁵⁶² Personal interview with an individual (Q) identified in Appendix 3.

⁵⁶³ Lord Lamont, Ex-Chancellor of Exchequer John Major's era), personal interview, 11th May 2000

⁵⁶⁴ *The Daily Huryyat*, Karachi, 22 February 2000.

⁵⁶⁵ *Ibid.*

⁵⁶⁶ Dennis A. Rondinelli, 'Business Participation in Public Services Industries in Southeast Asia: Accelerating the Pace of Privatisation', *Journal of Southeast Asia*, Vol 7:3, summer 1991, pp. 1-12.

income group thereby benefiting the better-off and price controls on foodstuffs have disadvantaged poor rural producers.⁵⁶⁷

Kiker *et al* summarised:

Evidence from a wide range of countries shows that far too many SOEs have been economically inefficient and have incurred heavy financial losses. In many countries SOEs have become an unsustainable burden on the budget and banking system absorbing scarce public resources.⁵⁶⁸

As discussed earlier, Mengistu argues that the above-mentioned problems are not attributable only to the SOEs in the developing countries. They can also be attributable to poor planning, faulty selection of product lines, ignorance of tradition, lack of feasibility studies when copying from others, ignoring the limitation of the resources in planning, an under-developed infrastructure, external elements, undue interference by governments and interest pressure groups, and friction between policy-makers and unstable governments. If all these handicaps can be removed and SOEs enjoy a competitive environment, then there is no reason why public enterprises cannot be successful.⁵⁶⁹ But equally, if privatised firms remain bureaucratised, corrupt or monopolistic, privatisation serves little purpose. The regulation required of privatised enterprise is thus crucial to success or failure.⁵⁷⁰

According to the report and map prepared by PriceWaterhouseCooper, privatisation is growing worldwide, and in 1998 over 60 countries have privatised shares above one billion dollars during the previous five years.⁵⁷¹ The available data indicate that proceeds received for the sale of shares in developing countries between 1988-98 was around \$200 billion. This situation is reflected in the following diagram.

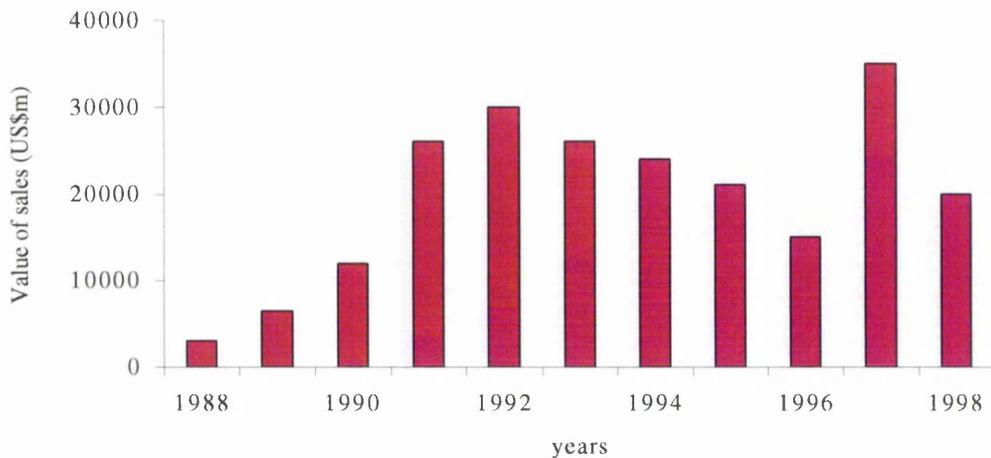
⁵⁶⁷ Colin Kirkpatrick, 'The Privatisation Model: Is it transferable to the Developing countries?' in V.V. Ramandham *Privatisation in the United Kingdom*, London: Routledge, 1988, pp. 235-244.

⁵⁶⁸ Sunita Kiker, John Nellis and M. Shirley, *Privatisation: The Lessons of Experience*, Washington D.C.: The World Bank, 1992, p. 15.

⁵⁶⁹ B. Mengistu, 'Public Enterprises and Privatisation Process', *Third World Quarterly*, 10 (4), October 1988, pp. 1565-70.

⁵⁷⁰ See: Khawaja Sermand, 'Is Private Sector More Productive Than the Public Sector?' *Pakistan Development Review*, Vol. 130:4, 1991, pp. 721-24; Matthew Bishop, Key John and Colin Mayer (ed.), *Privatisation, Principles, Problems and Priorities*, London: Oxford University Press, 1994, pp. 15-32; Kilik Tony, *The Role of Public Enterprises in Industrialisation in African Countries*, Vienna Heinmann Educational Books, 1996, pp. 23-25; Cook Paul. and Kikpatrick C., *Privatisation in Developing Countries*, London: Wheatsheaf, 1988, p. 45; The World Bank, *World Development Report*, New York: Oxford University Press, 1983, pp. 25-30; J.A., Ansari, *Comparative Studies of the Impact of the Public and Private Manufacturing Sector in Selected Countries - Conflicting Paradigm*, Vienna, UNIDO, 1981, pp. 22-25; M.A. Mannan, *Economic Development and Social Peace in Islam*, London: Ta-Ha Publishers Ltd., pp. 17-24; Syed Nawab Haider Naqvi, *et. al.*, *An Agenda for Islamic Economic Reforms: The Report of the Committee on Islamisation Appointed by the Finance Minister, Government of Pakistan* Islamabad: Pakistan Institute of Development Economic, 1989, pp. 7-9; A. Hoogvelt, *The Third World in Global Development*, London: Macmillan Press, 1982, p. 100; *Ibid.*, *The World Development Report 1980*, New York: Oxford University Press, 1980.

⁵⁷¹ Data Bank, City Business Library, London.

Figure 5.5: Growth of Privatisation in Developing Countries

Sources: Global Privatisation (wall map), London: PriceWaterhouseCooper.

5.7 Privatisation: The Experience in Egypt and Pakistan

The privatisation process in the United Kingdom as the pioneer in this field is discussed earlier in this chapter with the emphasis on possible lessons to be learned for developing countries, and particularly for Iran. It is also appropriate to compare for many reasons the privatisation process in Pakistan, Egypt and Iran with respect to their similarities and differences. For instance:

- All three countries belong to the Muslim block (Organisation of Islamic Conference) where there have been strong tendencies to implement the *Shari'a's* concept of ownership.
- They belong to developing countries as well as the same region.
- In the recent past, all three countries experienced nationalisation of industries (Egypt in 1950s and 1960s, Pakistan in 1970s and Iran in 1980s).⁵⁷²
- They started denationalisation in the 1990s.
- According to UNDP, they belong to the group of medium human development countries.⁵⁷³

⁵⁷² See: Dominique Masse, K&M Engineering and Consulting Corporation, *Egypt – A Growing Economy*, London: Privatisation International 2000, 2000, pp 22-27; EIU, 'Pakistan and Afghanistan', Quarterly Report- Ist Quarter 2000, London: 2000, p. 3-22; Jahangir Amuzgar, *Iranian Economy After Revolution* London: I.B. Tauris, 1997, pp. 23-33.

- According to the World Bank statistics, Iran and Egypt belong to ‘lower middle income’ countries, while Pakistan to the ‘lower income’ countries.⁵⁷⁴
- All these countries are facing problems of debt servicing.⁵⁷⁵
- All three countries are under pressure from the IMF and the World Bank to reform their economies, privatisation and liberalisation being major instruments to achieve this.
- EIU projections predict that in 2015, all three countries will be among the 16 most populous countries,⁵⁷⁶ which reflects the pressing need to create vast employment opportunities in the future. The problem of unemployment can be aggravated due to high urbanisation and globalisation.

5.7.1 Egypt

Egypt became a republic on the ousting of King Farouk in 1952. Four presidents have governed it until President Mubarak came to power in 1981 after the assassination of Anwar Sadat. Under his leadership, the country has been trying to promote peace in the region, whilst gradually dismantling the nationalisation policies instituted by President Gamal Abdol Nasser (1952-1970). The 1990-91 Gulf War put an added burden on an already crippled economy, which was reeling from heavy external debt, fiscal and balance of payment deficits, and reduced standards of living inherited from the 1980s. With approximately \$14 billion of debt relief and increased donor support, Egypt embarked on a comprehensive ‘economic reform and structural adjustment programme’ in 1991 destined to establish a free market and stabilise the economy. By 1994, the government was being commended for its efforts by the donor community as fiscal deficits had been greatly reduced, the foreign exchange rates stabilised, inflation decreased and controlled, and the balance of payments improved. Tax reforms were put in place to grow tax revenues and business, while legal and regulatory frameworks underwent thorough restructuring to enable private-sector development and facilitate exports.⁵⁷⁷ By the mid 1990s, it was realised that the state was a poor manager of

⁵⁷³ UNDP, *Human Development Report 1999*, New York: Oxford University Press, 1999, pp. 134-36.

⁵⁷⁴ The World Bank, *The World Development Report 1999-2000*, New York: Oxford University Press, 2000, pp. 190-91.

⁵⁷⁵ The Economist, *Pocket World in Figures*, London: 2000, p. 52.

⁵⁷⁶ *Ibid.*, p. 30.

⁵⁷⁷ Dominique Masse, K & M Engineering and Consulting Corporation, cited in *Privatisation International Yearbook 2000*, pp. 207-08.

industry and that the competitiveness of Egypt's over-staffed, under-performing and grossly indebted public sector companies had deteriorated to a point at which they would be incapable of generating job opportunities for 500,000 new entrants annually to the labour market. Many public sector companies were paying wages that they could not afford to staff that were producing goods, which nobody wanted. A paper drawn up by Ahmad Galal in December 1996 for the World Bank's *Country Economic Memorandum for Egypt* calculated that Egypt could generate 2.4 percent of GDP in additional savings from reforming one-third of its SOEs if it sold 50 per cent of this sample and commercialised the operations of the other 50 percent. The paper further noted that:

Privatisation could increase savings in part because the transfer of ownership to the private sector is associated with higher productivity which in turn, generates more resources, which can either be consumed or saved. In addition, privatisation could attract savings from abroad, which may not be possible without privatisation.⁵⁷⁸

5.7.1.1 Measures Adopted for Privatisation

Privatisation was targeted as a means of reforming the public sector in 1991, in conjunction with the economic development programme. The government passed Public Business Law (No. 203) and its executive regulations to establish a framework for privatisation of public sector enterprises, and established 16 holding companies (HCs) to assume responsibility for the sale of their 314 affiliated companies targeted for privatisation with an estimated value of US\$ 12 billion. The HCs supervise affiliates in: pharmaceuticals, medical equipment, agriculture, consumer goods, textiles, chemical industries, engineering industries, construction and electricity distribution, mining, and refractors, food industries, metallurgical industries, housing and tourism, construction, land transport services, maritime transport, and public works, including land reclamation.⁵⁷⁹ The government also established the Ministry of Public Enterprise (MPE) to oversee the reforms of public sector enterprises, and the Public Enterprise Office (PEO) to help the MPE co-ordinate the privatisation and restructuring programme and act as a link between the Government and HCs. The total number of companies wholly or partially privatised (with value of almost \$ 4 billion) between 1991 and 1999

⁵⁷⁸ Ahmad Galal, *Egypt – Slowly Building Momentum*, Cairo: Al-Halal, 1996, p. 8.

⁵⁷⁹ American Chamber of Commerce in Egypt, *Privatisation in Egypt: Problems and recommendations*, Cairo: American Chamber of Commerce in Egypt, 1994.

runs to 127, these being sold off by a variety of means (majority public offer, liquidation, employee share offer, etc.).⁵⁸⁰

Since early 1990, various laws regarding capital, shareholders, banking and investment have been passed, and subsequently amended. State ownership of the banking sector has been and is being, reduced. A new law that conferred independence on the country's central bank and redefined its role in monetary policy was drafted. Since 1997, the Central Bank of Egypt (CBE) has required that all banks apply International Accounting Standards and publish annual financial reports.⁵⁸¹ The government has also undertaken comprehensive financial sector reform to develop its 95 year-old stock exchange. By adopting the 'Capital Markets Law' and unifying the Cairo and Alexandria Stock exchanges (CASE) in the 1990s, Egypt has established the foundation for its capital markets. Initially unsuccessful at privatisation through auctions to strategic investors, the government redirected its divestiture methods, by selling minority shareholdings on the CASE.⁵⁸²

This situation provided increasing liquidity of the market, which gave foreign investors the freedom to enter and exit. The listing of global depository receipts (GDRs) on the London Stock Exchange and some sales to strategic investors left Egypt as the most aggressive Arab-speaking Middle Eastern country in tapping international equity capital. The reinvigorated capital markets in Egypt have not only helped the government to privatise public sector companies, but also facilitated the funding and development of the existing private sector. The total market capitalisation on the CASE increased from \$ 1.4 billion in 1990 to \$28.1 billion at the end of 1999 (about one fifth from foreign investors).⁵⁸³ Major steps are being taken to institutionalise the market, ease clearing and settlements, and protect shareholder's rights to stimulate the flow of more expatriate and international capital into the market.⁵⁸⁴

⁵⁸⁰ Data Bank, City Business Library, London.

⁵⁸¹ 'The Rebirth of Egypt', *World Investment News*, May 1999.

⁵⁸² Data Bank, City Business Library, London.(various).

⁵⁸³ American Chamber of Commerce in Egypt. Business Studies and Analysis Centre, *Privatisation in Egypt: An Update*, Cairo: American Chamber of Commerce in Egypt, Business Studies and Analysis Centre, 1997. According to an Iranian newspaper, the foreign investment in Egypt increased to 16.7 billion dollars in 1998. See: *Asia* (Economic Newspaper), 16 February 2002.

⁵⁸⁴ Egyptian Ministry of Economy *Quarterly Economic Digest* (various issues); American Chamber of Commerce in Egypt. Business Studies and Analysis Centre, *Privatisation in Egypt: an Update*, Cairo: American Chamber of Commerce in Egypt, Business Studies and Analysis Centre, 1997.

5.7.1.2 Problems and Cost of Privatisation Programmes

The progress which Egypt has made in transforming the ownership structure of industry has been welcomed internationally, as well as by the more reform-oriented domestic industrialists and politicians. But there is hostility towards ownership of productive assets, for the most part in the belief that it leads to the destruction of jobs without any benefits throughout the economy.⁵⁸⁵ According to the World Labour Report 1995: 'In most cases the short-run employment effects in the process of privatisation have been negative, particularly where the general employment prospects were uncertain...'⁵⁸⁶ Whilst employees' share ownership schemes are clearly a constructive way of generating public support for privatisation and of improving productivity among the privatised companies, Egypt still urgently needs to address the problem of over-staffing in the 300 or so companies in the public enterprise sector which are marked for eventual privatisation and which at the start of 1997 employed about 900,000 people.⁵⁸⁷ While the Egyptian government has calculated that this probably represents an over-staffing of about 18 percent, it has also publicly acknowledged that hard-nosed potential investors may estimate the rate of overstaffing to be as high as 40 percent. This attitude itself is in contradiction with the objective of the government to reduce unemployment,⁵⁸⁸ which was around 10 percent.⁵⁸⁹ A number of hard-nosed champions of privatisation argue that Egypt is still too slow on the programme as a whole. In an article called 'Tiger in Training' in *World Link*, John Marks states:

Foreign investors complain about a range of problems, often focusing on bureaucracy, which officials concede can be overbearing. We still have not managed to bring [into the bureaucracy] the new generation that started work in the free market economy...much still has to be done to improve the trading environment.⁵⁹⁰

Egypt has a strong presidency committed to privatisation, with a semi-democratic system and an open-door policy for investment. Egypt was able to attract limited foreign

⁵⁸⁵ According to the available information the number of new people looking for jobs increases by between 500,000 to 600,000 annually, most of them aged between 15 and 25. But at the prevailing growth rate and foreign investment level the economy was generating less than 300,000 new jobs a year, See: American Chamber of Commerce in Egypt, *Privatisation in Egypt: Problems and Recommendations*, Cairo: American Chamber of Commerce in Egypt, 1994

⁵⁸⁶ Data Bank, City Business Library, London.

⁵⁸⁷ *Ibid.*

⁵⁸⁸ According to Egypt official unemployment is about 9%, whereas according to International Labour Organisation it is nearly 13%. See Data Bank, City Business Library, London.

⁵⁸⁹ Philip Moore, *Privatisation and Beyond Meeting the Challenges of the 21st Century*, London: Euromoney Publications, 1997, pp. 67-69.

⁵⁹⁰ *The World Link*, November/December, London, 1996, pp. 15-17.

investment into the privatisation process and facilitated the establishment of financial institutions. Because of these efforts, this country has made progress in its privatisation process, but this progress has been slow in respect of the major industries (banking, insurance, rail, electricity, telecommunications, etc.), in large part due to reluctance of foreign investors to participate in these schemes and to internal cultural resistance and inability to cope with fast globalisation.⁵⁹¹ Many of these drives for privatisation have not existed in Iran, and, correspondingly, progress was much slower.

5.7.2 Pakistan⁵⁹²

There is similarity between the objectives of privatisation in Pakistan and Egypt, particularly in the context that the World Bank and the IMF pushed this process. Pakistan's First Five-Year Plan (1955-60) was released in 1955, when a planned development began. The Second Five-Year Plan (1960-65) was committed to liberalisation. The strategy was to continue to build and strengthen the existing institutions for credit, physical infrastructure and, wherever possible, those concerned with the social infrastructure. For the private sector it was the capability and readiness of private sector enterprises, which was to determine the limit of their activities. In this plan, a number of steps including the operation of an investment promotion bureau, publication of an investment schedule, nationalisation of industrial investment procedures, import liberalisation, were introduced to favour the private sector and facilitate increased investment in it. The Third Five-Year Plan (1965-70) also showed a continued inclination towards private enterprises, although the role of public enterprises was considered critical for various socio-economic objectives. In this period the public sector involvement was principally directed to building infrastructure and the provision of essential services in all sectors of the economy, especially agriculture and industry. In this context, until 1992, Pakistan enjoyed around three decades of growth in excess of six percent per annum. Suddenly, in 1992-93 a combination of delayed oil price shocks and its effect on expatriate remittances, cotton crop failure and floods, resulted in growth

⁵⁹¹ Posusney, Marsha Prispstein, *The Political Environment of Economic Reform in Egypt: The Labor Movement vs. Privatisation Revisited*, Amsterdam: Amsterdam International Studies, 1995.

⁵⁹² In Pakistan, there is a serious deficiency of data and published material. The discussion made in this section is mainly based on various unpublished sources where the information was directly collected from various office files of the Government. See: Hussain, Mushahid, *Pakistan: Problems of Governance*, Delhi, Knark Publishers, 1993.

falling to barely two percent per year, which then recovered in the following years.⁵⁹³ These reversals were reflected in various indicators of the overall state of the economy – an increasing negative trade balance, an increasing foreign debt, and a dip in the change in GDP.

In December 1971, when the Pakistan Peoples Party (PPP) led by the late Zulfikar Ali Bhutto came into power, the government introduced a vast nationalisation programme on the grounds of the unsatisfactory progress of private enterprises. Following violent political unrest in July 1977, a Martial Law government took over and started to reverse existing policy by a mixture of economic deregulation reforms and selected privatisation programmes. It did this partly because it was pressed to do so by external economic and political forces.⁵⁹⁴ The new government reviewed the SOEs during 1978 and tried to develop the Fifth Five-Year Plan (1978-83) with major stress on the revival of the private sector. The Sixth Five-Year Plan (1983-88) adopted the government's policy parameters. The framework for this plan was based on a new compact between the public and private sectors. The plan envisaged that the share of private investment would be raised from 29 percent to 44 percent over the next ten years, i.e., 1978-88. However, no significant progress was made due to lack of political will or commitment to implement the whole process. Subsequently, the government established the National Dis-investment Authority (NDA) in 1988 to undertake dis-investment of such units that the government referred to it. The Authority was required to examine the privatisation of 14 companies and divestiture of a 20 percent share of nationalised commercial banks. In 1988 the government was again changed and the programme remained unsettled.⁵⁹⁵

In December 1988, PPP, which introduced the nationalisation programme during the 1970s, came into power again and decided to carry on the privatisation programme. To implement this, the Government commissioned a merchant bank from the UK, N.M. Rothschild and Sons Ltd., to prepare and develop a privatisation strategy.⁵⁹⁶ According to the consultant, widespread public participation in this plan offered opportunities to make an immediate impact on the government borrowing requirement, increase the

⁵⁹³ Government of Pakistan, *Economic Survey 1999-2000*, Islamabad: Economic Advisor's Wing, 2000, pp. 212-44.

⁵⁹⁴ Mushtaq A. Sajad, *Privatization Management Trends and Prospects*, Lahore: Al-Madina Publications, 1998, pp. 95-97.

⁵⁹⁵ Waheed Khalid, Privatisation: Path to Prosperity, *Pakistan and Gulf Economist*, July 13-19, 1991, pp. 11-13.

⁵⁹⁶ Mushtaq A. Sajad, *Privatisation Management Trends and Prospects*, Lahore: Al-Madina Publications, 1998, pp. 112.

ability of the government to fund a social programme, create incentives and involvement for management and workers, broaden and deepen Pakistan's capital markets, transform the role of the government from proprietor to regulator, and attract foreign investments to fund the expansion.⁵⁹⁷ In this context, the government tried to clarify its manifesto and involved foreign consultants in developing a free economy. But, again, the political environment was not in favour of the PPP's government; the President of Pakistan dissolved the government in November 1990 and new elections were held under the supervision of a caretaker government. Privatisation under the new Islami Jamhuri Ittehad's (IJI) government was one of the most important components of the economic reform, and the government specified a methodology to achieve its objectives. Its agenda covered a wide spectrum of industries, banks, other financial institutions, telecommunications and infrastructure facilities.⁵⁹⁸

Various independent consultants, assessors, surveyors and chartered accountants conducted the valuation of the assets and shares. Wherever possible the break-up value of the shares was indicated on the basis of revalued net assets. If it was not possible to arrive at a break-up value, net asset value was established to arrive at a final value of the project. All the valuation reports were reviewed, analysed and assessed independently by the permanent members of the privatisation commission. When the commission cleared them, they were placed before the cabinet committee on privatisation for consideration and approval.⁵⁹⁹ Real privatisation has been on the agenda since 1991, and in this respect, the country has a progressive record when measured relative to most of its South Asian neighbours. At the beginning of 1998, Pakistan had completed privatisation transactions for about 90 industrial units and five banks, and has begun the privatisation of the utilities sector with the sale of 36 percent of the equity in the Kot Addu Power Plant, a public offer for Pak-Telecom, and public offerings in the oil and gas sector. These actions raised proceeds of US \$1.8 billion in the period 1991-1998, spread across a number of industries.⁶⁰⁰

⁵⁹⁷ S.A Mirza, *Privatisation in Pakistan*, Lahore: Feroze Sons, 1997, pp. 23-27.

⁵⁹⁸ Mushtaq A. Sajad, *Privatisation Management Trends and Prospects*, Lahore: Al-Madina Publications, 1998, pp. 97-99.

⁵⁹⁹ A.K. Zedi, Economic Section, Pakistan High Commission, London (personal visit April 2000).

⁶⁰⁰ *Ibid.*

It needs to be mentioned here that in Pakistan, there has been political instability since 1988.⁶⁰¹ This situation led frequent changes in the governments at federal and provincial levels. This situation also affected on the privatisation of the country. Therefore, it can be argued that although the majority of the state elite supports privatisation, there are numerous examples of a lack of consistency in national policy-making and implementation that have had a deleterious effect on the international standing of the country, which then impinged upon the privatisation process. The detonation of the nuclear bomb in 1999 and the resulting international sanctions and the freezing of resident foreign exchange accounts are a prime example of this muddled approach to international affairs.⁶⁰² The cancellation by the government of the IPP power supply contracts resulted in immediate loss of interest by several investors in other sectors has involved lengthy litigation.⁶⁰³ At present, due to serious international pressure, the military government is trying its best to resolve these problems.

The Pakistan investment climate is not ideal for the progress of privatisation particularly in the context of weak state-society-people relationship. The continued political (internal and external) instability, a long history of ambiguous behaviour towards investors, the past history of confiscation and the corruption charges made against foreign-backed private power companies in recent years being cases in point. Therefore, much needed private investment and management that is internationally credible will not easily be drawn in to purchase shares in long-term projects such as electricity, oil and gas, transportation, and banking sectors⁶⁰⁴. Although the good intentions of the PC are beyond question, there is resistance to privatisation from various sections of the society such as pressure groups with a stake in the SOEs⁶⁰⁵ and Islamic fundamentalist organisations opposed to Westernisation.⁶⁰⁶ In addition, features common to many

⁶⁰¹ This political instability and various other factors have adversely affected the whole process of privatisation. For instance, foreign investment and remittances have been declining and the Supreme Court decree that all forms of interest were Un-Islamic created concerns about saving and investment. See: *The Privatisation Policies in Pakistan: Current Situation and Future Challenges*, OECF Research Papers; No. 19, Tokyo: Research Institute of Development Assistance, Overseas Economic Cooperation Fund (OECF), 1997.

⁶⁰² S.A. Mirza says that the privatisation programme in Pakistan is followed not by choice but under the dictate of IMF/World Bank. The programme is run with unconstitutional and authoritative actions by Federal government without a proper referral to the Council of Common Interest or provincial involvement - See S.A. Mirza, *Privatisation in Pakistan*, Lahore: Ferozsons 1997, pp. 1-5.

⁶⁰³ *EIU*, Country Report, First Quarter. 2000

⁶⁰⁴ These are in the agenda of the government for privatisation.

⁶⁰⁵ *Privatisation International Yearbook 1998*, London: City Business Library

⁶⁰⁶ See: *EIU*, Country Report, 2nd Quarter of 2000; Paul Davies, Adam Smith Institute, Pakistan - The Programme Limps, in *Privatisation International Yearbook*, 2000.

developing countries - complicated and delaying administration bureaucracies,⁶⁰⁷ the insufficient size of the local capital market,⁶⁰⁸ and lack of developed institutions – create hurdles for the country from achieving the objectives laid down by its state and the international donor organisations.⁶⁰⁹

5.8 Concluding Remarks: Lessons from the Experience of Others

The privatisation movement swept through the world during the 1980s and became a global phenomenon. Lady Thatcher took a lead in putting the concept into practice, which set an example and has prompted countries worldwide to use it as a model for their own policies. The United Kingdom was the pioneer in selling major state-owned utilities into private hands through stock market flotation in order to transfer the ownership of public companies to millions of shareholders. The major emphasis of privatisation was to promote wider share ownership and receipts generation to meet deficit requirements. The UK government chose the cases for privatisation carefully to achieve political and commercial success. Arguably, they sold public assets off below their market value to encourage buyers, and they avoided selling off assets (like nuclear power) where there was a real risk of failure. Although they are often portrayed as part of an ideological drive, British privatisations were pragmatic. Furthermore, significant parts of the total economic activity were overseen by the state through the use of economic tools such as interest rate and taxation policies, or, if ownership was relinquished, control was maintained through regulatory activity. The sophistication of British privatisations may not be directly relevant to a developing country policy, but they give examples of possible ways forward, as well as their economic effectiveness.

As a lesson, it is important to mention that privatisation is not a panacea for all economic ills. It solves many problems but also creates many more. Even in a country like the UK, which is pioneer of privatisation, the strategy was neither simple nor

⁶⁰⁷ *Ibid*

⁶⁰⁸ *Ibid*.

⁶⁰⁹ See: *EIU*, May 2000; *Barclays Country Report, 2000*; *Privatisation International Year Book, 2000*, London: PriceWaterhouseCoopers, 2000; Philip Moore, *Privatisation and Beyond – Meeting the Challenges of the 21st Century*, London: Euro Money Publications, 1997; [www.aol.Iran] 11 June 2000. It is noteworthy that in spite of various problems faced by the privatisation process, the country has been successful in attracting foreign investment worth US\$ 8.2 billion during 1990-98. See: *Asia (Economic Newspaper)*, 16 February 2002.

straightforward. It needs to be emphasised that the UK is a good example of a balanced economy, with established democracy, public institutions, full respect to ownership and wealth accumulation, a measurable history, where for centuries the economic activities have been mainly in private hands, and the economic models were tailored according to the needs of the time in a prevailing culture which was flexible enough to accommodate national and international changes. In spite of all these plus points, this country faced some resistance and delay in implementation of privatisation programmes. This type of 'semi-ideal' situation does not exist in developing countries. It indicates how difficult it would be to implement an imported model of privatisation in countries like Iran with low capital formation, high risk ranking, minimum social security, high population growth, high unemployment, with an under-developed economic and institutional set up as well as ambiguity in the definition of ownership and a history of confiscation, whilst at the same time placing emphasis on Islamic values and national autonomy. However, it also does not detract from efforts to implement such a model; rather, it requires lessons to be learned from the experiences of other countries.

The first and most important lesson to learn from the UK privatisation policy is the need for strategic clarity. This involves setting and ranking objectives explicitly and then designing a privatisation strategy accordingly. The UK government has never ranked its objectives explicitly. The privatisation policy was adopted peripherally but in the end became politically central.⁶¹⁰ As Veljanovski has noted, the objectives of privatisation evolved with the passage of time, and the emphasis given to particular objectives has been varied in each individual case.⁶¹¹ Bishop and Kay echoed this point: 'At different times, each of these objectives - revenue, efficiency, finance, and wider share ownership - has been sacrificed for others. There has been no consistent rationale for the policy of privatisation; rather it has appeared to meet particular political needs at particular moments in time.'⁶¹²

It is important to realise that privatisation is a political process, and governments should expect opposition to emerge at several stages. Opponents may well argue that it is better to keep a given corporate candidate in the public sector; they may oppose the details of

⁶¹⁰ Bishop M. & Kay, *Does Privatisation Works? Lessons from the UK*, Oxford: Oxford University Press, 1988, pp. 45-56.

⁶¹¹ Veljanovski, C., *Privatisation and Competition: A Market Perspective*, Institute of Economic Affairs, IEA, London, pp. 191-220.

⁶¹² Bishop M. & Kay J., 'Privatisation in the United Kingdom: Lessons from Experience', *World Development*, 1989, Vol. 17: 5, pp. 643-657.

the sale and the valuation and justice of the system chosen. For example, a long campaign to block the sale of British Telecom by its union failed: 99 percent of the employees took up shares in the issue although the union told them not to. The allure of free and discounted shares in a successful enterprise usually triumphs over ideology. Nevertheless, there are still concerns over huge executive pay rise, excessive price charges for services, wage cuts and sackings for the workers.

Obviously, there will be positive and negative features of any privatisation process. One positive feature of the UK model was that the advisors, legal experts and professional accountants charged with setting up the privatisation were selected from the market place. However, numerous things can and do go wrong in implementing a large and sophisticated privatisation programme. Criticism is most commonly directed at the pricing of a public offer for sale. In these circumstances a government has to decide whether its aim is wider ownership, in which case it will need to chance a fixed price offer and may well end up selling the shares a little on the cheap side, or whether valuation is the only thing that matters, in which case an auction will have to be introduced. There is always the danger that an enterprise that has been privatised will do badly or even fail in the private sector. If the industry has been made fully competitive and the right structure has been put in place, the failure of this business need not be of any great detriment to the economy as a whole. However in the case of a utility monopoly that has been privatised and is getting into difficulties, the policy implications would be more profound. This has not yet happened, and there is no reason why most privatised monopoly utilities should not remain profitable, even with price and quality of service regulations, given their central position in the economy and the price elasticity of demand for their product.

The methodology adopted for UK privatisation possessed a number of desirable features. The government established regulatory bodies for some companies such as utilities, to supervise the customers' interests. Some companies were unable to operate in a wholly commercial environment because they were operating socially desirable services (e.g., British Rail), often reliant on subsidy from government. In order to privatise such companies successfully, new relationships between the public and the private sectors were established, for example to target subsidy only at those services where direct support was essential. Appropriate methods were adopted for the marketing of shares, both to retail and institutional investors, whether by advertising;

direct mailing campaigns, research or road show programmes. The final share prices were fixed and were allocated between investors of different classes. To encourage the small investors to take part in the privatisation programme, the UK developed a range of special incentives designed to enhance interest in purchasing and holding shares. A number of these have now been adopted by other governments as they also implement larger, utility company, sales, and seek to attract the retail shareholder. These incentives have taken four main forms: i) share payments in instalments, ii) share bonus arrangements, iii) discount on the second and the third instalment, and, iv) the issue of sale vouchers.

As a generalisation, growth and productivity depends on sectoral and industrial trends rather than ownership *per se*. The privatised companies, which grew rapidly after privatisation, e.g., Amersham, BT and C&W were growing before privatisation as well. Again, this suggests a more complex view of factors influencing company performance of which ownership has nowhere been shown to be the key factor.

The British government and others proclaimed the UK privatisation programme as a template for other countries but this may not be true especially for countries like Iran, where there are clear differences in the level of infrastructure development, and in the socio-cultural and political system. The UK privatisation experience was founded on a long history of political, economic and social stability, respect for the entrepreneurial ethos and the rights of the individual that allowed financial institutions to develop and flourish in an environment regulated by an independent judiciary, which allowed the UK to be a leading contributor to regionalisation and globalisation. The major lesson for Iran is that there is a need to adapt and tailor these development models into its existing cultural and political framework and gradually harness this to a committed privatisation process to deal with the major current economic and social problems mentioned in Chapter 4.

The analysis made in this chapter reflects the fact that the developed and developing economies and cultures have different social and economic priorities, which may require different routes to reform. The industrial countries already have well-established social and economic infrastructure and their motives are to maintain and renew the system. Whereas the developing countries are in the process of planning and development, and it will take significant time to reach an equivalent level. For instance in Pakistan (as an

example of a developing country) the state owned enterprises are still a major instrument for political patronage. The objectives of public enterprises are not clearly defined, and limited operational autonomy within enterprises inevitably has a negative impact on efficient internal operation. The public sector needs to improve efficiency, the return on investment, control losses, and seek expansion of services, infrastructure and institutional development. Privatisation provides an effective way of achieving these goals, providing that there are safeguards against corruption, monopoly or cartel-like activity which abuses its market power, and providing that assets tied into public-sector activity can either be used more efficiently or released for other productive use. Privatisation in developing countries such as Iran has to respect a timetable, which does not swamp existing capital markets or hand control of national assets over to foreign interests wholesale. But it also has to work, and to be seen to work, without getting bogged down in bureaucracy or corruption, and some external involvement is inevitable. The issue is not only one of cost; it is also one of risk. Risks here are social and political as well as economic and financial. And, both risks and costs are much harder to calculate in the developing country's context. The difficult balance between the two has to be faced, and the subsequent chapters explore how this might impact upon Iran.

The road to privatisation is not easy, and it will not come about by itself. First and foremost, it requires a strong stable political will and the highest commitment from policy makers. Political leaders need to make extraordinarily tough political and economic decisions while in office, when their future is determined by the votes they can muster. Privatisation also requires the respect and the understanding of business leaders as a good image of owners of wealth. Its success depends on their willingness to take risks and their faith in the future of their country. Finally, privatisation can succeed only when the private and public sectors collaborate, an argument, which the next chapters will take forward.

Chapter Six

PRIVATISATION IN ACTION

6.1 Introduction

This chapter analyses the experience of privatisation in Iran in the recent past. There have been different attempts at privatisation and some may have succeeded. But many have been misconceived or mismanaged.⁶¹³ This chapter argues that these experiences illustrate the weaknesses, which go beyond the level of management, demonstrating weaknesses in the state system (see Chapter Two) as well as the apparent incompatibility of the ideas and interests, which have shaped attempts at privatisation. It is only when we can face the reality of the difficulty of these experiences that effective new privatisation programmes can be imagined.

Manufacturing and service industries in any country drive all aspects of economic development in terms of both human and capital resources. The combination of various factors - labour, capital, management and technology - determines the effectiveness and performance of the entire economy. In Iran, during the Pahlavi dynasty, opportunities and privileges were provided to both foreign and local private entrepreneurs. However, despite these measures, insufficient investment through the private sector was made due to the prevailing insecurity and ambiguity that surrounded the issue of property rights⁶¹⁴, which resulted in the fear of insecurity for future investment. This situation, as well as the absence of necessary infrastructural facilities, hindered the establishment of a sound and long-term industrial base in the country. This whole environment adversely

⁶¹³ Shahin Oliai, Lecturer, *The Ebrar Eqtesadi*, August 18, 2001, D. Jamshid Pajoyan, Lecturer, *The Ebrar Eqtesadi*, August 5, 2001; *Asia Daily Newspaper*, 14th of March 2000.

⁶¹⁴ Although the oil industry was nationalised in 1951-53 (for the wider interests of the nation), it created a state of insecurity for future investment. This situation was further aggravated when the landlords and others in the ruling elite dominating the national scene worried that this nationalisation was the beginning of a greater nationalisation process. Therefore, they felt that this situation was threatening their interests. The foreign investors who were worrying about their potential investment in the country also supported this elite class. Thus, these people initiated a campaign of highlighting the state of future national economic insecurity (i.e., unemployment, human deprivation, social unrest, etc.). They influenced public opinion in the favour of the elimination of this programme. A similar situation arose with the land reforms (1962-67), which were claimed to be for the benefit of the peasants and to encourage agricultural development, but instead weakened the trust of investors. Personal interview with individuals (AC, B and J) identified in Appendix 3.

affected the overall process of economic development.⁶¹⁵ On the eve of the Revolution, further ambiguities and feelings of insecurity arose due to the differing ideological make-up of the revolutionaries, which covered beliefs in Islamic ownership, socialism and nationalism. It is important to note that the economic policies of the pre-Revolutionary regime were criticised by the founders of the present regime and their followers⁶¹⁶ on the grounds that:

- Industrialisation was pushed forward without due regard to the domestic resources and capabilities, or the basic needs of society.
- Excessive protectionism was given to private entrepreneurs, both foreign and domestic.
- Favouritism was shown to *hazar*-families.⁶¹⁷
- Tax-exemptions and easy credit were made available too freely.
- The import and use of foreign experts and technologies was irrational⁶¹⁸.
- There was an imbalance in growth throughout various sectors of the economy⁶¹⁹.
- The rural sector and cottage industries were ignored.
- There was high dependency on the oil sector⁶²⁰.
- A Western economic consumption model was introduced.

At the time of the Revolution, these criticisms created an environment of insecurity and ambiguity which was further aggravated by other factors – the outflow of managers and entrepreneurs, labour agitation, confusion regarding ownership and administration, and constant intervention by irresponsible and self-declared revolutionary organisations and individuals.⁶²¹ Despite such a situation, a number of benefits can be attributed to the pre-Revolutionary economic programmes. These include the huge inflow of capital into

⁶¹⁵ Ebrahim Rezaghi, *An Overview of Privatisation in Iran*, Tehran: Ghazal Printing Office, 1998.

⁶¹⁶ These points are based on personal interviews with various professionals (A, F, X and AB) identified in Appendix 3.

⁶¹⁷ *Hazar* is a Persian word meaning one thousand. *Hazar*-family is a term used to refer the wealthy elite of the country who had close ties with the royal family. Due to their high socio-economic status these families had privileged rights in society, which provoked anger and resentment amongst the middle and working classes.

⁶¹⁸ Jahangir Amuzegar, *Iran Nameh*, Bethesda: Iranian Study Foundation, 1995.

⁶¹⁹ Ebrahim Razaghi, *op. cit.*, pp. 36-38.

⁶²⁰ *Ibid.*

⁶²¹ It is mentioned in Chapter Three that the religious revolutionary authorities and Socialists were not satisfied with the Shah's policies; thus when they came to power they started a series of confiscations, and stifled the activities of entrepreneurs and managers on the grounds they were the product of Capitalism. Certain individuals indicated in Appendix 3 also support these views.

the country from the sale of oil, the development of a large-scale skilled workforce⁶²² and the establishment of an industrial infrastructure, the majority of which forms the basis of today's economy.

6.2 Post-Revolution Changes in Industrial Ownership

Following the Revolution, the new Islamic government began to introduce a programme of property confiscation and nationalisation. The reasons and implications of this undertaking were manifold: the high revolutionary fervour and the ensuing atmosphere of fear and uncertainty saw many skilled and educated entrepreneurs leave the country, whilst the punishment of entrepreneurs and the confiscation of their land, businesses and possessions was the response of the new regime to promises made to the masses oppressed at the time of the revolution. This situation was further exacerbated by those in government (mostly inspired by socialist teachings) who took the opportunity for revenge based on the perceived inequalities of wealth and opportunities that had existed before the revolution. Under such circumstances the government was compelled to intervene and in July 1979 introduced a bill for the protection and development of Iranian industries.⁶²³ Following approval of this bill the Iranian industrial enterprises were divided into four categories:

- i. Basic and strategic industries such as oil, gas, railways, fisheries, electric utilities, automobile manufacturing, ship-building, aviation and basic metals;
- ii. Mining and industrial units belonging to individuals deemed to have been acquired or expanded by illegal or illegitimate means;
- iii. Factories, firms or enterprises which owed the banks more than the value of their assets; and,
- iv. Enterprises not classified under the previous three categories.

In 1980, enterprises in the first category were to be placed under public ownership and operation. Their legitimate owners were supposed to be compensated for the net worth

⁶²² The author of this thesis, who was personally involved in the servicing of the workforce responsible for repairing and reconstructing the oil fields during the Iran-Iraq war, noted that all the individuals involved in this work had been trained under the previous regime (before the revolution).

⁶²³ Personal interview with an individual (K) identified in Appendix 3.

of their holdings, an undertaking that generally did not happen in practice. Some firms and units under the second category were to be confiscated. Units under the third category were to be placed under trusteeship of the nationalised banks and to be run or liquidated on behalf of their public or private creditors. Enterprises not included in the above categories were only to be recognised according to a committee headed by a member of the clergy under the administrative control of the Supreme Council of Justice, which itself was under the control of the Spiritual Leader. The claims of owners of confiscated properties were to be settled through the legal channel of the Supreme Council of Justice.⁶²⁴ As a result of all these changes 938 companies, which had been under private ownership, came under the control of the following organisations:⁶²⁵

- i. NIO (National Iranian Industrial Organisation) received control of 362 companies,
- ii. IODO (Industrial Ownership Development Organisation): 24 companies,
- iii. *Bunyard-i-Mostaz'afin* (Foundation for Oppressed People): 242 companies,
- iv. NPC (National Petrochemical Company): 7 companies,
- v. IDRO: 94 companies,
- vi. *Bunyard-i-Shahid* (Martyr Foundation): 56 companies,
- vii. Sadugh Foundation: 3 companies,
- viii. Industry Support: 9 companies,
- ix. Other companies.

In spite of these efforts the outcome was not encouraging as the uncertainty inherent in such a system continued to be one of the regime's major handicaps.⁶²⁶ Therefore, after two decades of revolutionary rule, the Iranian economy has been managed not so much according to Islamic ideals and ideas but in a largely *ad hoc*, improvised and contradictory manner. While the slogans of street demonstrations have continued to display a pro-Islamic and anti-Western tone, the essential guiding light of the economy has been a mixture of capitalism, socialism, populism and pragmatism with a dose of Islamic rhetoric. In essence, the economy, in outward appearance, differs little from the system that existed under the Shah, and, apart from some cosmetic and superficial changes in the nomenclature, economic reality has triumphed over revolutionary dogma.

⁶²⁴ *The Daily Ettela'at*, 24 January 1993.

⁶²⁵ See: Mahmood Motavassali, *Privatisation Process in Iran*, Tehran: Research Centre of Ministry of Commerce, 1995; M. R. Sodaghar, *Iranian Investment Growth*, Tehran: Andisheh Sholeh Publishers, 1990, pp. 461-467, and personal interview with an individuals (K and L) identified in Appendix 3.

⁶²⁶ See *The New York Times*, March 23, 1992.

The contradictions of the Islamic principles with the existing practices can be seen from the fact that one of the major objectives of the Islamic Revolution, and stated in the Constitution, was to create an interest-free banking system, which immediately experienced practical problems in its implementation. As a result, the authorities decided to change only the nomenclature within the prevailing framework. The three high-ranking members of the Council of Guardians suggested that interest payments by banks, called 'realised profits' since 1983, should now be termed as 'expected' or 'interim' profit, and that loans granted by financial institutions should be labelled as commercial 'facilities'. The same practice can also be seen in Pakistan. In the 1970s, after initiation of the Islamisation process of the economy by the military government of late General Zia ul Haq, all commercial banks have started Profit Loss Saving programmes, and now this prohibited interest is 'Islamised' and is called 'mark-up' or 'just profit'.⁶²⁷ However, this reflects only a change of nomenclature, as the banking system is still based on the same principle of interest.

6.3 The Impact of the Iran-Iraq War

The Iran-Iraq War began in 1980 and lasted eight years. Needless to say it adversely affected all aspects of policy implementation, particularly through the channelling of huge volumes of resources towards the war effort. Rationing was introduced and the government began to regulate prices, distribution and exchange allocation. The implementation of such policies meant that by the end of the war Iran had a highly centralised economy with full bureaucracy and a system open to abuse and corruption. Furthermore, the oil revenue and human resources that were directed towards

⁶²⁷ See: M. Umar Chapra, *Islam and the Economic Challenges*, Leicester: The Islamic Foundation and the International Institute of Islamic Thought, 1992; Khurshid Ahmad (ed.), *Studies in Islamic Economics: A Selection of Papers Presented to the First International Conference on Islamic Economics held at Makka under the Auspices of King Abdul Aziz University, Jeddah, February 21-26, 1976*, Jeddah: International Centre for Research in Islamic Economics, 1980; Masudul Alam Choudhury, *Studies in Islamic Social Sciences*, London: Macmillan Press Ltd. 1998.

Another example is that of the revolutionary slogan of self-reliance and non-dependence. At the time of the revolution, various foreign investors were forced to leave the country and their industrial establishments were either confiscated or brought under the control of the state. When these individuals sued the Iranian government in the International Court of Justice in Hague, the government lost the majority of the cases and paid a huge amount of money as compensation. Two decades later the same Islamic government invited foreign investors (mostly British) to invest in the country, not only offering them attractive investment opportunities but also asking them to advise the government on measures to speed up the on-going privatisation process. See: *The Daily Iran Times*, 18 September 1992; *The Daily Abrar*, 29 June 1999; Khawaja Amjad Saeed, *Economy of Pakistan 1999-2000*, Lahore: Institute of Business Management, 2000.

maintaining the war effort prevented the implementation of the much-needed economic reforms and a workable economic model required after the Revolution. This situation was made even more difficult by the destruction or suspension of infrastructural projects that been undertaken before the Revolution. The effect of the war on industry (especially the oil industry, which was the subject of international sanctions and embargoes) and human lives was devastating, resulting in the almost complete destruction of an already fragile economy.⁶²⁸

The war also resulted in the creation of a new class of individuals who came to occupy high-ranking positions in politics and in all key areas of the economy. In much the same way as those displaying high 'Islamic' ideals were given the best jobs after the Revolution, so war veterans were now placed in positions of power in recognition of their sacrifices for the country. Thus a second wave of well-meaning but under-educated and under-qualified individuals was placed in management positions to the detriment of the development of the economy.⁶²⁹ This situation was further exacerbated by another exodus of human and financial capital from the country.⁶³⁰ Furthermore, the economy stagnated due to the lack of any technological developments and advancements that needed to be introduced into the country, particularly in the oil industry. As a result, and according to international opinion, the economy was in a worse position than it was in 1979.⁶³¹

In addition to the war, another class emerged during the course of the war.⁶³² This group emerged from within the 'Islamic ideologues' that, through their position and contacts, had got rich during the war through such ventures as securing contracts for rebuilding or the distribution of food and clothing, etc. The money that these individuals made was

⁶²⁸ See: Jahangir Amuzar, *Iran's Economy Under the Islamic Republic*, London: I.B. Tauris, 1997; PBO, Plan and Budget Organisation, *Final Report on the Assessment of the Economic Damages of the War Imposed by Iraq on the Islamic Republic of Iran: 1980-1988*, Tehran: PBO, 1991.

⁶²⁹ Mehdi Bazargan, *Revolution in two Directions* and personal interviews of the researcher with individuals (M and P) identified in Appendix 3.

⁶³⁰ The majority of Iranians living abroad or in exile left Iran not as a result of the Revolution but to avoid conscription, death, etc. during the course of the war with Iraq.

⁶³¹ It is estimated that the total economic loss of the Iran-Iraq war was around US\$ 337 billion (around Rls. 65,353,749 m). This loss takes no account of the half a million people who were either killed or became disabled, the 50,000 Iranian prisoners, environmental and psychological losses, or the brain drain. See: PBO, *Final Report on the Assessment of the Economic Damages of the War Imposed by Iraq on the Islamic Republic of Iran: 1980-1988*, Tehran: PBO, 1991.

⁶³² In addition to those groups who occupy key positions in the country, another interest group emerged due to their participation in the war. The state gave many benefits to this group, including free entrance to universities (without admission test and without paying fees) and privileged treatment in recruitment in government jobs.

either invested abroad (causing further capital drains) or invested domestically in non-productive projects. In essence the war saw the country having to start again from scratch with infrastructure destroyed, a new phase of 'brain drain', and war values replacing the old 'Islamic' values as the determinant of status and power. However, perhaps the greatest and most devastating long-term economic effect was the almost complete destruction of the capital market.⁶³³ In fact, the development of this situation was the product of: high out-flow of capital, continued war, destruction of basic infrastructure, diversion of national resources from capital formation to rehabilitation of infrastructural facilities and provision of basic social services to the masses. Furthermore, as mentioned in Chapter Four, the models that the country tried during the post-Revolution period were not successful in creating added value.

6.4 Five-Year Development Plans

Following the ending of the war with Iraq, the death of the Revolution's Spiritual Leader Ayatullah Khomeini, and the instigation of what became known as the Second Republic, the government began a series of centrally-planned economic programmes with the aim of reconstructing the damaged cities and infrastructure and encouraging economic development. The main aim of the first Five-Year Plan, which ran from 1989-93, was to provide solutions to the problems of low productivity and shortage of investment.⁶³⁴ These plans were very comprehensive but for the purpose of this study, only those sections which are relevant to the privatisation process are discussed in the following pages. The main objectives of the First Plan were to direct the surplus from the private sector to production activities and investment, and the disposal of government shares (excluding mother industries such as oil and steel, etc.) to the public.⁶³⁵

Despite the various efforts of the Rafsanjani government (1987-97), which resulted in the successful shares sell-off of some companies; this process could not be continued beyond 1994 due to the lack of coordination between parliament, government and

⁶³³ Personal interview with an individual (T) identified in Appendix 3.

⁶³⁴ PBO, *First Five-Year Development Plan (1989-93)*, Tehran: PBO, 1988.

⁶³⁵ *Ibid.*

clergy.⁶³⁶ This situation continued until 1996 when the government passed a bill that made them solely responsible for disposal of the shares of the confiscated, nationalised and public companies, unless it was felt that it was in the national interest to keep some companies under government ownership, in which case they were to be liquidated within one year. It is interesting to note that no significant progress has been made in this regard due to the lack of capital, the obsolescence of the majority of plant and machinery, over-staffing, financial losses and huge debts and the over-pricing of shares, being done mainly to preserve the position of certain government officials.⁶³⁷ In summary, the First Five-Year Plan can be said to have placed the emphasis on government investment, the maintenance of central control with only a minor nod to the private sector.⁶³⁸

The key points of the Second Five Year Plan (1995-99) were: to take necessary steps toward involving people in economic activities, the attraction of private sector investment, stabilisation of the rules regarding private sector activity, and the sale of parts of government-owned economic sectors to the private sector in accordance with Article 44 of the Constitution.⁶³⁹ Preference in the sale of shares was to be given to those who had fought in the war with Iraq.⁶⁴⁰ This Plan was to mark the beginning of liberalisation of the economy and of a concerted effort to introduce a large-scale and workable privatisation programme. Implementation of this plan in relation to the privatisation process was only partly successful. This was due to the obstacles, which arose during the First Plan, but also may be attributed to the opposition voiced by certain vested interests within the society,⁶⁴¹ as well as the atmosphere of fear arising from the increased demands for audits and investigations sought by 'revolutionary and political' sections of society.⁶⁴²

The main objectives of the Third Five Year Plan (2000-04), which is currently underway, are to increase sales of government shares to the public, the creation of a

⁶³⁶ Personal interview with an individual (D, Q, W and AF) identified in Appendix 3.

⁶³⁷ Personal interview with an individual (AF) identified in Appendix 3.

⁶³⁸ PBO, *First Five-Year Development Plan (1989-93)*, Tehran: PBO, 1988.

⁶³⁹ See: PBO, *Second Five-Year Plan (1995-99)*, Tehran: PBO, 1994; Government of Iran, *Constitution of the Islamic Republic of Iran*, Tehran: Government of the Islamic Republic of Iran, 1997.

⁶⁴⁰ PBO, *Second Five-Year Plan (1995-99)*, Tehran: PBO, 1994.

⁶⁴¹ These include unsuccessful bidders for the purchase of state-owned enterprises who formed effective pressure groups, and war veterans promoted to high-ranking positions within these enterprises.

⁶⁴² See: Saeed Rehnema & Sohrab Behdad (eds.), *Iran After the Revolution – Crisis of an Islamic State*, London: I.B. Tauris, 1995.

competitive market, and the expansion of the capital market.⁶⁴³ This Plan focuses on deregulation and the encouragement of the development of, and increased opportunities for, the private sector. In order for such a situation to occur, a programme has been introduced to reorganise government companies by either liquidation, consolidation or via sell-off to the private sector. Further measures have also been taken in order to encourage deregulation and create a more liberal and competitive market. These measures include: limitations on the expansion of government companies; amendments to tax laws and fiscal policies; offering licences to credit institutions to operate in the private sector; and the establishment of insurance companies in the private sector.⁶⁴⁴

As is evident in the progression from the First Plan to the one currently being run, the infrastructure and necessary economic conditions have been increasingly widened to accommodate and encourage the private sector. However, many of the objectives still remain vague, face tremendous opposition and can be read as merely statements of intent. For this intent to become fact needs workable terms to be laid down by the rule of law. It is noteworthy that from the secular point of view the market economy is not active as was expected in the five-year plans. The majority of the manufacturing and services sectors are controlled by the government; even those that are in the hands of the private sector, which according to *Abrar Eghtesadi* a daily newspaper is less than fifteen percent of the national economy⁶⁴⁵, are intensively interfered with by the state and government through various agencies responsible for the implementation of Islamic law. In addition, allocation of foreign exchange, pricing control, allocation of credit, and import-export controls are also in the hands of the government. The high dominance of the state in private business, is limiting the activity of the private sector in international markets. Furthermore, as mentioned in Chapter Two, several pressure groups and politico/religious organisations which control⁶⁴⁶ more than twenty percent of the nation's economy are too strong as compared to the private venture, thus not providing enough room for the promotion of a market economy.⁶⁴⁷

⁶⁴³ PBO, *Third Five-Year Plan (2000-05)*, Tehran: PBO, 1999.

⁶⁴⁴ Bill passed by the parliament in 1999 and published by PBO.

⁶⁴⁵ *The Abrar Eghtesadi* (Daily Newspaper), May 21st 2001.

⁶⁴⁶ See: *The Iran Daily News*, June 2nd of 2001; *The Economic Monthly Report*, May 2001.

⁶⁴⁷ See: Parvin Alizadeh, *The Economy of Iran: The Dilemmas of an Islamic State*, London: I.B. Tauris, 2000; Saeed Rahnama and Sohrab Behdad, *Iran After the Revolution: Crises of an Islamic State*, London: I.B. Tauris, 1996; Hussain Azimi, *Iran Today: Development Analysis*, Tehran: Islamic Culture Publications, 1999.

6.5 Regulations Governing Ownership and the Privatisation Process

The following show the extent of the government's commitment to create the infrastructure, through various regulations in which their objectives towards privatisation can be practically realised. The Iranian constitution and government and parliamentary laws are the key factors in this regard which are discussed in the following paragraphs.

6.5.1 Constitutional Articles

Articles 22, 44, 45, 46 and 47 deal with public and private ownership of property. Public property includes unclaimed land, minerals, and bodies of water, forests, unenclosed pastures, heirless estates, and confiscated private property. Article 22 holds private property to be inviolate, except in cases sanctioned by law. Article 46 declares that everyone is the owner of the fruits of his legitimate business and labour, and Article 47 affirms that private property legitimately obtained is to be respected. In order for it to be protected, however, Article 44 requires property to meet three conditions: that ownership must not go beyond the bounds of Islamic law, that ownership itself should contribute to the economic growth and progress of the country, and that the property must not harm society. As discussed in the Chapter Two, Article 49 defines the general criteria for legitimate ownership by citing what is illegitimate, and setting forth violations of property obligations. Illegitimate assets to be confiscated by the government include all holdings resulting from usury, usurpation, bribes, embezzlement, theft, gambling, misuse of endowments, mishandling of public contracts and transactions, appropriation of public land, operation of unlawful business, and other illicit sources. Articles 47 and 49 impose stringent limitations on private property. Since the relevant criteria for legitimate acquisition of property are to be determined by the *Majles*, there is evidently no constitutional protection against arbitrary confiscation of property by a *Majles* law, except perhaps the vague provision that all legislation must conform to Islamic principles. As mentioned in Chapter Two, these principles, however, are themselves subject to different interpretations.

This discussion reflects that there is a certain contradiction and ambiguity in the definition, span and scope of privatisation, as the control of most aspects of the

economy still remains in the hands of the government. Further problems arise with the implementation of law. This is as a result of the ambiguity created by the existence of two types of law in Iran (civil and revolutionary) and from the fact that their interpretation is based on the subjectivity of the clergy, which leaves the system open to abuse and corruption. These factors fail to create an atmosphere of confidence for investors or serve to encourage the full-scale development of a private sector.

6.5.2 Governmental and Parliamentary Laws

There are other government laws dealing with privatisation. Law No. H109T/5283, 20/06/91, was intended to increase productivity and reduce the burden on the government, so as to achieve economic balance and the best utilisation of each company's assets. It also introduced a sales option through share flotation, which stipulated that 33 percent of shares should be sold to workers as a social commitment of the government. The proceeds of the share disposal were to be spent on a designed formula of government expenditure.⁶⁴⁸ This law was amended by Law No H18T/1213, 22/04/92, which added that the options on share flotation should be expanded to include tender and negotiation options with the final decision on sales being left to the relevant minister.⁶⁴⁹

Law No. H490T/51021, 17/01/93, covers all aspects not covered in the above two - planning was to be put in the hands of the High Economic Council, and a secretarial office should be established to report on proceedings to the Minister of Economic Affairs.⁶⁵⁰ Another Parliamentary Law passed in August 1994, emphasised that priority in all aspects of privatisation - share options, choice of payment method, etc. - should be given to those individuals who had fought in the war. This reflects that the economics began to take on larger political dimensions.⁶⁵¹ What these factors failed to realise was that these war veterans, despite the concessions being made, would be unable to raise the initial finance needed for investment and that, where they could afford to purchase shares, the thinking was on short term gains rather than long term profits and benefits.

⁶⁴⁸ Government of Iran, *Ministry of Economic Affairs Annual Report, 1991*.

⁶⁴⁹ *Ibid.*, 1992.

⁶⁵⁰ *Ibid.*, 1993.

⁶⁵¹ *Official Gazette*, 1995, pp. 404-08.

This law was fundamentally flawed from the beginning, and because of irregularities, government opposition and its political nature was never fully implemented.

Article 35 of the Budget Law 1998 states that within one year all government companies should be dissolved, liquidated or sold to private or co-operative ownership, excluding those companies covered under Article 44 of the Constitution.⁶⁵² In essence, the government's objectives for the privatisation process were stated as the desire to create jobs, reduce government intervention and involvement in economic affairs, achieve an equitable distribution of wealth among all sections of society, motivate private sector investment, and complete all government projects with the money used from sell-off and share purchases. In 1998, a committee, including the Ministry of Economic Affairs, the head of the Central Bank, the head of PBO and heads of all relevant corporations, was established to achieve these objectives. This committee was placed under the authority of the President and its aims were maintained and restated in the following years' budgets.⁶⁵³

6.6 Privatisation in Practice

The implementation of the above measures shows a lack of coherent planning to achieve a comprehensive privatisation programme. Why did this situation arise? Is it due to insufficient efforts or institutional weakness? Is it because of the complexity of the system or the continuous power struggle between the various authorities? This section mainly focuses on these issues. In this context here, the outcome of existing privatisation programme is briefly discussed first, then an effort is made to explore the possible answer to the above questions.

The discussion in the above pages reflects the fact that the regulations relating to privatisation bear the hallmark of improvisation, exhibit myriad of contradictions and for the most part can be seen as a reaction to the political situation in the country rather than an overall structured programme for action. With reference to the context it is important to mention here that without developing an adequate legal framework, the objectives of privatisation were laid down as part of a development plan. Direct private

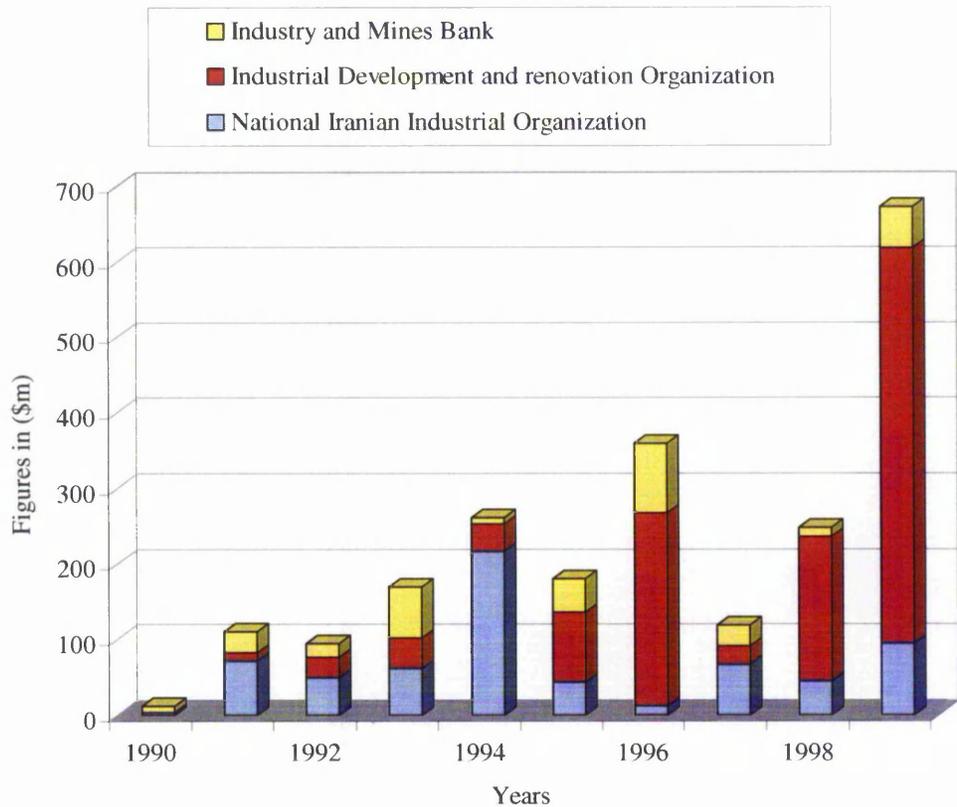
⁶⁵² *Budget Law of 1998*, PBO, 1998.

⁶⁵³ *Ibid.*

surplus was directed to production activities without having proper support and security for long-term investment in production. Moreover, commitment to revolutionary slogans, e.g., giving priority to the oppressed and war-veterans who could not afford to buy shares, ensured that insufficient capital was generated by the privatisation, which was one of the main objectives.⁶⁵⁴ If the rules of law governing the privatisation process are problematic and devoid of planning, then the progress of the privatisation process is itself in question. The past ten years' experience of privatisation indicates that only US\$ 2.2 billion's worth of privatisation has been completed (figure: 6.1). This figure is nearly equal that of Pakistan (which is also struggling between Islamic ideology, Western pressure and current financial crises), half of that in Egypt (which has a more open policy as compared to Iran and Paksitan, but is still facing mass resistance against this process), and only approximately 2 percent of that of the UK, the pioneer of privatisation (see Chapter Five). Another important point regarding the real essence of privatisation is that until 1998, the majority of shares (around 57%) sold as part of the privatisation process were sold to either the government or its allied bodies, for instance, social insurance organisations and the 'trust of retired personnel' to which the government was already indebted. Thus, only 28 percent of shares were disposed of to the private sector and 15 percent to the labour force.⁶⁵⁵ What this privatisation does not do is move towards a 'share-owning democracy'. In economic terms, if government agencies buy many of the shares, the efficiency-inducing part of privatisation is smothered at birth.

⁶⁵⁴ Personal interview with an individual (A) identified in Appendix 3.

⁶⁵⁵ IDRO, *The Report on the Sales of Shares from 1990 to 1998*, Tehran: IDRO, 1999, pp. 50-54.

Figure 6.1: Summary of Shares Disposed during 1990-99

Sources: *PBO's Report on Privatisation*, Tehran: 1998; *Stock Exchange Report on Privatisation*, Tehran: 1994; IDRO, *Report on the Sale of Shares from 1990 to 1991*, Tehran: IDRO, 1999; NIIO, *NIIO's Report on the Progress of Privatisation*, Tehran: NIIO, 2000; Government of Iran (unpublished).

In the case of NIIO, part of the sale was to the managers of the same companies, which created mass unrest and controversy. Parts of various companies were sold to different charity organisations working under the administrative control of the clergy. Moreover, there were several cases of profitable companies being sold to other companies controlled by the Ministry of Intelligence and Security or to charitable organisations controlled by the *ulama*. The rest were sold to other governmental organisations such as social insurance organisations. It is discussed in the next chapter that many of these companies are under investigation by the judiciary, parliament and audit departments. Interestingly enough, all these investigations have no connection with each other, a huge wastage of national resources that is a further factor in the issues of ambiguity, fear of confiscation and ownership, and threat to domestic and foreign investment (which is

urgently required by the falling economy) mentioned previously. A summary of share disposal is given in Table 6.1.

Table 6.1: Summary of shares disposed during 1990 to 1999

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total (mRL\$)	Total (mUS \$)
National Iranian Industrial Organization	Total	10400	214000	146273	183817	647143	128901	34825	200391	131864	282950	1980564	660.2
	Floation	10400	201062	76859	91353	154319	50736	9920	-	131864	169434	895947	298.6
	Negotiation	-	-	45914	68764	353896	74889	13662	-	-	32911	590036	196.7
	Tender	-	12938	23500	23700	138928	3276	11243	-	-	80605	294190	98.1
Industrial Development and renovation Org	Total	-	31619	79853	119049	110076	275000	767049	69635	575779	1571371	3599431	1199.8
	Floation	394	29619	42469	80611	107329	141272	764382	44725	537224	1571371	3319396	1106.5
	Negotiation	-	-	-	19759	2747	39352	-	16800	-	-	78658	26.2
	Tender	-	2000	37384	18679	-	94376	2667	8110	38555	-	201771	67.3
Industry and Mines Bank	Total	23792	84896	55508	204702	25428	135697	275788	85015	34271	163268	1088365	362.8
	Floation	21624	84896	586	193834	20987	128432	182452	85015	34271	163268	915365	305.1
	Negotiation	-	-	-	-	258	527	88673	-	-	-	89458	29.8
	Tender	-	-	-	10868	4183	6738	4663	-	-	-	26452	8.8
Grand total (mRL\$)													
Floation		32418	315577	119914	365798	282635	320440	956754	129740	703359	1904073	5130708	1710.2
Negotiation		0	0	45914	88523	356901	114768	102335	16800	0	32911	758152	252.7
Tender		0	14938	60884	53247	143111	104390	18573	8110	38555	80605	522413	174.1

Sources: IDRO; NIIO and PBO (various reports).

The earlier discussions on privatisation reflect that this process has been facing a number of hurdles, which mean that it did not produce the desired results according to its objectives and in accordance with the development plans. How did this state of affairs occur and what were the main factors behind it? What would be the future state of affairs and how would the country be able to overcome these problems? It needs to be re-emphasised that the Iranian politico-economic system is very complex, in which various religio-political segments of the society compete with each other 'to bring change' or 'not to bring change' in the national system.⁶⁵⁶ Furthermore, all these groups are under pressure internally and externally and struggle for their interests. This type of environment ensures that this land is not fertile for democracy or theocracy. Under these circumstances, when various changes are occurring in the country (e.g., struggle between hard-liners and reformists), the future seems uncertain. At the same time, it is hardly conceivable that the target of privatisation of nearly 2000 companies promised in the Third Five-year Plan will be achieved. The situation becomes yet more ambiguous

⁶⁵⁶ For example: The spiritual leader says that reforms are the duty of the state, whilst The Council of Guardians argues that it would block reforms if there is some deviation from *Shari'a* and the constitution, and the head of the judiciary stated that reforms must be based on Islam. See: *The Daily Ettela'at*, 12th July 2000, London.

when the policy makers are also part of the interest groups.⁶⁵⁷ Under these circumstances, what would be the pace of economic reforms? Can the country attract enough foreign investment and raise sufficient capital internally to be able to accelerate the privatisation?

According to an Iranian intellectual, the level of Iran's security and suitability for foreign investment has declined from 58th in the world ranking in 1993-97 to 59th in 1998-2002. And in the Middle East and Africa, Iran is still on seventh position. However, in the 1970s, Iran was among the top 10 developing countries with regard to attracting foreign investment. In 1992, on the internal sector, *per capita* private savings were Rls. 59,000, which by 1997 had decreased to 26,000. It was estimated that the major part of the reduction in savings was directed to unofficial, unproductive and hidden businesses, which resulted in a decline in investment to the level of 15 percent of the GDP, whereas for a healthy economy this figure is expected to be around 30 percent.⁶⁵⁸

Unfortunately, the Iranian state system is full of contradictions and complexities. The government has restated its commitment to the goals of the five-year plan, and has outlined proposals to privatise various sectors including the downstream oil sector. Legislation allowing the establishment of private banks has been passed by the *Majlis*, with the licensing of the first bank expected within a year. But political obstruction in the 'Council of Guardians', together with the demands of the constitution, have continued to block hopes for more rapid change. The revolutionary court banned 20 newspapers, which campaigned for more freedom and change, and some of the important persons in this campaign have been sentenced and imprisoned, the ruling authorities arguing that these people were helping foreigners and promoting Western benefits in Iran. This is happening while levels of unemployment and inflation are high (as mentioned in Chapter Four), and the price of oil, the main source of revenue, is precarious and expected to be unstable in the near future. Thus, in 1998, the government attempted to sell its first Eurobond of about U.S.\$ 350 million in the international market but was not successful.⁶⁵⁹

⁶⁵⁷ See Chapter Two.

⁶⁵⁸ Personal interview with an individual (C and Y) identified in Appendix 3.

⁶⁵⁹ Personal interview with an individual (D) identified in Appendix 3.

According to government officials, human deprivation is the root cause of underdevelopment.⁶⁶⁰ A common question is: what is wrong with a system in which the government earned around 400 billion dollars from oil alone in the last two decades, yet nearly all economic indicators, particularly capital formation, have gone down?⁶⁶¹ One of the basic causes of the dilemma is the conflict between government functioning as an entrepreneur and as a government – as well as unofficial organisations working under the religious leadership. In other words, the conflict of interest in the performance of the state in its private and social capacity has led to weakening of the economic and social performance of the economy. To be more precise, the state holds control over a wide range of economic enterprises,⁶⁶² with an inefficient labour force and appointment of revolutionary people to key positions with the support of interest groups – these people are the real power and decision makers. Because of the involvement of these interest groups, public and private enterprises have not been able to optimise their economic performance. Consequently, investment and productivity has decreased considerably. At the same time, the financial return to the country and the working force engaged in these enterprises has dropped, leading to the expansion of poverty and deprivation on the one hand and the decline of technological content of the investment on the other. This has hindered the overall development potentials of the country. The vicious circle of declining savings and reduction of investment potentials had pushed the economy further away from the world level performance. This situation caused an increase in poverty.⁶⁶³

How do the misconceptions regarding poverty alleviation come about? The research shows that, of the various factors protecting human beings from economic deprivation, the most important are the existence of secure sources of wealth and income. The state has always tried to relieve poverty by specific transfers that would not have any long-term effect either on people's wealth or on their income. Hence, despite spending a

⁶⁶⁰ The government established a committee to find solutions for unemployment, poverty, discrimination, corruption, and addiction (see *The daily Ettela'at* of 1st August 2000). In Sistan and Blochestan, the revolutionary court closed a reformist newspaper because it was reporting on poverty, unemployment and addiction (see www.Iran-daily.com, 1st August 2000); Personal interview with individuals (N, M and C) identified in Appendix 3.

⁶⁶¹ Personal interview with an individual (C and H) identified in Appendix 3.

⁶⁶² Recent writers such as Hobden, Palan and Abbot have emphasized the role between state and society, or between regulatory systems, authority and entrepreneurship, which have enabled development. Even more than 'enabling' it, they also give it particular characteristics and directions in the long-term (see Chapter Two). Source: Ronen Palan and Jason Abbott with Phill Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999.

⁶⁶³ See: Hussain Azimi, *Iran Today: Development Analysis*, Tehran: Islamic Culture Publication, 1999; Parvin Alizadeh, *The Economy of Iran: Dilemmas of an Islamic State*, London: I.B. Tauris, 2000.

considerable amount of financial resources on welfare, the population has not reached a stage of independence. This means that the financial resources needed should grow at least at a rate equal to the rate of growth of the population as well as that of inflation. Such funds cannot be obtained either from taxation or from the profit earned from inefficient entrepreneurial activity of the state.⁶⁶⁴

Regarding the economic activity of the state, the report observes the need for technology and productive investment. Where do the financial resources needed for such development come from? Exhaustion of public resources has led to a situation where the state does not seem able to finance its budget. Does this mean that the state has lost all chance for development of the country? Possibly the answer is no. All that countries need do is to let the more efficient entrepreneurs run the economic institutions and allow the public sector to get on with its task of governing the country and regulating the private sector. Otherwise, like Iran the obstacles in privatisation will be hiked and create further problems in the economy. For instance, it needs to be re-stated that Article 44 of the Constitution of the Islamic Republic of Iran underscores three basic tenets in implementing plans for the pursuit of economic development: the plans must not contravene the Constitution; they must not violate Islamic law; and, they must lead to economic growth and prosperity.⁶⁶⁵

Articles 43 and 44 also delineate major fields of activity that have been declared to be the right of the government (and these encompass some 80 percent of the economy). Nevertheless, 20 years after the advent of the Revolution, the country has yet to realise the third point (economic growth and prosperity) highlighted in Article 44 of the highest law of the land.⁶⁶⁶ For instance, state monopoly of key sectors, such as banking, insurance, finance, air transport, trade and car manufacturing, has kept the nation far behind its regional and international rivals. In such a scenario, the people receive funds from the state instead of beefing up the public treasury.⁶⁶⁷ Also, whenever there is talk of implementing national policies, the democratically elected government is blocked by

⁶⁶⁴ See: H. Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, Albany: State University of New York Press, 1990; M. Weiner, *Dynamics of Growth*, New York: Basic Books, 1992.

⁶⁶⁵ Asghar Shirazi (Translated by John O'Kane), *The Constitution of Iran: Politics and the State in the Islamic Republic*, London: I.B. Tauris, 1998.

⁶⁶⁶ Ibid.

⁶⁶⁷ See Iran-Daily.com for the interview of Mr. Kalantari, Minister for Agriculture, 31st July 2000 regarding influential powers

a lack of power.⁶⁶⁸ Therefore, it can be concluded that the post-Revolution economic system of this country has failed to serve national interests and security.⁶⁶⁹ In addition to these difficulties, the private sector is also hindered by a number of other obstacles such as⁶⁷⁰:

- Lack of a genuine capital market.
- Lack of proper credit mechanisms, available only to state companies, while private entities are prevented from sourcing funds from abroad.
- Most privileges and facilities are geared to state-affiliated bodies that directly compete with the private sector, which is left to fend on its own.
- Different executive organisations issue contradictory or opposing policies and regulations.
- The attitude of the taxation and SIO agencies toward the private sector discourages production activities and income generation. Tax-collecting bodies appear to be advocating the view that taxation relates to a class war.
- Lack of a powerful executive organ that can implement privatisation policies and transfer state holdings to the general public.
- Lack of security from prosecution, especially in view of the fact that court trials can be costly and cases can take a long time to settle.
- Red tape and cumbersome bureaucratic procedures for obtaining credit. For instance, an export loan may take more than two months to be converted into Rials;
- Problematic regulations in all fields, from labour to production, sales, export, monetary and financial policies, social welfare, and others; and,
- Unstable regulatory environment, which has left economic units in a state of hesitation and with a doubtful future.

⁶⁶⁸ It is important to mention here that in August 2000, the elected President of the Islamic Republic (Mr. Khatami) stated in an interview that he was powerless to enforce the law (see: Ali Akbar Dareini, The Associated Press, www.aol.ir, 22nd August 2000).

⁶⁶⁹ *Ibid.*

⁶⁷⁰ Personal interview with individuals (D and Q) identified in Appendix 3.

6.7 Global Competition in Capital Market

With reference to the context it should be noted that only a few commodities are exchanged or traded with as much competition as capital. Capital markets have been volatile and global for many years, and when authors speak of the 'globalisation' of capital markets, they point to the intensification of an already highly competitive business.⁶⁷¹ Iran, therefore, has to compete for inward investment, and the Iranian capital market cannot be insulated from global pressures.

If we compare Iran's performance in attracting investment with other developing countries, it provides a context within which the success of the privatisation policy can be assessed, for privatisation depends, and will depend in the future, on the ability to attract finance from the global system, at least in part. Unfortunately, the statistics do not support an optimistic view, at least in recent performance. Iran has had net negative foreign investment during the past two decades, which commenced in the later years of the Shah's regime. This was in spite of the fact that during this period, most of the developed and developing countries attracted substantial amounts of foreign investment, particularly during the 1990s. However, in the case of Iran the situation was opposite (table: 6.2). While Egypt and Pakistan (Chapter 5), which each initiated the process of privatisation and liberalisation in 1990, the same as Iran, managed to attract sufficient foreign investment, the performance of Iran was disappointing in spite of having more human and financial capital as well as natural resources as table 6.2 shows.⁶⁷²

⁶⁷¹ See: *Iran Economics* (Monthly Magazine), Dec. 1999; Steve Chan (ed.), *Foreign Direct Investment (FDI) in Changing Global Political Economy*, London: Macmillan Press, 1996.

⁶⁷¹ See: Manuchehr Kiani, 'Missed Opportunities of Foreign Investment in Iran', *Daily Asia*, 16 February 2002; The World Bank, *World Development Report 2000/2001*, New York: Oxford University Press, 2000, pp. 274-315.

⁶⁷² See: Manuchehr Kiani, 'Missed Opportunities of Foreign Investment in Iran', *Daily Asia*, 16 February 2002; The World Bank, *World Development Report 2000/2001*, New York: Oxford University Press, 2000, pp. 274-315.

Table 6.2: State of Foreign Investments during 1980-2000 (US\$ in billion)

Region/Country	1980-85	1986-2000
World	249	4479
Developed Countries	186	3209
Developing Countries	63	1270
Iran	-1.2	-6.0

Source: Syed Ali Asghar Alvi, 'Foreign Investment: Demand and Supply', *Daily Asia*, 26 February 2002; Mehdi Taghavi, 'Negligible Share of Iran in Global Foreign Investment', *Daily Economic News*, 22 September 2001; *Iran Economics*, 30 November 1999; The World Bank, *World Development Report 2001/2002*, New York: Oxford University Press, 2001.

Needless to say, this has extremely important implications for the promotion of employment opportunities, which depend upon entrepreneurship and investment, particularly foreign investment in the case of developing countries such as Iran. As discussed in Chapter Four, unemployment is on the rise due to a lack of investment (both domestic and foreign). A high unemployment rate in any country gives birth to a number of social evils, particularly social unrest.⁶⁷³ According to the Iranian Finance Minister, to tackle the problem of unemployment, the country needs to attract at least eight to nine billion dollars foreign investment annually for the next five years.⁶⁷⁴ How can this dream be materialised when the figure of foreign investment for Iran is negative?

Chan argued that one of the main reasons for this sorry state of affairs is the lack of collaboration between state and society, as well as the nature of political culture. The negative affects of this situation are further multiplied by the weakness of national institutions and political uncertainty.⁶⁷⁵

⁶⁷³ Hadi Khaniki, Deputy of Ministry of Works in an interview with *Nowrooz Daily Newspaper* states that cumulative social, cultural and political obstacles and particularly problem of unemployment will end to social unrest. See *Nowrooz Daily Newspaper*, 12 Feb 2002.

⁶⁷⁴ *Abrar Eghtesadi*, 3 March 2002.

⁶⁷⁵ Steve Chan (ed.), *Foreign Direct Investment (FDI) in Changing Global Political Economy*, London: Macmillan Press, 1996.

The major hurdles in attracting foreign investment in Iran are:⁶⁷⁶

- Lack of awareness of the importance of foreign investment in the minds of the general public. This type of thinking emerged during past several decades due to the wide spread interpretation and experience that the foreign investors took advantage of weakness of the Iranian system and did not give enough benefits to the masses. This situation also promoted a culture of corruption in the country.⁶⁷⁷ A more inward-looking and pessimistic business culture has emerged in the last twenty years that has in turn further discouraged inward investment.⁶⁷⁸
- Historical confiscation (Chapter Three) and different interpretation of Islamic law about ownership (Chapter Two) are other major problems in promotion of foreign investment.
- Regional and internal insecurity also has an important impact. Iran is situated in a volatile region where a number of long-standing disputes - the problem between Arabs/Palestinians and Israel, the Iran-Iraq dispute, the Iraq-Kuwait conflict, political differences between Caspian Sea countries, the problem of Afghanistan, and the Kashmir dispute between India and Pakistan - all negatively affect the Iranian economy and the image of the country abroad. These circumstances influence the decision making process of foreign investors.
- The occurrence of internal crises and frequent political changes not only prevented foreign investment but caused capital out-flow, e.g., capital out-flow during 1974 to 1986 was around 28 billion US dollars, partly due to instability of the last years of the Shah's regime and then due to the Islamic revolution and the war between Iran and Iraq.
- Inconsistency in interpretation and ever changing rules and regulations create further ambiguities.
- The Iranian Constitution actively discourages the involvement of foreign experts and jurists to settle legal disputes between foreign and local businessmen in the context of international law.
- Tax and duties are high and the fiscal system is too complex in comparison to other developed countries.

⁶⁷⁶ These points are based on personal discussions of the researcher with several intellectuals, politicians, businessmen and bureaucrats during his visit to Iran in March-April 2002.

⁶⁷⁷ *Financial Times*, 11 April 2002-Corruption in the management of Oil Industry; Speech of Iranian Spiritual Leader in *Mash'had*, See *Ettela'at* (*Daily International Newspaper*) 3 March 2002.

⁶⁷⁸ *Ettela'at* (*International Daily Newspaper*), 3 March 2002.

- The complexity of state organisations (as reflected in Chapter Two) and the continuing struggle between parties to occupy political power⁶⁷⁹ leaves the economy as a secondary priority, and this ongoing challenge on power structure⁶⁸⁰, which is fully based on state control and oil dependency, leaves insufficient room for competition and private entrepreneurship motivation.
- There is over-staffing and too much emphasis on job security (and the plight of the so-called oppressed) rather than on the efficiency and security of investment. The problem is further aggravated due to the low efficiency of labour.
- Political discrimination (as a *relative deprivation*)⁶⁸¹-exclusion of majority of professionals/educated people from political elite on the belief that they are not supportive for Islamic revolution⁶⁸²

The above points highlight the level of unfriendliness of the overall environment with regard to foreign investment. Due to the prevalence of this situation foreign investors have been reluctant to consider Iran as an investment-friendly country. Recent political instability in the whole Southwest Asian region has added to these longer term difficulties. Privatisation, as far as it has occurred, has to be judged against this context. But it is a context which, at least in some reports, Iranian authorities have the power to change.

6.8 Complexity of the State System

As mentioned in Chapter Two, in this modern age the Iranian state administrative system is one of the most complicated in this world. It is due to its complexity and inefficiency that, even two decades after the Revolution, various efforts of the government have failed to address the needs of the masses, which were promised at the time of the Revolution. In this system the highest authority is the Spiritual Leader who exercises the combined supreme political and religious powers and, indeed, is a

⁶⁷⁹ Jamshid Asadi, 'Entrepreneurship as a Main Principle of Economic Development Which is Ignored in Iranian Economy'. See *Aftab Magazine*, Feb 2002.

⁶⁸⁰ Ronen Palan and Jason Abbott with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999.

⁶⁸¹ Ted Gurr, cited in David Sanders, 'Behavioural Analysis', in David Marsh and Gerry Stoker, *Theory and Methods in Political Science*, New York, N.Y.: PALGRAVE, 1995, PP.68-69.

⁶⁸² Ted Gurr, cited in David Sanders, 'Behavioural Analysis', in David Marsh and Gerry Stoker, *Theory and Methods in Political Science*, New York, N.Y.: PALGRAVE, 1995, PP.68-69.

manifestation of the integration of politics with religion. Although the government is accountable to him as well as to the judiciary, parliament and general public, due to his spiritual position he is not accountable to any of these institutions. According to Ayatullah Meshkini (head of the Experts Assembly and the *Friday Imam* of Holy city of the *Qom*)⁶⁸³, the Spiritual Leader has the authority of God's messenger and *Immams*.⁶⁸⁴ As discussed in Chapter Two, the real power rests with him and the institutions under his administrative control. The problem, then, is that he enjoys maximum powers with no accountability (except to God on the basis of his spiritual position) while the elected president and the parliament have minimum powers but maximum accountability to a number of institutions. This situation creates imbalance in the delegation of authority and responsibility, and as a result causes instability in the country. This complexity of the state system is incompatible with the relevant economic structure required to meet the needs of the Iranian society in the twenty-first century. As a result, after two decades of trial and error, the economy is still in its worst state of the last 30 years, with unemployment at its highest, the national currency being devaluated to its lowest level, emigration is at its peak, and crime and addiction levels rocketing. Consequently, the people who elected the parliament and the President on a mandate to take the necessary steps to reform the state structure and to make life better, are faced with bitter opposition from the Spiritual Leader who clamps down on the freedom of the mass-media, one of the key elements of a truly-accountable, democratic society.⁶⁸⁵

This type of environment, where the social set-up of the country is imbalanced and the idea of ownership is an ambiguous concept, creates further hurdles to keeping national autonomy at the highest level. How can it be expected that the foreign and domestic investors will wish to invest in the country when they see the insecure future of their investment. Thus, in these circumstances the chances of capital formation are bleak. In Chapter Two various thoughts on Western and Islamic economic models are discussed in relation to the role of the state. It revealed that the existing state organisations are not capable of handling the economic problems with regard to indigenous traditions and culture (chapters three and four). The preceding discussions reflect that contradicting thoughts and varying interpretations of the same Islamic principles, as well as formal and informal state institutions with conflicting approaches and objectives, have created

⁶⁸³ See Section 2.4.

⁶⁸⁴ *The Resalat Daily Newspaper*, 1 January 1998, Tehran.

⁶⁸⁵ See: *The Daily Guardian*, 7 August 2000; *The Hamshahri Daily Newspaper*, 17 August 2000; *The Daily Ettela'at*, 12 July 2000; *Ibid.*, 17 August 2000; Iran, [www.iran.com], 11 August 2000.

an environment of imbalance and instability in the national economy. The adverse affects of this situation are further exacerbated by ambiguity in the definition of ownership and the place of the entrepreneur in the Iranian economy. How can it be argued that the contemporary situation is an ideal for privatisation?

6.9 Concluding Remarks: The Need for Assessment of the Privatisation Process in Iran

In this chapter I have discussed the many factors that contribute to an understanding of the Iranian experience of privatisation, with emphasis on the models of the privatisation available from the experience of other countries (Chapter Five), and in the context of the place of ownership within the differing interpretations of Islamic principles. With this appreciation of the underlying issues, an objective assessment of the success of privatisation process in Iran is now required, particularly from the point of view of micro-economics. In the next chapter I present a number of approaches, which have sought to provide this objective assessment. These approaches include interviews with individuals having a broad range of experience of the privatisation process (government officials, businessmen, academics, and religious authorities), which was backed up by questionnaires completed by others intimately involved in the privatisation process. To provide a broader assessment, I critically analysed the findings of surveys and investigation reports by the state leadership and government agencies. I also critically analysed the success of privatisation of major companies, with particular emphasis on the improvement of efficiency and the overall benefit to society. Finally, the viewpoints of independent experts were obtained from their comments in magazines and newspapers, this approach being necessary because of the lack of well-respected economic research institutes in Iran. Throughout this critical assessment, my personal involvement in the privatisation process directed my analysis along certain paths, in particular the choice of individuals interviewed and questioned. However, I have attempted to provide a more objective assessment by consideration of the published surveys and the views of independent experts.

Chapter Seven

ANALYSES OF THE PRACTICE OF THE PRIVATISATION PROCESS IN IRAN

7.1 Introduction

The privatisation programme in Iran has formed part of an overall economic adjustment plan proposed by financial organisations such as the World Bank and IMF, which arose from internal needs and advice from abroad predicated on the need for a workable model from which to begin the economic rebuilding process. In fact, the need came from local circumstances and the model came from abroad. Here the important question is, what was the impact of the marriage of this 'local need and imported model'? Did it make any contribution to the development of the national economy? Or, was it an arena of trial and error, as the country has experienced in other fields of the economy? Did the ruling authorities learn anything regarding the incompatibility of the Islamic economic model in the context of the contemporary world?

In the previous chapters the experience of privatisation in other countries has been discussed to be able to learn lessons for continuation of successful privatisation in Iran. Thus the regulations dealing with privatisation and the continuity of privatisation process in Iran was analysed. This chapter attempts to analyse the current state of privatisation in relation to its problems and prospects. The analysis made in this chapter is based on three types of surveys: i) those conducted by the author, ii) those conducted by different government organisations and parliament, and, iii) the opinions of the media and published surveys.

7.2 Surveys on Privatisation

The following analysis is based on the types of surveys outlined above.

7.2.1 A Survey Based on Personal Interviews

This survey was conducted during 2000, and is based on the opinion of 106 leading academicians, bureaucrats, managers, and politicians related to the privatisations process.⁶⁸⁶ A specific questionnaire was designed and completed as part of the fieldwork conducted in Iran. The objective of this survey was to collect the opinions and thoughts of various people in the regulatory, executive, clergy and academic professionals directly associated with the privatisation process in the country. The respondents were not chosen randomly, but primarily because of their importance, knowledge, and availability. But it proved impossible to do this, for reasons of confidentiality or security. The programme of interviews was then re-designed on a more informal and confidential basis. The methodology used was the questioning of selected experts using comparative and descriptive questionnaires.⁶⁸⁷

The decision on the individuals to be interviewed was based on various factors such as: their long association with the process of privatisation, the possibility of access to them and their willingness to respond,⁶⁸⁸ and in some cases personal contacts, as an economic advisor to the President of the Islamic Republic of Iran was kind enough to extend his cooperation in coordinating various respondents.⁶⁸⁹

The results of this survey reveal that a vast majority of the respondents (89%) have the opinion that the public enterprises are a heavy burden on the government, which also has created an environment of monopoly in the country. They argued that this unnecessary burden could only be reduced through privatisation. The same was also true for capital formation where the majority (74%) believed that privatisation was the only vehicle to attain the target of capital market development. Various parliamentarians in the country strongly advocate the cause of war veterans and oppressed segments of the society, which is in reality, due to their wish to create their own vote bloc. The outcome of this survey shows that the majority of the respondents (63%) were opposed

⁶⁸⁶ Originally it was planned to conduct more interviews and a long list of respondents was prepared in consultation with the Presidential Office. However, due to the extensive delays in obtaining appointments with the high-ranking people, scarce resources on the part of a student researcher, and other financial constraints, only 106 persons were managed to be contacted for interview.

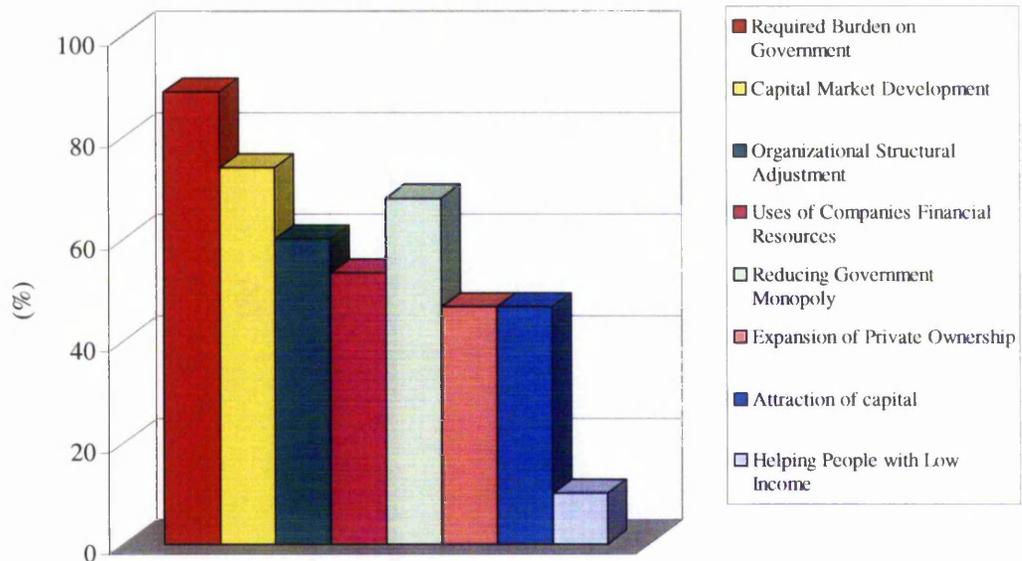
⁶⁸⁷ The texts of these questionnaires are presented in Appendix 5.

⁶⁸⁸ Due to the existing censorship and fear of ruling authorities not everyone in Iran feels free to respond to any question. See Ali Mohajeri, *The Special Crimes of Administrative Staff*, Tehran: Keyhan Institution, 2000, pp. 61-70.

⁶⁸⁹ The questionnaire was pre-tested and re-reviewed by the author and the privatisation committee of the President's Office. The questionnaire was then modified in the light of these activities.

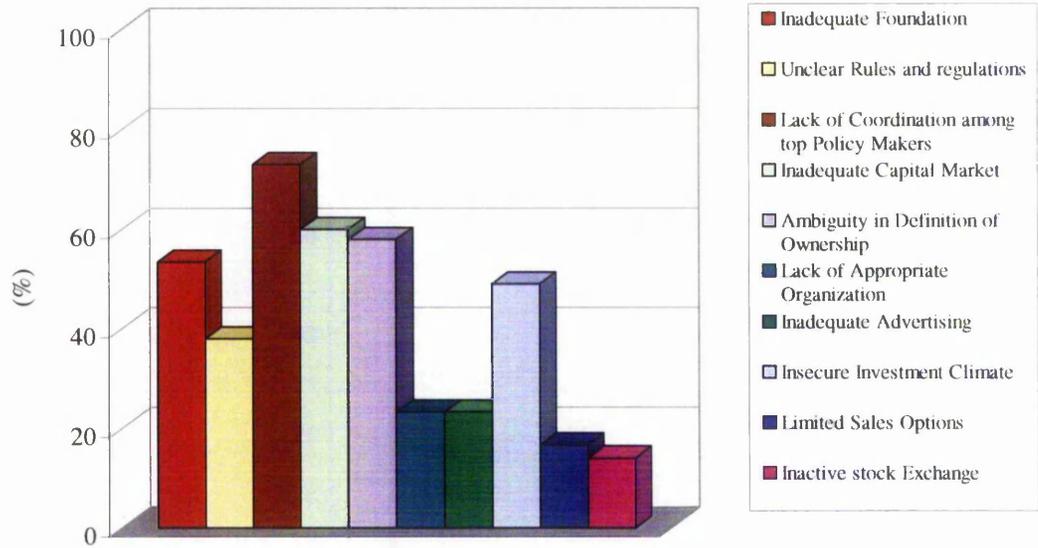
to the view that privatisation should be a tool to compensate the war veterans and oppressed people. With regard to the expansion of private ownership, nearly half were in favour (figure: 7.1).

Figure 7.1 Priorities of Privatisation Objectives



With regard to the obstacles in the privatisation process, 73 percent of respondents believed that the major problem in this process was lack of coordination between the concerned authorities (i.e., judiciary, government, parliament and Council of Guardians). There were differences of opinion and attitude, as well as difference in the interpretation of *Shari'ah*. The majority also believed that the inadequate foundation and capital market, ambiguity in definition of ownership and an insecure investment climate were other major problems faced by the privatisation process. More than half of the respondents believed that limitations in sales options and an inactive stock exchange were not the hurdles to privatisation (see following figure).

Figure 7.2 Obstacles and Problems of Privatisation



In regard to the priority for sale of public enterprises, 97 percent of the respondents were in favour of the sale of shares through the Stock Exchange, 80 percent favoured general tenders, 53 percent advocated sale of shares to the employees of the respective enterprises. On the other hand, 87 percent were against the asset sale, 83 opposed rental agreements and 63 percent were not in favour of management contracts (figure: 7.3). In regard to the importance of law in the privatisation process, the majority of the respondents believed that capital market law, and the laws on banking, labour, tax and social security should be amended to increase the attraction of private investment. However, on the contrary the majority (80% or more) believed that an alteration in commercial law and insurance coverage law were unimportant (figure: 7.4).

Figure 7.3: Priority of Sales Option

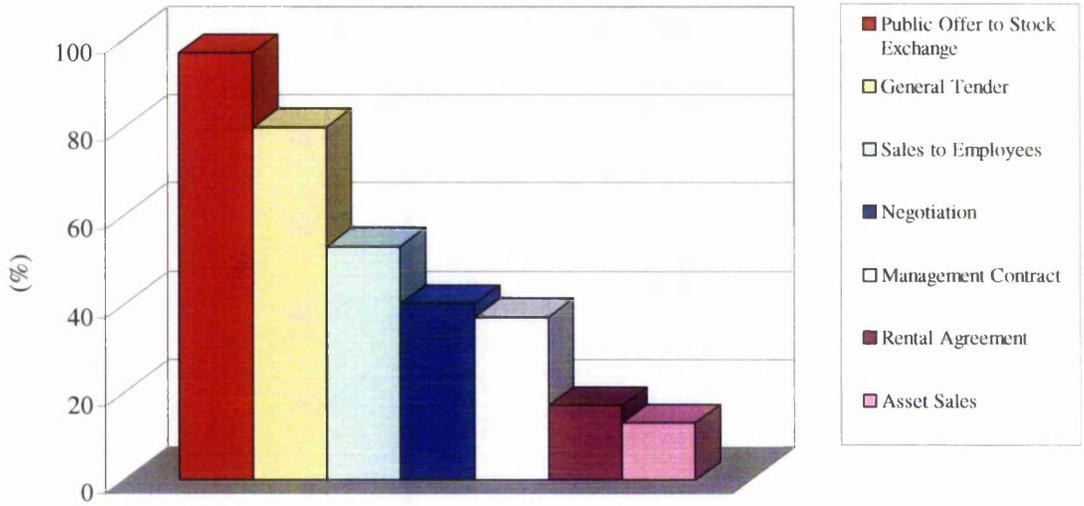
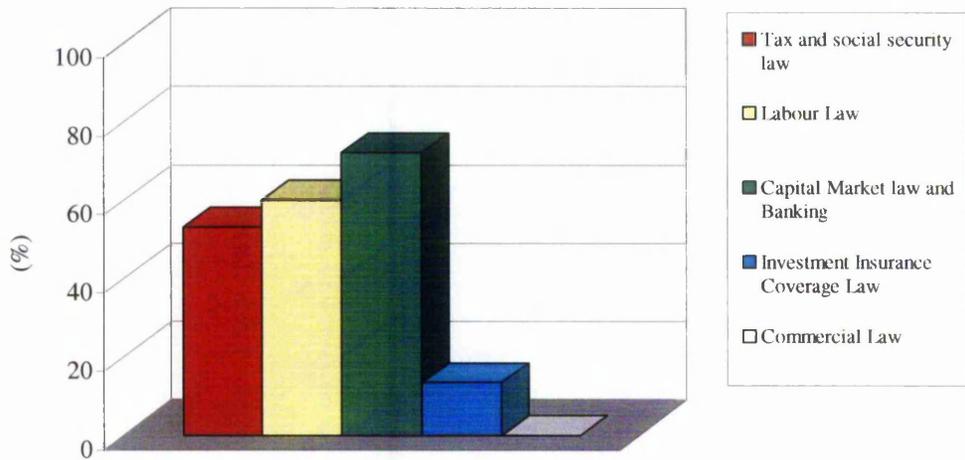


Figure 7.4: Roles of Laws in the Privatisation Process



With reference to the context it seems important to mention the other views of the respondents, and their personal opinions with regard to the successful implementation of the privatisation programme. These additional views were expressed in response to the open questions asked during the survey. Many of the respondents argued that the government should be less involved and support a network of companies after privatisation by providing accessible bank credits and allocation of foreign exchange.

An executive body (similar to the privatisation commission in Pakistan) should be formed and fully supported, which should be responsible for privatisation, and consensus obtained from the Spiritual Leader by taking him into confidence. For the audit of the privatisation process, this institution should be responsible only to one audit agency rather than various bodies from different offices for the same subject. Additional points raised by the respondents include the following, the figures in brackets representing the proportion of respondents who raised this general points:

- To maintain healthy industry and contribute to sustained economic growth, it is important to attract potential investors who have talent and a sound background in running business; these entrepreneurs should be given privileges in buying the shares. [67%]
- The preferred stock should be given to those having ability and capital while the non-preferred stock should be reserved for the general public. [50%]
- To remove the constitutional barriers to privatisation and right to ownership, all relevant rules and regulations must be reviewed by professionals rather than politicians, but within the context of Islamic values.[71%]
- The accumulation of legitimate wealth should be seen as a positive activity. [69%]
- Emphasis should be placed on long-term objectives rather than short-term gains. [58%]
- Lack of investment will lead to unemployment. The social impact of this will damage national sovereignty, and policy makers and politicians must consider this. [82%]
- There should be a greater role for the development of capital market and particularly stock exchange institution to be able to attract foreign capital. [64%]
- Shares must not be sold to other government institutions, revolutionary bodies and charity organisations. [81%]
- The establishment of new banks should be allowed within the private sector to activate the financial sector. [78%]
- Amendments to Articles of Constitution e.g. article No. 49 to enable the country to attract large-scale foreign investment. [90%]
- Adequate plans to re-educate the workforce regarding the change of ownership from public to private sector. [60%]
- Accounting proficiency should be promoted to make it compatible with international standards. [62%]

- Credit facilities should be provided to investors who are willing to buy shares from the government against cash; the investors should be responsible to banks rather than to the government. [51%]
- All data related to every aspects of privatisation should be made freely available; mass media should have regular programmes to educate public with the pros and cons of the privatisation. Details of the procedures to buy shares should be written as a standard formula and be announced to the public. [56%]
- There is a need to learn lessons from the experiences of other countries with similar backgrounds (e.g., neighbouring and Muslim countries). Foreign models of privatisation should be studied, which may act as a template tailored for the needs and requirements of the country. This demands the availability of research-oriented facilities in various academic and commercial organisations. [59%]

7.2.2 Study of the Performance of Various Companies Before and After Privatisation⁶⁹⁰

This survey is based on information from the National Iranian Industrial Organisation (NIIO)⁶⁹¹, and these companies are or were part and parcel of the Ministry of Industries, Iran. Thus, here two main groups of companies are analysed: i) 24 privatised companies, which were earlier under the administrative control of NIIO, and, ii) 18 state-owned companies still under the control of NIIO. Within the first group of 24 companies, 14 were privatised through the stock exchange and the remaining 10 were sold through tender and negotiations. The analysis of the statistics of these companies is presented in the following diagrams. The company documents reviewed for this purpose were: operation reports of each company, reports of the board of directors, reports of the legal inspectors and reports of the planning and development department of NIIO.⁶⁹² Even at the initial stage of this survey, it was observed that in several cases the

⁶⁹⁰ Due to the complex religio-political situation of the Iranian system as well as the insecure situation related to ownership, accumulation of wealth and investment, it is very difficult to get information from various companies. In many instances the management of these companies are also reluctant to provide the information due to the fear of the information gained by the Revolutionary authorities, and because disclosure of financial figures may affect their tax status, social insurance and pricing of their products.

⁶⁹¹ NIIO was established after the Revolution to deal with the administration of confiscated light industries.

⁶⁹² It needs to be emphasised that this survey was only possible due to the personal contacts with the management of these companies and high-ranking officials in the government sectors. Thus, in addition to evaluation of the published reports, much unpublished information could be obtained which was very useful in the analysis.

information was inconsistent and incomplete. Furthermore, many of the companies, including those owned by the government, refused to provide any information about their business in spite of the fact that the relevant government authorities had already issued orders to them to co-operate with the surveyor.

Another major problem was faced during this survey. It is quite customary in Iran that there are nearly a half dozen investigation organisations, such as the inspection department of judiciary (which is also under the administrative control of the Revolutionary Spiritual Leader), the audit department working under the control of the parliament, the tax auditor, and auditors from the intelligence services and the parliamentary inspection committee. The independent investigations of all these organisations have different objectives and approaches based mainly on political motives⁶⁹³ rather than national interests. These investigations create a stressful environment, which leads to insecurity and instability within organisations, which in turn create enormous problems in any research activity or data collection at national level. As I discuss individual questions, I shall explain how this reliability or unreliability of figures affects the results. It also, significantly, affects the value one might put on assets, a problem which affects privatisation across the Iranian economy (this issue is also discussed in Chapter Eight).

⁶⁹³ As well as based on general rumours.

Table 7.1. Status and the Selection of Companies at the Time of the Survey

Status of Companies	Number of companies	
Privatised Companies	Total No.	139
	No of companies selected for survey	24
State-Owned Companies	Total No.	234
	No of companies selected for survey	18

Note: Only 24 and 18 companies were selected from the respective categories due to lack of reliable information and secrecy of financial data on the part of the other companies.

As mentioned above, all public sector companies are administered by NIIO, which is the main governing body working under the control of Ministry of Industries. The head of NIIO is a deputy minister and the managing director of this institution. The objectives, policies and supervision of these industrial units are the responsibility of this organisation. All the private companies sampled in this survey were privatised during 1993-94. The analysis of the statistics reflects that after privatisation, the sales and assets employed have dramatically increased. Also, before privatisation the assets curves have always matched the sale curves whereas after privatisation the situation changed and there have been more employment of assets, which was a healthy sign for the industry. After privatisation the growth rate of net profit was not as fast as of the growth rate of sales and assets, which was mainly due to three reasons. Firstly, because of insecurity regarding wealth accumulation, the owners of the companies over-invoiced their procurements of machinery and material, particularly in the case of foreign purchases. Secondly, the exponential increase in the tax rate in Iran also adversely affected the net profit of business enterprises. Thirdly, the inflating or over-stating of the general administration and operational expenses also affected the net profit. This situation led to a widening of the gap between the curves of net profit and sales. Overall, the results of this survey reflect that although the sales of these industrial units did reduce the burden of the government, it also attracted more capital to the business, which led to more profitability (diagrams 7.5, 7.6, and 7.8). The situation of the state-owned companies is very different. In spite of an increase in assets, the sales have not

increased as such, and the growth of net profit declined drastically due to inefficient management (figure 7.7).

Figure 7.5: Performance of 14 Companies Privatised Through the Stock Exchange

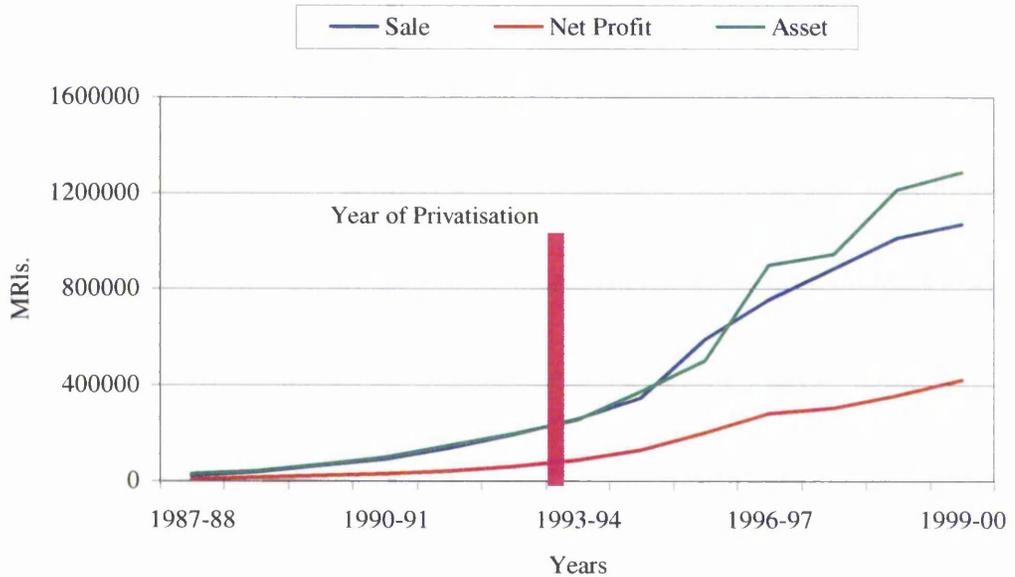


Figure 7.6: Performance of 10 Companies Privatised Through Tender and Negotiations

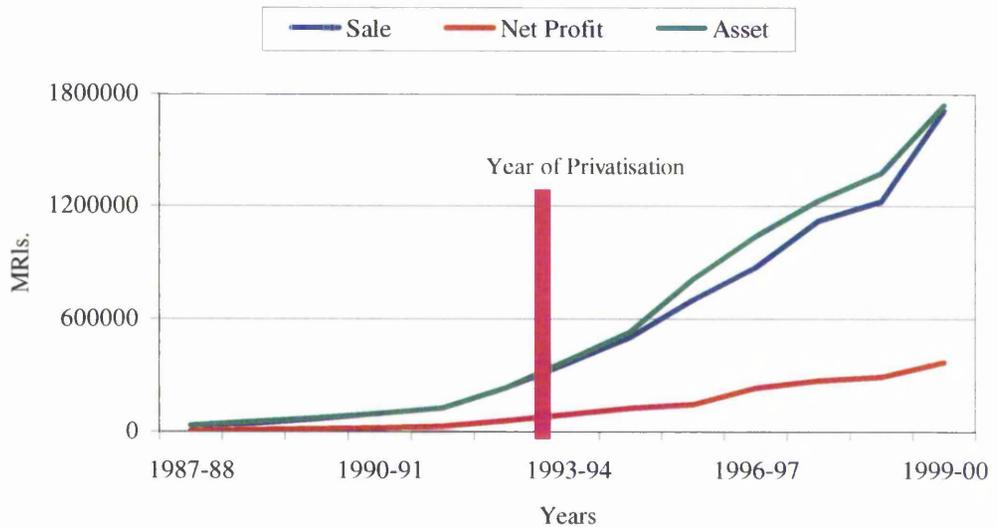


Figure 7.7: Performances of 18 State-Owned Companies

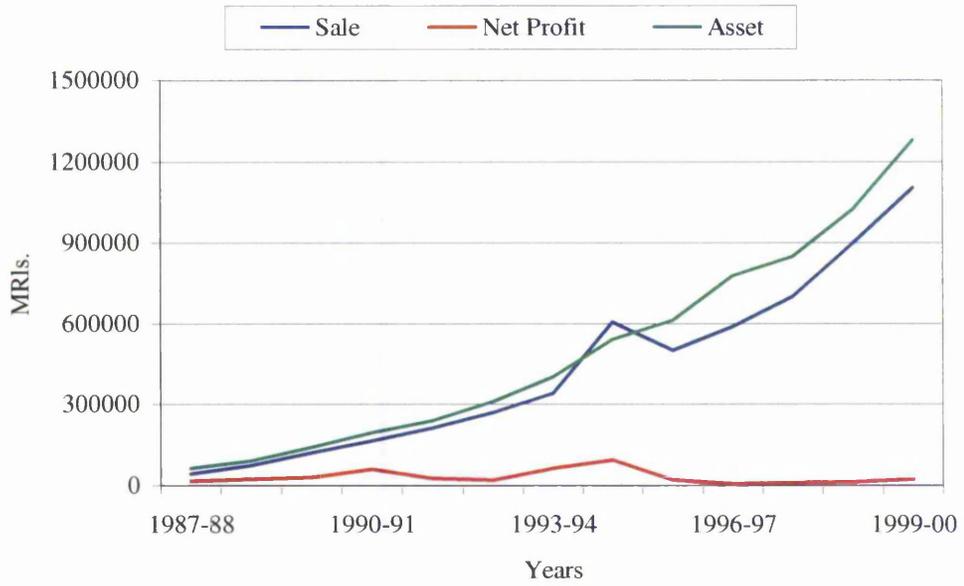
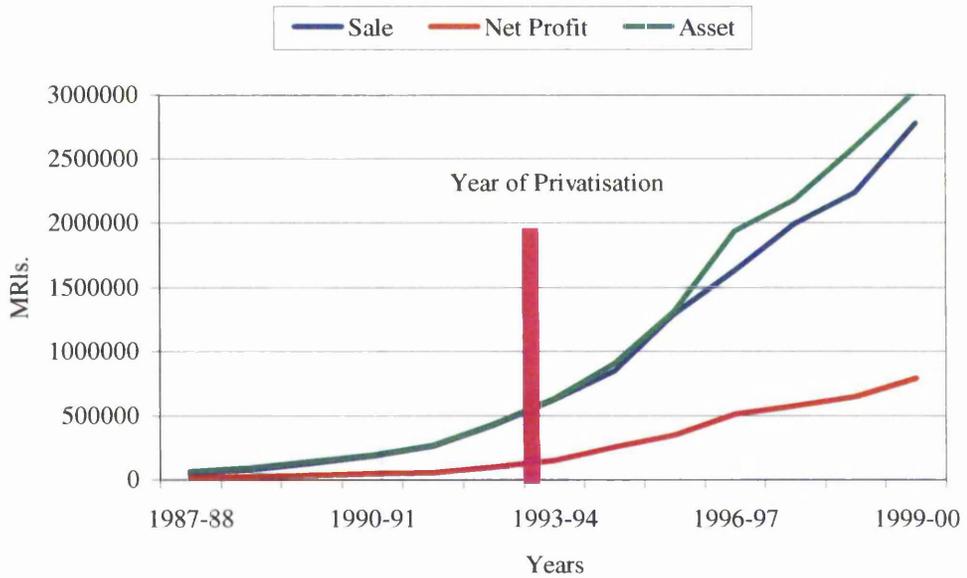


Figure 7.8: Performances of 24 Companies Before and After the Privatisation Period



7.2.3 Role of Interest and Pressure Groups in the Privatisation Process⁶⁹⁴

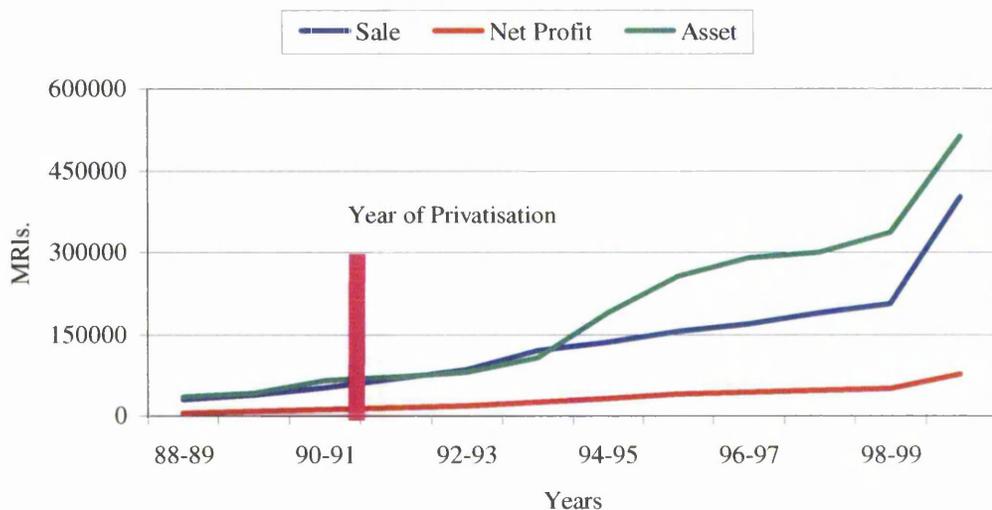
As has been already mentioned elsewhere, the process of privatisation is not a simple and straightforward phenomenon, and this is particularly true in the case of Third World countries like Iran where, unlike Britain and the United States, the political personalities may be more dominant than the state institutions. Discussion of privatisation in Iran would remain incomplete without discussion of the role of influential political and other pressure groups, which have played a significant role in national decision-making throughout the history of the country. To analyse the role of these interest and pressure groups, a survey was also conducted of four business groups. The first three business organisations were privatised during 1992-94. The fourth organisation is on the government list to be privatised but the government has been unable to sell it due to activity of various pressure groups. I attempted to obtain as accurate a picture as possible for each of the four companies, being mindful of the possibility that the published figures may have been inaccurate or incomplete because of the desire to limit personal tax liability, and the desire to avoid questioning by the judiciary and the intelligence agencies. For these reasons much of the information used has come from unpublished sources. In the following paragraphs the situation of these four enterprises is briefly discussed.

Dena Tyre Company. This was established originally in 1975 as a joint venture with two Japanese companies with strong technical, financial and administrative backgrounds. Thus it was a successful company during the pre-Revolution period. After the Revolution it could not maintain its level of performance due to political interference by the state in the internal managerial matters of the company. The company was privatised in the financial year 1992-93, not through the prescribed procedures of an open auction or the stock exchange, but rather by sale to a religious foundation (the Fatimiah Religious Foundation), which was headed by the chief of the Judiciary of the country. It is noteworthy that this company was sold not on merit but on political grounds. Thus, it received preferential benefits from the government, which were in the interest of the buyer rather than the public. After privatisation: i) it was exempted from any state tax because it was bought by the religious foundation directly supervised by the Office of the Spiritual Leader; ii) it was exempted from any state audit; and iii) it was provided

⁶⁹⁴ The survey of these four enterprises is based purely on personal efforts and information obtained from contacts with various inside sources of these organisations that insisted on anonymity. This reflection of the true situation presented here is not available elsewhere in published or unpublished form.

with the highest credit and foreign exchange and import priorities and facilities. After the Revolution, the import of various industrial items has been completely banned except in some special cases where religious revolutionary organisations or interest groups are exempted from this ban. Moreover, in some cases where the imports are banned, these business organisations have an extra advantage due to their monopolistic status in the market. In the case of Dena Tyre Company, it can itself import any material required for production, while the import of tyres has been banned in Iran for several years. Moreover, in the ideal situation where the company is exempted from any tax and provided with preferential financial support, how can it be imagined that a business could fail? This is the main reason that this company showed an excellent performance after privatisation (figure: 7.9). But is it a real privatisation? More recently, with a change in the political system as people rejected the previous domination by state influential groups (see Chapter One), this business has been sold to private individuals, and is now making better profits⁶⁹⁵. The message from this example is two-sided. On the one hand, it shows that privatisation was successful, but on the other hand that this was achieved through preferential treatment against the spirit of the privatisation idea.

Figure 7.9: Performance of the Dena Tyre Company

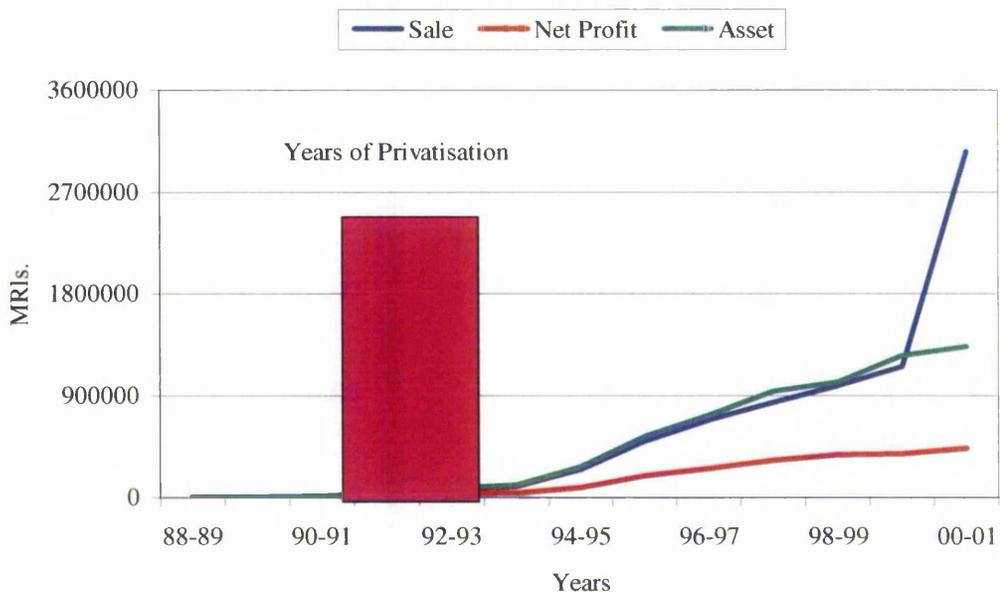


Behshar Industrial Group. This industrial group was established in 1970 by a pioneer business entrepreneur in Iran, and produced vegetable oil and detergents. Foreign advisors and efficient domestic management supported this business. Thus, it was very successful both before and after the Revolution. During the early 1990s it was privatised

⁶⁹⁵ Interview with M. Nikzad, Deputy to Managing Director of NIIO, October 2001.

through the Stock Exchange. Although in this case the privatisation of the company was apparently conducted according to the prescribed procedure, in reality the actual buyers were from interest groups within the industry, supported by some other interest groups.⁶⁹⁶ As evident from the figure 7.11, sales, assets and net profit have been rising dramatically since privatisation. Unlike the Dena Tyre Company, in which the interest group came from outside the establishment, here this interest group was from inside the establishment, together with relevant government officials who have given full authority to all financial benefits and other facilities to this industrial group. Although, obviously the privatisation of this company is presented as a success of the privatisation movement, in reality this is not due to privatisation itself, but rather to the extraordinary facilities gained by this interest group in a very special case. Recently, the success of the interest group owning this business has allowed it to establish a private bank following the relaxation of the banking laws. This furthering of the privatisation policy is, nonetheless, built on previous advantages gained from insider activity⁶⁹⁷.

Figure 7.10: Performance of the Behshar Industrial Group

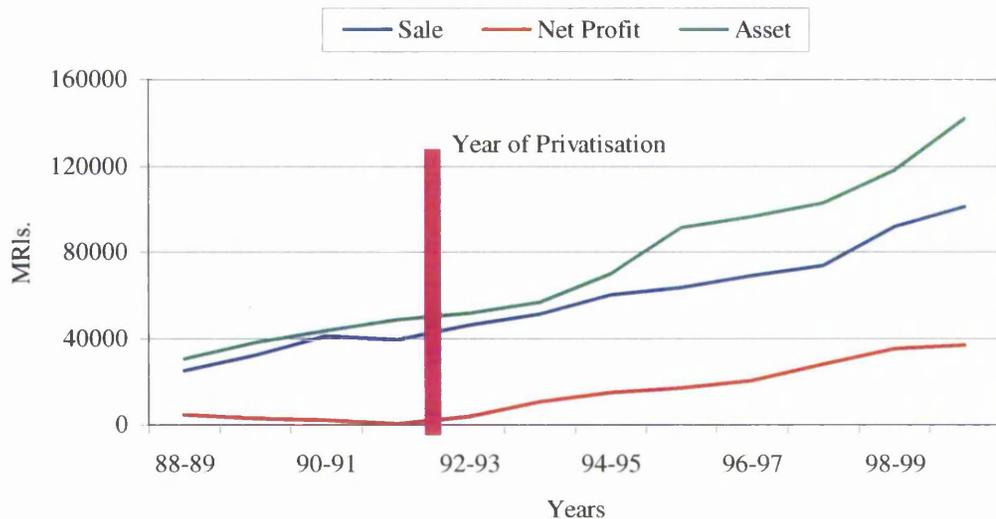


⁶⁹⁶ Here, the buyers were a group of managers who were working in the Ministry of Industry, Plan and Budget Organisations, the Ministry of Finance, officials from the President's Office and brokers of the Stock Exchange, and included three deputy ministers, who had close association with these people. Being sellers and buyers, these people knew all the 'ins' and 'outs' of the company. At the time of the privatisation, this group made a joint and complex network for their own benefits rather than national interests. Thus in this particular case, the sellers and buyers had a common economic interest, and due to their joint blocking tactics other buyers did not have enough opportunities and information to offer a competitive price.

⁶⁹⁷ Unpublished report of a member of the Boards of Directors of Behshar Industry Group to the shareholders annual meeting, June 2001.

Pars Tousheh Investment Group. A pioneer entrepreneur established this business group in 1970 to produce home-appliances in a joint venture with Toshiba. Like the above two companies, in general it was also a successful enterprise before and after the Revolution. It was privatised in 1993-94 through negotiation with the existing managers of the company, some of whom had high-ranking positions in the Ministry of Industry and NIIO.⁶⁹⁸ Thus, these people used their full power and influence in providing every facility and resource and knowledge to this enterprise, which is running successfully. Another important factor for the success of this organisation is that some of the owners have authoritarian status within the government and have used their powers to stop the import of similar types of appliance (which are of even better quality and competitive price as compared to local products). This situation provided them with a monopolistic position and they took full advantage of it (figure: 7.11). As mentioned in section 7.2, some of the buyers into Pars Tousheh came under investigation by the state auditors; those investigated left their jobs and sold off their shares in the company⁶⁹⁹

Figure 7.11: Performance of the Pars Tousheh Company



National Industrial Group. This industrial organisation is different to the above three groups in the sense that it is still run by the NIIO, although for a long time it has been on the list of the entities to be privatised. This business venture was established in 1969 by a wealthy business family, through a loan of US\$ 10 million from First National City

⁶⁹⁸ One of the major buyers was a member of the board of NIIO and a deputy in the Ministry of Industry, as well as being a member of the board of the company.

⁶⁹⁹ Personal interview with an individual (K and V) identified in Appendix 3.

Bank, New York.⁷⁰⁰ It mainly produced shoes. Before the Revolution it was a successful business but after the Revolution, i.e., after 1991, there was a decline in profitability due to interference by pressure groups such as labour unions, Islamic societies of labourers, politicians⁷⁰¹, and because of a high turnover of managers for political reasons. Later on this decline was accelerated due to the obsolescence of machinery and technology, and was further sharpened due to some liberalisation of import policies in the shoe industry as well as increased smuggling of shoes from remote borders as well as from Iranian 'free zones' (figure: 7.12).

Figure 7.12: Performance of the National Industrial Group



In 1993, the original owners wished to buy the company but opposition from pressure groups on political grounds prevented the government from taking the necessary steps to privatise it. This situation further worsened the performance of the company to the point where accumulated loss was around 100 million US\$ in 1999-2000⁷⁰². The fate of this company is a good example of the effects that irresponsible pressure groups can have in preventing the government-led privatisation, and the effects on the government being unable to bear these huge losses for any period of time.

⁷⁰⁰ A very small part of the loan was repaid before the Revolution, while the rest - US\$ 9.90 million (including principal and accumulated interest) - was paid by the Islamic regime after the revolution.

⁷⁰¹ Politicians get involved because of the vote bloc, as there are nearly 11,500 workers engaged in these organisations (on the basis of the joint family system, these people account for more than 50,000 votes).

⁷⁰² This has now risen to 165 million US\$ as at September 2001. Personal interview with M. Nikzad, Deputy to Managing Director of NIIO, October 2001.

7.2.4 A Survey of the Government Surveys

This section discusses the results of various surveys conducted by different government organisations. The survey carried out by NIIO in 1996 on 42 privatised companies is discussed first. The Industrial Development and Renovation Organisation carried out another survey of 14 companies in 1998. The Organisation for the Expansion of Industrial Ownership, an important institution established during the Shah's time with its main objective being the expansion of ownership of industrial units among the labour force, conducted a survey in 1998-99 on the impact of the privatisation policy on the labour force. By the end of 1999, a parliamentary investigation committee also conducted its own survey and published a report in 2000, entitled "Evaluation of Privatisation Process".⁷⁰³

7.2.4.1 Survey Carried Out by NIIO ⁷⁰⁴

This survey is based on a qualitative and quantitative analysis of the privatisation process and was conducted by officials of the NIIO. This survey covered the changes of ownership and management, financial resources and the sources of raw materials, the change in government facilities and the problems that arose after privatisation. With regard to the change of ownership, the review of responses reveals that in most privatised companies the majority of shares (around 70%) are now held by the private sector. The shares of these companies were sold through the Stock Exchange, by negotiation, or by tender. Nearly 70 percent of the board members of the newly privatised companies belonged to the private sector. After privatisation there was a 61

⁷⁰³ Although some other surveys and audits conducted by various organisation have been, or are in the process of being, completed - such as a report by the Ministry of Intelligence (1998), Judiciary Investigation Report (1995), and Report of the Accountability Bureau (in the process) - confidentiality requirements prevented access to the reports.

⁷⁰⁴ The original NIIO survey sought to include an analysis of all privatised companies, but later it proved to be extremely difficult to carry out such an extensive task. M. Golmohamadi, a Senior Manager of Plan and Development Section in NIIO revealed some of the reasons for confining this survey to only 42 companies. Firstly, some of the companies were in the transition period from public to private ownership. Secondly, changes in management positions occurred during the privatisation process. Thirdly, there was reduction of surplus labour, which created tensions within the industrial units that hindered the data collection. Lastly, and most importantly, an environment of fear was created due to the strict implementation of Article 49 of the Constitution, the various investigations carried out by the Revolutionary courts regarding the legality of the transaction of ownership to some new private entrepreneurs, and the harsh attitude of tax collection authorities towards the private sector. However, according to M Golmohammadi, the sample group that was finally chosen, and appeared in the final report, represents a broad cross section of companies and industries involved in the privatisation process.

percent change in the executive bodies of these companies. In addition, there was a 48 percent change in senior management and a 24 percent change in middle management. By contrast, there were little or no changes in the lower management and labour force levels.

The data reveals that 94 percent of the newly privatised companies did not change their existing banks. This was due to a lack of choice and an underdeveloped capital market, which prevented them from choosing alternative competitive financial institutions for investment. The survey also indicates that the majority of these sources of finance has remained the same, both before and after privatisation, due to financial and exchange limitations. As a result of these factors, most companies had little choice but to remain with the same supplier even though it was felt that this was not the best financial option. Except for exchange and labour problems, there was very little noticeable change from the pre-privatisation period. This situation arose from strict state control and tight regulation in all aspects of the economy and its operation.

Production statistics reveal that around 50 percent of the companies did not experience any change in production levels, 13 percent experienced a reduction whilst 37 percent saw increased productivity. The latter increase may be attributed to changes in technology and/or management, increased investment, and the introduction of new work practices. Up to 72 percent of companies reported no change in export levels, five percent suffered a reduction and twenty three percent experienced an increase. This situation may be attributed to the tight restrictions on the import of raw materials, machinery and technology, which led to the production of poor quality products. The bureaucracy surrounding the export of goods, as well as Iran's isolation from the international market for a long period following the revolution, further compounds this situation. Moreover, the majority of companies faced a surplus workforce and fifty nine percent of them took measures to reduce this high figure, primarily to maintain and increase profitability. Only a few companies disclosed their sales or profit figures for fear of consequences from interpretation of Article 49 of the Constitution and taxation charges. Nearly 25 percent of companies experienced an increase in investment, the rest experienced no change.

On average manpower was seen to be 15 percent over requirements. However, companies wishing to reduce this surplus have found it extremely difficult due to

regional and legal obstacles. Further problems arose from the fact that 83 percent of companies experienced exchange problems and some 86 percent encountered credit problems due to the inefficient capital market. The findings of this survey reveal that the desire to reduce the economic burden on the government has been successful. It also shows that if the government had assisted these privatised companies, by credit allocation and exchange, the existence of a competitive market and a change in labour laws, it would have improved their performance and profitability. These points to the need for further deregulation, liberalisation and security for wealth accumulation.⁷⁰⁵

7.2.4.2 The IDRO Survey - Analysis of the Performance of 14 Privatised Companies Sold Through the Stock Exchange

The Industrial Development and Renovation Organisation carried out this survey in 1998. As the name indicates, this study covered the performance of the privatised companies over a five-year period (1993-97). Table 7.2 indicates that in the case of the SOEs the figures for yearly growth increased dramatically from 1995, whereas a trend of consistent growth can be observed with the privatised companies. In contrast to this, the growth of pre-tax profit in both SOEs and privatised companies remained smooth. With regard to the capital employed, there has been a tendency of increasing capital and even in 1997 there was a huge investment in SOEs, which in reality was against the spirit of privatisation. On the other hand, the private sector has been steadily increasing its capital but on a limited scale for the expansion of the spectrum of its business. The reason for the limitation of investment by the private sector was due to the limited capital market, and to ambiguity in interpretation of the definition of ownership, particularly for the foreigners. It is important to note that both SOEs and privatised industrial units are in reality not acting for the benefit of consumers due to the monopolistic nature of business in Iran.⁷⁰⁶

⁷⁰⁵ Based on: NIIO, *An Analysis of Companies Privatised by NIIO in Accordance to the Privatisation Policy of the Government*, Tehran: NIIO Printing Office, 1996; Personal interview with J. Abedini, Senior Member of Pricing Committee of Shares, and Mr H Moalemi, Finance director of NIIO, Feb. 2000; Personal interview with an individual (G, K, V and W) identified in Appendix 3.

⁷⁰⁶ Personal interview with an individual (H, O and U) identified in Appendix 3.

Table 7.2: Analysis of the Performance of 14 Privatised Companies Sold Through the Stock Exchange (%)

Item	Year					Average
	1993	1994	1995	1996	1997	
Yearly growth:						
• SOEs	15.50	17.57	33.06	67.52	86.08	43.95
• Privatised Companies	21.07	33.16	46.87	28.05	54.67	36.76
Pre-Tax profit:						
• SOEs	14.30	11.76	19.69	25.13	22.61	18.71
• Privatised Companies	13.07	12.50	24.84	24.39	25.96	18.05
Growth of capital:						
• SOEs	68.42	28.70	42.96	17.22	122.16	55.89
• Privatised Companies	17.14	16.12	15.67	45.81	73.94	33.74
Growth of shares:						
• SOEs	96.11	47.96	51.10	41.48	101.06	68.34
• Privatised Companies	14.76	35.70	26.71	67.60	68.35	42.62

Source: IDRO, *Analysis of the Performance of 14 Privatised Companies, which were Sold Through the Stock Exchange*, Tehran: IDRO Press, 1998.

The trend of financial ratios between SOEs and privatised companies is shown in table 7.3. The analysis reflects large fluctuations, which indicates the instability of the national economic environment. Apart from the first two figures of the percentage growth of net fixed assets, the final average figures show that there is little difference between SOEs and private companies, which can be attributed to the large-scale injection of capital by the government. This situation particularly reflects that there was no major difference between the private and public sectors, which, in fact, was due to continued government investment in SOEs. This type of investment was contrary to the government objectives highlighted in the First and Second Five-year Plans (1989-93 & 1995-99 respectively). This uncompetitive environment and the lack of a free market structure shows a skewed situation inclined towards the government, which still controls the supply end of the market. However, the process has been instrumental in reducing some of the economic burden on the government despite its continued centralised control. It also proves that if privatised companies can survive in such a situation, then further deregulation and liberalisation (as promised in the government plans) could eventually see these companies flourish with the continued support of the government by lending an exchange allocation. At present, these implications should be considered tenuous due to the short existence to date of the privatised units, because as discussed in

Chapter Six there needs to be a long period and a stable socio-political environment within a country before the real impact of privatisation can be judged.

Table 7.3: Financial ratios between SOEs and Privatised Companies

Description	1994	1995	1996	1997	Average
Yearly % growth of net fixed assets of SOEs	*	150.76	23.99	26.29	45.64
Yearly % growth of net fixed assets of privatised Companies	*	13.72	12.07	67.54	22.36
Ratio of sales to net fixed assets of SOEs	640.44	339.82	459.10	567.39	487.95
Ratio of sales to net fixed assets of privatised Companies	331.38	457.13	522.32	482.23	441.97
Ratio of net profit growth to net fixed assets of SOEs.	75.31	66.91	115.35	128.28	92.93
Ratio of net profit growth to net fixed assets of privatised Companies	41.43	113.57	127.39	115.54	91.22

(*) Not Available

Source: As for table 7.2.

7.2.4.3 Analysis of Survey Conducted by the Industrial Ownership and Development Organisation (IODO)

The IODO survey was conducted in 1999 and was focused on the impact of disposal of shares to the workers.⁷⁰⁷ Thus, approximately 1200 workers from different industries in both SOEs and the privatised sector were interviewed.⁷⁰⁸ Apart from a slightly higher satisfaction rate and some lower dissatisfaction rate amongst those employed in the private sector and the SOEs respectively, the results of this survey indicate a marked similarity between the SOEs and the privatised units in most cases (Table 7.4). With regard to the degree of consultation with labour and their involvement in decision-

⁷⁰⁷ It is interesting to note that the Revolutionary authorities claimed that the labour was an oppressed segment of the society during the pre-Revolutionary period. Thus after the Revolution, politically this segment was declared to be the pillars of the Revolution. Therefore the Revolutionary authorities claimed that 33 percent of the shares of privatised companies would be allocated to the labourers and that the base of ownership of the companies would be expanded, as would the involvement of the workers in the national activities; this would be helpful in creating a just society. Interestingly enough, the late Shah, as part of the 'white revolution' - which the Islamic revolution further expanded - had already initiated this practice. The labour force and the trade unions were against the privatisation programme due to the widespread attitude against wealth accumulation and entrepreneurship. These were the circumstances under which this survey was conducted to analyse the situation.

⁷⁰⁸ 600 workers each from SOEs and privatised units (10 SOEs and 10 privatised units).

making, again the figures more or less show similarity. However, the one significant difference observed by the survey was that the level of communication between management and workers was poorer in SOEs as compared to the privatised sector (table: 7.5).

Table 7.4: The Level of Job Satisfaction

Degree of Job Satisfaction	Privatised Companies		SOEs	
	No.	(%)	No.	(%)
Very satisfied	84	14.0	56	9.3
Satisfied	117	19.5	117	19.5
Moderately satisfied	288	48.0	285	47.5
Dissatisfied	101	18.5	142	24.0
Total	600	100	600	100

Source: IODO (Ministry of Finance), *Evaluation of the Impact of the Privatisation Process on Labour*, Tehran: 1999, pp. 94-95.

Table 7.5: The Degree of Consultation between Management and the Workforce in the Companies

Degree of consultation	Privatised Companies		SOEs	
	No.	(%)	No.	(%)
Excellent	31	5.2	19	3.2
Good	89	14.8	91	15.2
Average	185	30.8	156	26.0
Poor	295	48.2	334	55.6
Total	600	100	600	100

Source: As for table 7.4.

According to this survey, the level of satisfaction with regard to management style was higher in the private sector than the SOEs. For the most part, and as is obvious from the above tables, the comparison of figures shows marked similarities with only slight variations. However, some important divergences can also be found in figures

mentioned in the final report of this survey. Thus, the quality of general services provided in the workplace was deemed to be excellent by 14 percent of the chosen group in the private sector compared with only 7 percent in the SOEs. So far as the satisfaction with the salary is concerned, 71 percent in the private sector expressed satisfaction with their salaries in comparison with 58 percent in the SOEs. Finally, as many as 94 percent of those interviewed in the private sector felt that productivity was either excellent or at least good, whereas the comparable figure for the SOEs was only 79 percent.

Overall, the conclusion of this survey reflects that extension of ownership to the labour force enabled individual participation and involvement in the industry, resulting in a better work atmosphere, increased co-operation, better discipline and improved efficiency and productivity. In the private sector, around 33 percent held the opinion that the organisational environment became more disciplined as compared to the period when that unit was under government control. On the other hand, 21 percent of the workforce believed that the working environment and discipline were improved.⁷⁰⁹

Table 7.6: Level of Approval amongst Workers with Regard to the Management and Running of the day-to-day Business of the company

Degree of approval with the management style	Privatised Companies		SOEs	
	No.	(%)	No.	(%)
Excellent	89	14.8	67	11.2
Good	141	23.5	122	20.3
Average	245	40.8	248	41.3
Poor	125	20.9	163	27.2
Total	600	100	600	100

Source: As for table 7.5.

⁷⁰⁹ IODO (Ministry of Finance), *Evaluation of the Impact of the Privatisation Process on Labour*, Tehran: 1999, pp. 110-38.

7.2.4.4 Parliamentary Reports on the Privatisation Process - 1990-96

This survey was conducted as a result of pressures exerted by different groups on the ruling authorities, and the report was presented to the parliament on the 15th May 2000. The pressure groups included: those involved in the privatisation process who desired increased accountability; certain government officials who desired to protect their own interests; certain members of the clergy who had become disgruntled at not being able to purchase shares for their charity foundations; those of the new employee class that had assumed positions of power who feared that privatisation posed a threat to their status quo; and employees and managers who became angry and disillusioned with the process after failing to acquire shares and their accrued benefits.

A special group appointed by the parliament conducted this survey. They acquired and reviewed all available information relating to the privatisation issues, including the lists of shares sold, minutes of meetings of pricing committees, files of the disposed shares along with various laws, rules and regulations. This study intended to cover 150 companies that had been privatised since 1990. Not included in the report were those shares sold to government and public entities including the social insurance and retirement fund trusts, as well as those companies, which were covered by IDRO (e.g., heavy industries). Furthermore, certain other companies were also omitted from the final survey as a result of political bodies experiencing conflict of interests and wishing to preserve their status and positions of power. This resulted in the final report containing only 80 out of the original 150 companies chosen. The main findings of this report are presented below.

Firstly, the survey concluded that the objectives laid down by the government relating to privatisation had not been followed and as a result huge damage was done to the economy of the country. Secondly, the results disclosed that the majority of share sales were conducted through the Stock Exchange, by tender or through negotiation. However, the procedures governing the operation of these processes were not followed and the government failed to receive maximum benefit and revenue returns. Finally, the implementation of the disposal of shares in the NIO caused a heavy burden to be placed on the government arising from the pricing methods/procedures, implementation methods, and other irregularities.

Pricing methods. The review of the report reveals that appropriate legal procedures were not applied for pricing. Rather, a committee consisting of Representatives of the Deputy of the NIIO, the Managing Director of the Company, and the Finance Director or one of the board members of the company (and in some cases financial experts) was assembled to make the decision on the pricing method to be used. The pricing method was based on the replacement value and the return on investment. The process involved the averaging of these two methods, and this price was proposed to the council of the NIIO for approval. Evidence and supporting documents for this committee consisted of reports from judicial experts, company financial statements, board reports, general assembly and verbal reports. The basis of the judicial, expert and financial reports was concerned with the company in the one to two years before privatisation rather than the current situation. The NIIO in spite of the Ministry of Industry's instructions did not follow the procedures laid down on pricing by the high economic council. In certain instances inflation rates announced by the Central Bank were not included in the pricing methods. Another irregularity occurred with the selling of company shares to employees. In many cases it was found that these employees had actually attended the pricing committees. The report estimated that the government lost 250 billion Rials (= US \$ 90 m) as a result of the under-pricing of shares.

Implementation procedures. According to government law No. 109T/5283, dated 20th May 1991 - which covers the objectives and policies of the First Five-Year Plan, aiming to increase productivity and reduce government burden - shares were only to be dispersed through the stock exchange, by tender and direct negotiations. The minister of the particular organisation concerned appointed an authorised person to overview these options and he had to report monthly to the economic committee of the government. The findings of the report reveal that, for the Stock Exchange tender options on share sales, announcements were placed in the national newspapers. In the case of the negotiation procedures, no advertisement or announcement appeared in the press and some managers supported by NIIO were given special privileges, which gave them access to billions of Rials of the national wealth.

Other Irregularities. There were various examples of deviation from the rules; regulations and parliamentary bills laid down to govern the privatisation process. According to Article 11 of the Bill passed in the Parliament on 3rd of August 1994, the NIIO had to stop sales of shares. However, they ignored the Bill and continued to offer

shares for sale. Furthermore, according to Article 9 of the same Bill, revenue received from the sales of shares had to be deposited into special accounts in the treasury; again these measures were not followed. A number of other deviations were also noted. For example, Article 3 of the law states that shares should be bought with 40 percent cash with the remaining 60 percent to be paid over three years, whilst Article 5 states that all share sales had to be done through the Stock Exchange and tender; again both of these article were ignored. It must also be noted that it was not only recent laws, which were ignored and contravened. According to ArticleS 1 and 2 of the law passed in 1958, government employees are forbidden from entering into transactions with the government. In certain cases, particularly in the Ministry of Industry, there was evidence to show that government managers and employees had bought shares from the government. Finally, government resolution 490T/51021 dated 17/01/93 and specified in Article 6 declared that a secretarial office reporting on the issue of share sales to the Ministry of Finance, as well as the relevant ministries, had to be established. Once more this procedure was never implemented, which highlights the fact that the Economic high council and the Ministry of Finance also failed to follow and undertake the bill's recommendations.

Deviation from implementation procedures. The price of shares had to be approved by the Minister. However, in practice the majority of shares sold, especially those presented in the stock exchange and by tender, never received Ministerial approval. The Minister failed not only in his duties to approve the base price, but in many cases also failed to implement proper repayment schemes. As a result there were many repayment deferrals.

Methods of receiving the debt due from buyers of shares. The review of the NIIO financial documents discloses that in the majority of cases, proper commission and interest was not accrued or received from the debtors. Also, in many cases the schedule of the repayment plan was not followed resulting in repayment deferrals and cancellations.

Loans to buyers of shares. The document also reveals that some of the managers and companies that had bought shares from the government had received loans from the investment branch of the NIIO. This exhibits a conflict of interest and is akin to insider trading.

A review and analysis of the facts contained in the above report reveal that the individuals who undertook the survey were not qualified experts in the fields of accountancy, statistics and management reporting, as evidenced by the fact that the report contains many contradictions, ambiguities and bias. The report ignored the responsibility of other officials involved in this process, highlighting instead the role of the Managing Director of NIIO, a well-known campaigner for democracy, privatisation, and open-door policy. Furthermore, it can be said that it was far from comprehensive in that its subject matter was very selectively chosen. Furthermore, according to the then President Rafsanjani, the main objective of the government at that time was to reduce its involvement in the economy, which was in accordance with the adjustment plan proposed by the World Bank. However, this objective changed some time later showing that the government objectives on privatisation were dependent on context rather than an overall plan.

7.3 Media Perspectives and Opinions

A feature of the privatisation process in Iran has been the role played by the media. In a country lacking a research institute or similar body concerned with economic matters, it has fallen to the media, particularly of the spoken word, to voice the problems encountered in Iran in its drive towards privatisation and to offer the solutions that can rectify these problems. Examples of the material published by the media, both national and international, are given in Appendix 6. The role of the media as a liberalising lobby is crucial – it is the means by which the lay public are educated in the principles and practices of privatisation, and by which an informed debate on the progress of the process itself can be conducted. The position of the media is clearly reflexive in nature. On the one hand it acts as a liberalising lobby, of which privatisation is one key component, whilst on the other hand it acts as an arbiter of the progress towards privatisation. In this sense, the role of the media is pivotal to the whole privatisation process. These viewpoints are clear from the examples presented in Appendix 6, and it is apparent that many of the observations and conclusions presented elsewhere in this thesis are distilled into the samples quoted in this appendix.

7.4 Concluding Remarks

It is evident from all of this discussion that this chapter is totally based on field surveys. These surveys are of special importance in the analysis of the privatisation process in Iran, because they reveal the inside story of the situation.

The outcome of these surveys suggests that:

- It was widely believed and experienced that privatisation reduces the burden of the government.
- There was a mixed feeling that the privatisation process should be carried out through the Stock Exchange and/or through limited tender/negotiation, and dealing should be focused on potential and genuine buyers.
- Due to ambiguity in the definition and interpretation of ownership and right of ownership, and the fear of confiscation, potential buyers are reluctant to invest in industrial production projects under the present rules.
- Due to limitations in the various sections of the constitution related to foreign investment, there has not been significant progress in attracting foreign investment.
- Interest and pressure groups had a major role in the decision-making process of privatisation, and in its implementation.
- From the beginning of this process, there have been disputes and debates between the religious elite and other influential bodies.
- The general trend of sales, capital accumulation and profit of privatised industrial units reveals upward movement. The slope of profit in light industry was parallel to the curves of sale and capital accumulation, while, in contrast, for heavy industry the gap between profit and sale (as well as capital formation) was widening.
- In contrast to the above situation, in the case of state-owned heavy industry, the trend of sales and capital accumulation was rising drastically, whereas the pattern was different for light industry, and also the profit trend in the light industry became worse whereas the profit trend in the heavy industry was rising.
- The success of the performance of the companies and shares which were sold to religio-political interest groups and interest groups of government officials was because:

- i. In both cases these industries retained their organisational structure, skilled manpower, access to technology, machinery and material.
 - ii. In the case of companies sold to religious interest groups, they influenced for more allocation of national resources and special facilities to them.
 - iii. With regard to the companies sold to managers and officials who held positions in the government, the success was not only due to their influence in the allocation of national resources but due to their knowledge and experience in the adequate management of the respective industries.
- As the economy was strictly controlled to protect domestic industry as part of the vision to curtail dependency, this policy has not been successful due to high levels of smuggling and the international travelling of passengers. However, in the case of heavy industry, it was successful in the context that heavy items like cars, bulldozers, trucks and industrial machinery were neither easy to smuggle nor allowed to be imported. Although this situation affected the performance of heavy industry companies, in both cases (i.e., privatised companies and SOEs) the monopolistic situation made it a supplier's market.
 - The survey among labour reveals that after privatisation; the workforce of the companies had more positive comments, except for complaints about redundancies and discipline.
 - The critical reports of various audit and inspection teams from different religious authorities reveals that their outcome was in favour of keeping autonomy or supremacy of state control. They did not openly criticise privatisation, but they were silent in the cases where the industrial units were sold to the religious interest groups. Furthermore, they did not highlight the problems of performance evaluation, reduction of the government burden and consumer interest.

It is noteworthy that by the time of the 1979 Revolution, Iran had developed into a *semi-peripheral* country, following almost three decades of a dependent capitalist growth path in the context of a nationalistic approach.⁷¹⁰ As mentioned in earlier chapters, at the eve of the Revolution, the slogans and ideology of the revolutionaries, which were

⁷¹⁰ Semi-peripheral countries are distinguished by, among other characteristics, their expanding, but limited, home and export market, technological dependency, and integration into the world economy. Increasing politicisation of the economic decision on behalf of an expanding private sector, emergence of monopolistic and complex economic structure, uneven development and a speedy destruction of traditional culture following rapid industrialisation and urbanisation are among other major characteristic of Semi-peripheral societies.

ultimately reflected in the Iranian constitution, emphasised full autonomy under the guidance and supervision of a clergy state. The latter developments were based on this ideology and slogans. This ideology was in fact against wealth accumulation and even favoured confiscation of a variety of properties, including land, buildings and businesses. The spectrum of this activity accelerated with the passage of time during the post-Revolution period, which ultimately turned a blind eye to the basic realities. A number of disparate forces acted against the successful implementation of a realistic privatisation programme in Iran. There were unrealistic Utopian wishes set in a modern world, coupled with the struggle between various Islamic factions on the interpretation of *Shari'a* law on issues like state power and definition of ownership, and the place of the private sector. At the same time, there were numerous uncontrolled and irresponsible revolutionary actions and interventions, and this was amplified by the effects of the war between Iran and Iraq and international sanctions imposed on Iran. For all of these reasons, there was a considerable drain of capital, management expertise and an educated elite out of the country, with confusion on the definition of qualified management. The country fell behind in technological progress, it was run by an expensive, inefficient, and bureaucratic government, there was expansion of corruption and crime, high levels of unemployment and inflation, and social dislocation and struggle between Islamists, nationalists, and pro-Westerners.⁷¹¹

The result of the above conjunction of difficulties was obvious. This type of environment creates mass dissatisfaction with the state organisation, its product and services to customers (see the discussion on States and Societies in Chapter One, Section 1.11). As a result, because of the economic ills, the *per capita* saving and investment has declined drastically. In the global context, what can be expected in this situation? The IMF was given an opportunity to jump into the field, and proposed its globally tested unimedicinal prescription of a Structural Adjustment Plan along with its major ingredient of privatisation. As discussed in the previous pages as well as in Chapter 8, in spite of all its difficulties and limitations, as compared to Egypt and Pakistan the experience of privatisation in Iran was not unsuccessful, although it was not to the level of the expectations of the IMF and the World Bank. To be able to learn more lessons from the pioneers of privatisation such as the United Kingdom, the country needs more time so that it could achieve politico-economic stability, which is an

⁷¹¹ See: Jahangir Amuzgar, 'An Overview of Political Economy of Iran', *Iran Nameh – A Biannual Journal*, Vol. 4-17, 2000, pp. 626-28; Dr. Hussain Azimi, *Iran Today – Discussion on Development*, Tehran: Islamic Cultural Publications, 2000, pp. 7-8.

important ingredient of this process. One of the major issues in the Iranian privatisation process is the debate on whether to choose autonomous development or dependent development. Like other developing countries, Iran is already dependent on foreign technology, oil revenue, raw materials and machinery. Even in the management of high intensive capital and technology, Iran is fully dependent on the rest of the world, particularly the Western countries. To attract more capital from wealthy Iranians living in the West and foreigners, it is obvious that Iran cannot maintain a high profile of autonomy. Almost unavoidably, this will involve foreign policy, culture, and social relations, and will not be limited to economic or financial matters alone.

Chapter Eight

CONCLUSIONS

8.1 Introduction

In this thesis I have tackled the issue of privatisation in Iran, seeking an understanding that combines academic argument and rigorously deployed evidence with practical applicability. That understanding is grounded in four forms of explanation, which is brought together and synthesised in the thesis as a whole. Firstly, the thesis considers the historical and social background to economic development in Iran, and the context of this in the initiation of the privatisation process. Secondly, it incorporates a sense that ideas matter, and that in particular in this case ideas drawn from an understanding of Islam are necessary to an appropriate image of development in Iran. These ideas are not (or are not necessarily) incompatible with Western ideas and arguments for and about privatisation, but they clearly have a distinctive Islamic basis, providing one recognises the diversity of Islamic thinking on the economy. Thirdly, and related directly to the first two, this challenges us to re-think ideas of development. As Chapter one argues, literature on development tended until the 1990s to promote one or other model of development for all or most countries, but more recently the literature has moved to a more pragmatic, less self-assured sense that the world is diverse and our knowledge of it is limited and diverse. This is not necessarily a 'post modern' position, and it is not a rejection of the possibility of practical action and knowledge. But the thesis reflects a tendency in much recent development literature to emphasise the diversity of possible equally valid models of development. This is not an original point to make in general, but it is not a point that has been made so far in writing on Iran specifically. Finally, the attempt to locate an understanding of the prospects and limitations of Iranian development in a pattern leads one to identify a trajectory of state-society-economy relationships, a historical sociology, which helps both to provide comparisons which aid understanding and a loose theoretical context against which the findings of this research can be tested.

This all provides a strong theoretical framework and focus for the thesis. But the main claim to originality in the thesis lies in its argument about the history and practice of economic development with particular focus on privatisation. A major issue that emerged from this analysis has been the vulnerability of ownership in the Iranian system, that is, the influence of various factors – state⁷¹² or international intervention,⁷¹³ tribal disputes and factionalism, differences in interpretation of Islamic principles – in destabilising ownership. Historical unstable and inefficient state-society-people relationships and institutional corruption have exacerbated this vulnerability. The consequences of this have been a relatively inefficient utilisation of resources over the long term, and a weak exploitation of the potential of ownership. Iran has many human and physical resources. But this inefficiency is shown in the poor management of those resources, in inappropriate choices of economic models, and in the apparent arrogance of the state in believing it is a better ‘owner’ than private owners. Here, the thesis defends the importance of a greater range of private involvement in the economy. But this is not an argument for a neo-liberal abandonment of the state, so much as an argument for a re-balancing of the mix of a public/private mixed economy in favour of individuals and firms. Even more important, it is an argument for certainty and stability in the legal and social protection of property rights, without which development is very hard to imagine. The process of privatisation itself can contribute much to the cementing of better property relations and greater social trust, quite as much as the eventual outcomes of that process.

I will return to these issues later in this chapter as a prelude to some recommendations as to how future rounds of privatisation in Iran may be better managed. Before this, however, I will present a brief overview of the assumptions and limitations underlying this work and of the methodology used, together with some conclusions arising from the analysis.

⁷¹² Seyyed Mahmood Taleghani, *Islam and Ownership*, Lexington: Mazda Publishers, 1983.

⁷¹³ Madeleine Albright, ‘Text of Madeleine Albright Speech’, *Associated Press*, 17 March 2000; Catto, Donal N. Wilber, *Adventures in the Middle East*, Princeton, NJ: Darwin Press, 1986, in Hamid Ahmadi (Translation), *Coup d’Etat Secrets: Secret Documents of CIA about Overthrowing the Mossassddiq*, Tehran: Nashr-e Nei, 2000, pp.19-21.; Kennett Love, *The American Role in the Pahlavi Restoration on 19 August 1953* (Unpublished paper in the Allen Dulles Papers), Princeton University Library, 1960, pp. 40-41, in Hamid Ahmadi (Translation), *Coup d’Etat Secrets: Secret Documents of CIA about Overthrowing the Mossassddiq*, Tehran: Nashr-e Nei, 2000, pp. 20-21.; Nigel Hawkes, ‘How MI6 and CIA Joined Forces to Plot Iran Coup’, *The Observer*, 26 May 1985, pp. 18-20.

8.2 Basic Beliefs, Assumptions, and Limitations to the Research, and Some Conclusions

In Chapter One, various ideas of development were discussed in the context of their relevance and applicability to Iran, bearing in mind the distinct historical socio-economic-religious backgrounds of Iran. This followed closely the views of other scholars [(Poku and Pettiford, Curley (1998); discussed in Chapter One)] who believe that the distinctive qualities and values of each society have to be taken fully into account to understand the possibilities and limitations when attempting to achieve economic development. The overall conclusion to this argument was that slavish implementation of Western economic development models, particularly in regard to privatisation, was completely inappropriate for Iran. However, in the present global economy it is impossible to ignore these models. Indeed, many aspects of these models – capital market development, evolution of state-society relationships, independent judiciary, technology development, and the rights of the people – need to be interwoven with the Islamic and traditional nationalistic views of political economy in Iran. Furthermore, these views are very much in line with those of the current Iranian government led by Mohammed Khatemi. After all, many of the developments initiated during the pro-Western Pahlavi dynasty introduced highly desirable features into the Iranian economy. However, this marriage of desirable Western ideas with the socio-historical background of Iran will not be easy. A feature of the UK model of privatisation was the weakening of the labour union movement as a means of attracting inward investment. This had significant effects in contributing to the growth of unemployment in the UK, especially in the early 1980s. But such a strategy would be difficult to implement in countries such as Iran, where unemployment is currently running at 15 percent and rising. Also, the clergy-dominated state continues to emphasise traditional socio-politico-religious values which themselves isolate the country from the principal Western sources of inward investment. The thesis as a whole considers how the present constitution of the state system acts as a deterrent for greater involvement of external finance in the economy.

An important component of the political economy system of Iran is the role played by the Islamic religion and its clergy; this is discussed in Chapter Two. Currently, the clergy are treated as a privileged section of the society, and this privileged status separates them from many of the realities faced by the rest of the population, whose

aspirations are influenced by ideas of consumerism beamed into Iran by the many advanced telecommunications technologies. Even at the time of the Revolution, the Iranian clergy were prepared to accept a decline in living standards as a sacrifice for a return to lost values, harking back to pre-history times, whilst the population – mainly the young educated class – were demanding increased independence from state control. In addition, the clergy take an active role in all aspects of life within the country – internal and external state affairs particularly foreign policy, the judiciary, the armed forces and intelligence agencies, mass media, and charity organisations – in the belief that this is needed to provide an effective Islamic state system. In the context of the theme of this thesis, the role of the clergy in the interpretation of the legitimacy of ownership within the Islamic tradition is a major concern. My fundamental concern with this over-arching role played by the clergy is that they have promulgated a very conservative Islamic interpretation of ownership. That is, God owns everything, and people are only temporary owners at best, so that the clergy, as the ‘reliable authority’, are empowered to regulate and supervise all aspects of the state and its people. In my view, the experience of the 23 years since the Islamic Revolution has been that the objectives – based on *Shari’a* principles – laid down by Ayatullah Khomeini, the founder of the Revolution, have not been achieved, a failing that can be placed squarely on the mismanagement of the economy, not being able to create broad based Societal consensus among different segments of the society⁷¹⁴, and a lack of appreciation of external influences by the rulers, their good intentions notwithstanding.

In coming to these conclusions, I have used a variety of information gathered from primary sources (public records, case studies, research survey, discussions, interviews, and internet material) and secondary sources. These last include documented experience from other countries – the UK, Egypt and Pakistan – as well as the views of other authors and other surveys. My career background enabled me to have access to a variety of unpublished materials, and to individuals from a variety of backgrounds with special knowledge of Iranian society, economy and religion. These have included religious experts, government officials, business people, and academics. My position within the organ of government responsible for privatisation provided intimate knowledge of various aspects of the privatisation process. This unique position must be viewed in two ways. Firstly, it allowed access to materials and individuals that/who would otherwise

⁷¹⁴ Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca: Cornell University Press, 1991.

not be available, so strengthening the analysis. Set against this, however, this personal background has produced a personal perspective on the privatisation process that must inevitably have biased the direction of this thesis. In my defence, I have attempted to provide a diversity of methodological approaches to limit this bias and to recognise the limitations it might impose through reflection on the analysis as it evolved. I started this work with a clearly defined approach – the analysis of material obtained by structured interviews and questionnaires. Early on in this process, however, it became clear that a much more flexible approach was necessary, as many of the interviewees and respondents indicated unease at the subject matter being probed. As a consequence, I had to interpret some of this material in the light of my own judgement, with the belief that these interpretations were resonant with the information provided in the other primary source material. Nevertheless, I must accept that personal bias remains as a contributor to the conclusions drawn.

Initially, I was not aware to the present extent of the need to research those aspects of Islam relevant to the present research. Gradually, however, it became apparent that this was a necessary element of study. I felt that my existing knowledge of this was limited, and I have spent considerable time in Islamic schools and libraries and in discussion with possible reliable sources to remedy this. I hope and trust that the interpretation of these Islamic principles is made with integrity and that it takes a central place in the argument, which the thesis unfolds. The conclusions, which this discussion moves towards, include the idea that Islamic economic thought is far from irrelevant in considering the contemporary problems of Iran. Questions which link values and evidence in order to explore the distribution of public and private wealth, or which ask how resources are to be used so as to produce a society which is at once more efficient and more just, depend on an explicit representation of those values. In Iran, values do not come from nowhere, and they cannot be assumed to be generally accepted 'global' values (whatever that would mean). The values, which Iranian people and government have and which mean something important to them, are Islamic values.⁷¹⁵ By the same

⁷¹⁵ The concept of Islamic values is widely miss-interpreted and miss-understood all-over the world. As Halliday argued: Islam as a religion, espousing certain clear doctrines, exists as a system of belief about the supernatural and related questions of morality, destiny and meaning.' It is noteworthy that in the context of Iran, this situation is more complex as some of the state officials define Islam in the form of a hard-line religion, which gives the impression of fundamentalism and intolerance. Another segment of the ruling class believes on being the part of 'global' keeping Islamic values as a reform-apparatus. However, the majority of young generation from educated families possesses mixed feeling. They want to keep traditional Iranian Islamic culture along with the international concepts of human, political and economic freedom. Under the current global situation, it is quite hard to keep balance among these cohesive and

token, people recognise and legitimate (even if they may not always follow) ideas of community and property, which derive from Islamic teaching and tradition. For stable growth to take place in Iran, those values need to be respected. The problem in the recent past has not been the pursuit of Islamic values, as the thesis argues throughout, but the inconsistent and sometime arbitrary ways in which those values have been applied. Chapter two demonstrates the richness and variety of Islamic economic thought, even though it only considers four major thinkers and of course there are many others. Chapter three demonstrates how the history of the Iranian economy has reflected these values, but only to a limited or partial extent. Some versions of Islamic economic thought are more compatible with western ideas on a liberal market economy than others, but a number of versions of Islamic economic thought are broadly compatible with the ideas of a mixed economy associated with the European or Japanese economic models. Thus it is possible in theory to see how the maintenance of Islamic economic values, but also the preservation of Islamic economic practices, can be consistent with the pursuit of policies which might have their roots in western liberal economic thought. It also follows that to privatise is not necessarily to contradict some deeply held and unchangeable economic principles to which Islamic societies should cling at all costs. Whether it is also true in practice that Islamic and Western economic principles can coincide in a particular society where both have long-standing influence is partly a practical question of implementation, of how specific policies are managed and which groups in society they actually benefit. But it is also a question of how the political system, and the state in particular, manages its relationship with the economy and how the state is grounded. This, as the discussion in chapters three to seven inclusive shows, is more problematic for contemporary Iran. The thesis does not conclude that privatisation policies can easily be introduced in the current climate of ideas and in the current political structure in Iran. It argues that it is possible to introduce them, and that it is compatible with some widely valued versions of Islamic thinking. And, of course, it argues that it is necessary to introduce them.

adhesive forces. See: Fred Fred Halliday, *Islam & the Myth of Confrontation: Religion and Politics in the Middle East*, London: I.B. Tauris, 1999.

8.3 The Historical Analysis of Iran

Throughout the history of Iran, there has been a continuous struggle between pro-religious and secularist factions; this is discussed in Chapters Two and Three. This struggle provided a vacuum, which allowed foreign powers to interfere in the affairs of Iran for their own interests. As mentioned earlier, this instability and factionalism contributed to the creation of an unsafe environment for investment and ownership. The discovery of oil reserves in the early twentieth century increasingly opened up the country to external Western influences, which had both positive and negative effects on the state and society of Iran. In particular, this Western influence created further conflict with the more conservative Islamic lobby within the country (a feature which is still present today). In this conflict for power and dominance, pro-religious groups, which had their roots deep in the masses and in the political system, were not understood by the secularists. This conflict culminated in the overthrow of the Shah during the Revolution of 1979.

The post-Revolution period attempted self-defined Islamic models of development, which are discussed in Chapter Four. In essence, this model was based on a turning-away from Western ideals and a negative attitude to wealth creation, coupled with promises of all-encompassing state-financed welfare. The individuals who policed this were chosen on the basis of their believed support of Islamic values; they replaced experienced managers throughout industry. Many state organisations were disbanded, producing a fragmented and complex and much more extensive state structure. Although the populace had high expectations of change resulting from the Revolution, as mentioned earlier the reality has been one of disappointment at the lack of progress made. This is equally true of the relative lack of success of privatisation, which, as has been argued, can be traced to the ambiguities of ownership within the Islamic culture and to the political and economic naivety of the rulers. However, I believe that other factors also played a major role in shaping the limited success of separate attempts at privatisation. The objectives set out and announced for socio-economic reform were admirable, but the approach adopted, coupled with the isolation of Iran from the rest of the world as a result of sanctions and the draining of resources during the war with Iraq, could not allow these objectives to be met. As a result of this inadequate performance, Iran is now experiencing a declining national economy with a reduction in capital

formation, one of the keystones for successful privatisation. New capital is formed at an inadequate rate; the existing capital base has been eroded. On a societal level, Iran is experiencing a widening of the rich-poor gap and a high level of human deprivation and lawlessness. Evidence for these assertions are also presented in Chapter Four.

A more recent divide that has become apparent is that between a re-awakening Iranian identity and the revolutionary Islamic-Iranian identity. This tension is gaining momentum, and threatens many aspects of the economic and societal development of Iran. This adds another layer on to an already complicated scenario.

The dissertation has drawn, as I argued in Chapters One and Three, on a historical sociology literature, including the work of Mann (1986) Skocpol (1985), Palen and Abbott (1999), Polanyi (1957), Hobden (1999) and others, in order to context the specific enquiry undertaken here. This literature grounds enquiry into the evolving relations between state and society, legitimating as well as shaping the specific questions which the thesis asks. That grounding is laid down in Chapter Three in particular, and the following chapters draw on it in explaining how state, society, business and industry have interacted in this particular case. It would be possible to develop this in a number of directions, for it is clearly valuable for a historical sociological approach to take the Iranian case seriously. But while this is an interesting and no doubt fruitful question, it is also a diversion from the main line of argument here, and so it has not been followed through in this study as far as it might be.

8.4 Privatisation: A Part of the Solution

I argue that the Iranian system of state-controlled economy has been unsuccessful in improving the life of its people, as promised by the founder of the Islamic Revolution, and in providing efficient ownership of industry, and that privatisation should be encouraged, given its overall success in other countries, as considered from the Western viewpoint. This has been acknowledged within Iran for some time, and various attempts at privatisation have been made. However, the evidence suggests that these attempts have not been totally successful. The reasons for this have been analysed in Chapters Six and Seven. Chapter Six has explored how government plans for liberalisation and

privatisation has been managed, pointing to some successes but also to a number of serious obstacles and problems. Chapter Seven then takes this further in a consideration of a large number of specific cases, drawing on field research, original interviews, questionnaires and other research. Consideration of these will allow formulation of suggestions for the improvement of the privatisation process in Iran. The first problem was that the privatisation model imposed by the IMF and the World Bank, as a part of the structural adjustment plan, was not tailored to the local circumstances within Iran, in particular its religious background and the natural animosity toward foreign intervention. The continuing factionalism among the rulers on the role of the state in - and even the legitimacy of - private ownership compounded this. Linked with this was the persistent domination by the clergy in control of the state, and the privilege granted to charitable organisations run by the clergy and their allies. On a practical level, insufficient use was made of independent professionals familiar with the requirements of the privatisation process, which itself was founded on a weak infrastructure in terms of the capital market, stock exchange, and the banking and insurance institutions. The animosity towards the wealthy and a suspicion of foreign investment (partly associated with suspicion of the wealthy, including of wealthy Iranians abroad) further limited the opportunities for successful privatisation. Furthermore, the lack of prerequisites to participate in a global competitive capital market (as outlined in section 6.8) limits the scope for the inward financial investment required for sustained growth and achievement of the Islamic ideal.

At the moment when this thesis is being completed, continuing uncertainties over foreign policy in the aftermath of responses to the events of September 11th, and especially continuing tensions in US-Iranian relations,⁷¹⁶ even now leave these questions very hard to resolve with any certainty, for the future of inward investment cannot be separated from the direction of foreign policy.

⁷¹⁶ See: *Economist*, 16 February 2002, pp. 12-13; Mahmood Toloie, *The Day that the World Changed: Bin Laden's Myth and Subsequent of Terrorists Attacks to the United States*, Tehran: Dastan Publisher, 2002.

8.5 The Road to the Future

Building a new society requires constructive dialogue and cooperation among otherwise opposing forces within a democratic framework governed by the rule of law and justice. Without such an approach much energy will be wasted. Blaming the opponent and waiting for it to move first for national reconciliation is part of an obsolete political culture that must be rejected, for it is the root cause of all national discords. The outcome of this study suggests that problems of slow growth, high unemployment, high inflation and declining capital formation in the economy cannot be resolved without considering more fundamental organisational and institutional changes as well as the reforms in the system of governance. The problems have been compounded by the operation of semi-charitable organisations and foundations that have amassed considerable economic muscle without being subject to the usual rules and regulations concerning accountability and transparency of similar less privileged commercial enterprises.

The international counterpart to this domestic scene has been pursuit of an isolationist economic path in the last two decades with unduly high economic costs. Consequently, Iran's general economic performance as well as its own potential has severely lagged behind international and regional standards in a period marked by growing external opportunities in the world economy. A decade after the introduction of the market reforms, including liberalisation and privatisation, the structural features of the Iranian economy are remarkably unchanged: a state of severe oil-dependency continues; the general investment climate is extremely weak and uncertain; public finances are fragile, and the economy continues to be highly inward-looking. This lack of change cannot be laid solely at the door of the government of Iran; global forces, regional threats and a high birth rate also have a role in this. Whether and when these challenges can be successfully met will depend only partially on the design and adoption of appropriate economic policies, important though these are. The experience of the last round of economic reforms, in fact, points strongly to the need for an equally far-reaching and comprehensive package of political and institutional reforms. Delaying these reforms can only add to the eventual costs and pain of future adjustments.

At this point I have to report an acute personal dilemma, for the way in which one might reach a final judgement of all these questions depends quite critically on how optimistic or pessimistic one can be about the present state of the Iranian economy. And it is very difficult to be clear when one is very close to what is happening, when particular events, including the recent war in Afghanistan, the ongoing conflict in the Middle East, and the continuing instability of the oil market –the source of 80 percent of exchange earnings– add to domestic problems and conflicts. And although it may not be a very ‘academic’ way to handle this debate, I cannot escape the fact that this evidence is contradictory, and that on some occasions it supports a more optimistic outlook while on some days it encourages deep pessimism. I have tried to find a balance between these positions in reaching these conclusions, but I cannot pretend that this is easy to do.

The discussions made in Chapter Two and elsewhere in this report reflect that capital formation is of vital importance for the development of the country. However, review of Chapter Four shows that during the post-Revolution period nearly all of the government’s economic policies have failed to achieve their objectives. Because of this and various other problems, the country is experiencing rising unemployment, human deprivation, corruption, inflation, low growth rate and a declining overall standard of living. This situation is a big threat to national stability and as the country is more dependent on oil, it has caused more dependency rather than promoting national autonomy. This fact needs to be realised by the state authorities, and appropriate policies have to be adopted for strong capital formation, this being an important factor for the economic development of the nation. It should be re-emphasised here that, based on his belief (and good wishes), Ayatullah Khomeini (the main developer of Islamic state models in Iran) emphasised that God is the real owner of everything and Islam is the only solution of every problem. And, as on earth, the clergy are the real representatives of God; only they are authorised to run the state according to God’s prescribed principles and the traditions of the Prophet (*pmbuh*). However, the experience of the past two decades has shown that this approach has not been successful. Therefore, change is required to achieve the objectives of development, of which privatisation (including the right of ownership and capital formation) is an important part. Thus, on the basis of the previous analysis in this report, one can summarise the conclusions in terms of the following measures which are suggested

(*Prescriptive Theories*)⁷¹⁷ as elements which can improve the economic and social prospects for privatisation and for development more generally. I shall summarise them in a series of points:

- There is a need to restructure the state organisation. In particular:
 - i. The top Spiritual Leader and the associated organisations should, in some way, be accountable⁷¹⁸ to the public. The relationship of the Spiritual Leader and associates with the government also needs to be defined, particularly in terms of foreign policy. These moves would clarify the lines of communication with external organisations, and assist privatisation and investment by external agencies.
 - ii. Several institutions which work in parallel to parliament and government, but are more authoritative and exempted from national tax and accountability, should be restructured, made accountable to government and parliament, and made liable to pay taxes as other business entities do. The financial interests of these organisations need to be made public.
 - iii. Revolutionary courts which work in parallel to civil courts but enjoy full discretionary powers and only report to the Head of Judiciary (who is under the Spiritual Leader) should be merged with the national civil courts, otherwise their continued existence and powers are a big threat to the right of ownership and civil liberties in the country.
 - iv. The extreme involvement of clergy in the national economic affairs creates several problems and ambiguities for foreign investors as they are afraid of mis-interpretation of *Shari'a* and confiscations by the ruling authorities.
- National financial matters must be tackled by professionals not by unqualified people chosen at the discretion of the clergy or on the basis of political affiliations. It is particularly important in the case of the privatisation process, e.g., to produce financial statements and audits by professional accountants. This measure also needs to be implemented in national tax collection. There should be a prescribed procedure for the selection of such professionals based purely on competition rather than political favouritism.

⁷¹⁷ Gerry Stoker, 'Introduction', in David Marsh and Gerry Stoker (eds.), *Theory and Methods in Political Science*, New York, N.Y.: PALGRAVE, 1995, PP. 16-17.

⁷¹⁸ Dawn Oliver cited in R.A.W. Rhodes, 'Institutional Approach' in David Marsh and Gerry Stoker, *Theory and Methods in Political Sciences*, New York, N.Y.: PALGRAVE, 1995, PP. 50-51

- At present the country lacks a clear and comprehensive investment policy and rules and regulations attached to investment, particularly foreign investment. The government should hire independent professionals (from inside and outside) to review the existing rules and regulations in Iran and in other developed countries. These professionals should be assigned the task of preparing a comprehensive and self-explanatory document detailing the rules, regulations, and procedures for the registration of foreign companies in Iran, buying shares, tax collection, submission of accounts, and custom duties, etc. This information should also be disseminated through the Internet and to Iranian missions abroad.
- There is a need to overhaul the national bureaucratic system, which creates hurdles in investment rather than facilitating the process. Independent international financial consultants should be provided facilities to establish themselves in various parts of the country, the primary objective being to provide required services to the potential investors, especially the foreign investors.
- The surveys made for this study show that tax and labour laws are not helpful in attracting investment. For the establishment of specific industries, tax exemptions should be provided in underdeveloped areas of the country, and labour laws should keep a balance between the rights of labour and the rights of employers.
- Unlike Iran, in the UK, Egypt and Pakistan there are specific bodies to deal with the process of privatisation. These institutions are accountable to their President or Prime minister. The existence of these institutions streamlines the whole process of privatisation. There is need for such institutions be established in Iran under the supervision of the President. To avoid any future complication, there should be a clear definition of the role, duties and responsibilities of this body (including the nomination of the head of this institution), which should be reviewed and approved by the Spiritual Leader as well.
- With the cooperation of the government, the above institution should review the industries as potential candidates for privatisation. A report on the current financial status and related social aspects - local employment situation, culture, geographic situation, infrastructure facilities, and future prospects - of these business ventures should be established by certified independent professionals. These professionals should determine the share price. These professionals should also look for potential buyers and management for these industries. Furthermore, as each company differs from others, so would its privatisation; these professionals should also recommend some specific options and measures to make it feasible for privatisation. After this

task, the final approval of Spiritual Leader should be sought. When this approval has been obtained, a required budget should be allocated to this institution to overcome any future problems.

- A proper advertisement with full details of the company should be placed in national and international newspapers and magazines. At the same time, negotiation should be started with the qualified potential buyers who have vast experience in this field.
- The services of international experts are also needed for putting a company up for sale in a foreign stock exchange.
- After-sale supervision and provision of necessary services are also required to keep a privatised company in a viable condition.
- It is noticed that, on the one hand, the government is selling its industries while, on the other, it is making investment for starting up new companies at home and abroad. Similarly, the results of the surveys conducted for this report indicate that more than 70 percent of shares were re-sold to the government. These practices must be stopped otherwise the whole process of privatisation will be in vain.
- The above-mentioned proposed institution established for privatisation should publish its monthly and quarterly progress reports. This will eliminate ambiguities and will generate confidence in the whole process of privatisation.
- The Stock Exchange also needs to be strengthened. The present database system is insufficient and inefficient, and needs to be upgraded both through hardware and software.
- Although the existence of brokers and middlemen are not always welcomed, the fact is that many of the businesses cannot be run without their presence. This is particularly true in the case of Stock Exchange business. One of the main elements of success of privatisation in UK was the role of these people. However, they are not properly recognised in Iran. These people should be provided with the required facilities to promote business. They should be recognised and respected by the State.
- People also need to be educated through media and through educational institutions to be acquainted with the process of buying and selling shares.
- Education is also required to improve the positive image of Islam with regard to the rights of ownership, accumulation of wealth through legal means and the place of foreign investors in the national economy.
- There is an urgent need to remove the ambiguities about the definition and interpretation of the legitimacy of ownership as well as the limitations fixed in the

constitution. In fact, with the consultation of *Mujtahids*, the *Majlis* should redefine the status of ownership and the role of the private sector in the country.

- The above-mentioned steps would be helpful to expand the space for the private sector, which ultimately is in the interest of the country.

Since writing the bulk of this thesis, the events in the aftermath of the ‘Twin Towers’ attack on September 11th 2001 have cast a shadow on the Middle East. One issue that has become clear is that every nation is part of a global system and has a responsibility towards maintaining a peaceful co-existence, without which economic development in individual states, both Western and Islamic, will be severely compromised. In addition, Iran, with its unique *Shi’a* system of religion and claimed values for her people, must act to prevent further isolation from the rest of the world in the wake of the general wariness towards Islamic countries, whether or not they support terrorism. If not, the consequences will further damage the opportunities for economic development, and possibly foment internal uprising. Lastly, the events of September 11th have clearly shown the need for a greater understanding of Islam and its true values by the West. Up to September 11th 2001, I was somewhat optimistic that the internal and external environments were favourable for successful privatisation within Iran. However, the recent events and their likely consequences, particularly on the external influences, now temper this optimism.

It can therefore be seen that the thesis has reached conclusions, which fulfil the claims to originality proposed in chapter one. I shall end the thesis by reiterating these claims:

- i. The thesis describes and explains the character of privatisation policy as an aspect of development in Iran; it does so by grounding the experience of privatisation in the history of ideas (Chapter Two) and experience (Chapters Three and Four) in the Iranian economy, through a comparison with privatisation in other countries (Chapter Five) and through a detailed analysis of the recent past (Chapter Six) and present prospects (Chapter Seven) for privatisation. It makes this analysis using information, which the researcher has been able to collect, which has hitherto been unavailable to general readers or academics in Iran as well as in the West or the UK. It uses published and unpublished sources, including confidential material to which this researcher has had unique access. In doing so, it necessarily makes judgements

about the quality of that evidence and how it has been gathered, and it reflects on the author's own role in the privatisation process.

- ii. The thesis explores the role of ideas in development, taking up the literature on ideas and foreign economic policy developed by Goldstein, Milner and others in the US, and on ideas in development in 1993 and 1996⁷¹⁹. It argues that we cannot understand development processes in countries like Iran using generalised comparative theory, whether they are broadly liberal or broadly structuralist. Although it does not suggest that no lessons can be drawn from one country's experience of development, it holds that lessons drawn need to be drawn cautiously and with attention to the deep cultural differences and differences of economic and cultural capacity between societies. In this case, the role of Islam is seen as a precious resource for development, so long as the character of Islamic economic thinking (and the diversity of that thought) is properly assessed.
- iii. The thesis thus follows recent writers such as Manor *et al.*⁷²⁰ in arguing that development processes are diverse; there are many paths to development just as there are many possible obstacles. In making this case again, the thesis emphasises the role of culture as well as ideas in the understanding of development trajectories and in mapping more potentially successful development paths (Sikkink, 1991)⁷²¹.
- iv. The thesis draws extensively on both Islamic and Western economic and social thinking in the ways it charts possible development paths, and thus implies a possible synthesis in which Islamic ideas play a substantial part and retain their own integrity. This makes sense to the author in terms of his own values and beliefs; but it also makes sense in terms of the history and experience of development processes in Iran, which the thesis charts.
- v. The thesis explains the development process in terms of an 'historical sociology' model which uses ideas of the distinctive character of the long-term state-society-economy model in Iran and of the role of ideas in that model. This model is explained in terms of ideas drawn from recent writing by Stephen Hobden⁷²² in

⁷¹⁹ Judith Goldstein and Robert Owen, Keohane (eds.), *Ideas and Foreign Policy, Beliefs, Institutions and Political Change*, Ithaca NY: Cornell University Press, 1993; Helen V. Milner and Robert Owen Keohane (eds.), *Internationalisation and Domestic Politics*, Cambridge: Cambridge University Press, 1996.

⁷²⁰ James Manor (ed.), *op. cit.*

⁷²¹ Kathryn Sikkink, *Ideas and Institutions: Developmentalism in Brazil and Argentina*, Ithaca, NY: Cornell University Press 1991.

⁷²² Stephen Hobden, *Theorising the International System: perspectives from Historical Sociology*, in *Review of International Studies*, Vol. 25, Number 2, Cambridge: Cambridge University Press, April 1999

particular, although the work of Abbott and Palan⁷²³ and others also contributes to it in important respects. The ideas derived from this body of work enable one to make sense of the particular twists and contradictions in Iranian economic development in terms of a longer term and more deeply laid pattern of state formation (a process which is still ongoing) as well as in terms of the specific policy choices which have been made. This also recognises the impact of external influences, other states, external structures and patterns of violence (not least, of course, the Iran-Iraq War, but also ongoing violence in Palestine) on Iran (Mann 1992).

- vi. The thesis interrogates the capacity of the Iranian economy to develop. It suggests that the ownership system is key to the possible future development of that economy, and the specific history of the ownership system has underpinned an instability in property patterns, which works against a stability of expectations of contracts and economic performance. In turn, these unstable expectations make it harder for investment to take place, undermine the possibility of clear patterns of ownership and property rights, and thus affect contracts. Without a reform of ownership patterns so that people in Iran as well as abroad can have a reasonable expectation that legally held property rights will be guaranteed, privatisation is much less likely to be successful. And investors and potential investors need to have a sense that property rights will not be changed or redefined by legal action, which renders their risk-taking worthless. This leads to the argument that legitimacy of property rights is central to privatisation processes, and in a situation where political authority is divided and where the conferring of legitimacy is itself disputed, governance structures fail to create the environment in which privatisation can take place effectively. So the prospects for privatisation depend on the structures of legitimacy and authority in post-revolutionary Iran.

Finally, I would underline again the fact that the thesis is original also in many of the sources it has used. It is worth emphasising here that these sources are original in that they have not been in work published in Iran as well as in any work published outside. Among the main sources used are key primary sources, which include:

1. Open discussions: In Iran discussions were made with the professionals, politicians, academicians, and managers engaged in privatisation process, and those who were

⁷²³ Ronen Palan and Jason Abbot with Phil Deans, *State Strategies in the Global Political Economy*, London: Pinter, 1999.

involved in day-to-day decision-making process of the country. Discussions were also made with various religious authorities, the presidential office, general workers and people belonging to different circles of the community. In Britain, several meetings were conducted with British, Egyptian and Pakistani experts. These included: Lord Lamont (ex-Chancellor); officials in HM Treasury; DTI; officials from Egyptian, Pakistani and Iranian foreign missions in UK; and Iranian business and religious elite based in this country. In addition to personal meetings, contacts through e-mails, faxes and telephones were also made with several other people based in UK, United States, Canada, Australia, Germany, Egypt, Pakistan and Iran. Some of these people provided their useful opinion and comments with regard to present study. An index of interviews and interviewees is included in an appendix, which for reasons of confidentiality will be available to examiners, but not when the thesis is more widely circulated; examiners are requested to respect this confidentiality.

2. With regard to the privatisation process in Iran, interviews were also conducted from 106 professionals, academicians, politicians and people from regulatory bodies. These interviews were carried out through questionnaires specifically developed for this purpose. A copy of the questionnaire is included in an appendix.
3. Another, and possibly the most important, method which was used, was some direct and indirect personal contacts to obtain some of the missing information which was never available from any other source. In fact, that was the inside and real information and people who provided such information, purely on personal and secret contacts, specifically asked the researcher not to mention their names at any level. This information is used, but its quality and reliability was also carefully assessed as the account of the research unfolded.
4. Various unpublished reports of government and non-governmental organisations were also used as a secondary source of information. These included the internal financial reports of private business organisations; companies bought by different pressure groups, reports from religious authorities as well as some reports from some security agencies.

Secondary sources consist of information collected from published sources - which include books, research journals, magazines, newspapers, official government

parliament reports of Iran, reports of other organisations, and company reports – and electronic sources, including data banks of Plan and Budget Organisation in Iran, Ministry of Industry in Iran and City Business Library, London, and various websites of UK-based and international agencies, e.g., Statistical Centre, HM Treasury, Privatisation International, IMF and United Nations, and non-governmental organisations.

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See Appendix: 3, 4 and 6

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Appendix 1: Glossary

<i>Akhund</i>	A cleric or a turbaned man in the Islamic fashion, religious teacher
<i>Alem</i>	A scholar in theology or the natural sciences; a Muslim scholar or man of authority in religion and law; he who knows
<i>Allahu Akbar</i>	Allah is Greater
<i>Arbab-O-ruyat</i>	Land-owning and Tenant Class
<i>Ayah</i>	A Qur'anic verse
<i>Ayatullah</i>	Title of chief <i>mujtahids</i> in hierarchy of <i>Shi'a</i> clergy; sign of God
<i>Ayatullah al uzma</i>	Supreme or leading <i>mujtahids</i>
<i>Basij</i>	Ordinary people mobilised for some collective work, especially in the militia
<i>Baytul mal</i>	The public treasury in Islam
<i>Bazaar</i>	A covered row of shops
<i>Bazaari</i>	A merchant or one who has a shop in the <i>Bazaar</i>
<i>Dar-ul-Fonoon</i>	Technical College
<i>Dar-ul-Islam</i>	The territory of Islam, Abode of Islam.
<i>Du'a</i>	Devotional invocation and supplication
<i>Ebadat</i>	Prayer, devotion, act of worship, to serve
<i>Faqih</i>	Islamic jurist; one who understands the precepts of the Islamic religion
<i>Fatwa</i>	A legal judgement issued by a <i>faqih</i>
<i>Fesad felarz</i>	Performing evil deeds on Earth
<i>Figh</i>	Islamic jurisprudence. Originally it means 'understanding'
<i>Hadith</i>	Any of the sayings of the Prophet Muhammad (<i>pmbuh</i>), or his conduct related to us, all of which are called the Tradition; any narrative relating the deeds or utterances of the Prophet, the <i>Ahlul Bayt</i> , the infallible Imams and the Companions.
<i>Halal</i>	Religiously lawful
<i>Haram</i>	Religiously prohibited; not lawful
<i>Hawzah</i>	A centre for religious studies
<i>Hizbullah</i>	The party of Allah; the pious followers of Islam in general
<i>Hojjat-al-Islam</i>	'Proof of Islam': a cleric qualified for religious preaching
<i>Hosseinieh</i>	Community centres
<i>Howzeh-e elmieh</i>	Seminaries, centres of religious learning
<i>Ijtihad</i>	The individual opinion of a <i>faqih</i> deduced from his theological studies
<i>Imam</i>	Spiritual leader of the <i>Shia'h</i> ; leader of a congregational prayer
<i>Islam</i>	Submission to (the will of) God
<i>Istid'af</i>	Oppression

<i>Istikbar</i>	Arrogance and haughtiness. It sometimes stands for such governments or classes of people
<i>Jihad</i>	Holy war of the Muslims against the disbelievers; personal battle against one's sinful inclination within oneself
<i>Kafar</i>	Non-believer
<i>Kofr</i>	Disbelief
<i>Khums</i>	A fifth of any profit surplus to one's yearly expenditure
<i>Ma'ad</i>	Resurrection, eschatology, the day of judgement
<i>Majlis</i>	The parliament
<i>Maktab</i>	Religious elementary school
<i>Marja</i>	The religious authority who is referred to for religious questions
<i>Marja' e taqlid</i>	Source of emulation; Supreme Authority on the law of <i>Shari'a</i>
<i>Mash'had</i>	A holy city in the eastern part of Iran
<i>Mashroo</i>	Lawful; canonical; legitimate
<i>Mofsed</i>	Vicious; corrupt
<i>Mojtahid</i>	Expert in the law of Islam
<i>Motedayen</i>	Orthodox; Religious
<i>(mpbuh)</i>	May peace be upon him
<i>Mulla</i>	A learned man; low ranking clergyman
<i>Muslim</i>	Submitter, acceptor
<i>Mustad'afin</i>	The weak, oppressed and wronged people
<i>Mustakbarin</i>	The arrogant and the oppressors
<i>Nubuawah</i>	Prophecy, Prophet hood
<i>Qisas</i>	Retaliation punishment including blood money
<i>Qom</i>	A religious city in the central province of Iran
<i>Sadat</i>	The offspring of the Prophet Muhammad (<i>pmbuh</i>)
<i>Seyyed</i>	A chief, a descendent of the Prophet(<i>pmbuh</i>)
<i>Shaykh</i>	A religious teacher; a turbaned man
<i>Seghatul islam</i>	The title of middle ranking clergy
<i>Shi'a</i>	The follower
<i>Showra-e Negahban</i>	Council of Guardian
<i>Showra-e Maslahat</i>	Council for determination of expediency
<i>Sunna</i>	Tradition
<i>Surah</i>	Any one of 114 complete chapters of <i>Qur'an</i>
<i>Taghout</i>	The devil; an idol
<i>Taqlid</i>	Imitating a <i>marja</i> by the common people, who are not <i>mujtahids</i> , in religious matters
<i>Tallebeh</i>	Religious student
<i>Tazkieh-e Nafs</i>	Purification of the soul, self purification
<i>Towhid</i>	Declaration of the Oneness of Allah; monotheism
<i>Ummah</i>	The global community of Muslims
<i>Vahy</i>	Revelation

<i>Vajib</i>	Obligatory
<i>Velayat</i>	Sainthood; sanctity
<i>Velayat-e faqih</i>	Sanctity of jurisprudence, Guardianship of Islamic laws and traditions
<i>Zakat</i>	Obligatory taxes on certain agricultural products, on cattle, and on the gold and silver currencies.

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Appendix 2: Abbreviations

Description	Abbreviation
ABP	Associated British Ports
BA	British Airways
BAA	British Aviation Authorities
BAe	British Aero Space
BG	British Gas
BP	British Petroleum
BS	British Steel
BT	British Telecommunication
CASE	Cairo and Alexandria Stock Exchanges-Egypt
CBE	Central Bank of Egypt
CBI	Central Bank of Iran
CDC	Control Data Computers
CPS	Centre for Policy Studies
DTI	Department of Trade and Industry
EIU	Economic Intelligent Unit
GDP	Gross Domestic Product
GDRs	Global Depository Receipts-London
HCs	Holding Companies-Egypt
HM Treasury	Her Majesty Treasury
HSE	Health and Safety Executive
IDRO	Industrial Development and Renovation Organisation
IJI	Islami Jamhuri Ittehad-Pakistan
IODO	Industrial Ownership and Development Organisation
IRI	Islamic Republic of Iran
LIBOR	London Inter -Bank Offer Rate
MNC	Multinational Corporations
MPE	Ministry of Public Enterprise-Egypt
NATCS	National Air Traffic Control Services
NDA	National Dis-investment Authority-Pakistan
NERA	National Economic Research Associates
NFC	National Freight Corporation
NIIO	National Iranian Industrial Organisation
NIOC	National Iranian Oil Companies
NISCO	National Iranian Steel Company
OEFC	Overseas Economic Cooperation Fund-Tokyo
OIC	Organisation of Islamic Conference
OPEC	Oil Producing and Exporting Countries
PBO	Plan and Budget Organisation
PBT	Profit Before Tax

PEO	Public Enterprise Office-Egypt
PFI	Private Finance Initiative
PM	Profit Margin
PPP	Pakistan Peoples Party
PPP (UK)	Public Private Partnership
PUK	Partnership United Kingdom
ROCE	Return on Capital Employed
SOEs	State Owned Enterprises
TFD	Total Factor Productivity
TTA	Turnover to Total Assets

**Appendix 3: Confidential List of Interviews Seen Only
by the Examiners.**

**[THESE NAMES WILL NOT BE DISCLOSED, UNDER THE RULING
ALLOWED BY THE NOTTINGHAM TRENT UNIVERSITY]**

Appendix 4: Confidential List of Persons who Completed Questionnaires

**[THESE NAMES WILL ONLY BE SEEN BY THE EXAMINERS
AND NOT BE DISCLOSED, UNDER THE RULING ALLOWED BY
THE NOTTINGHAM TRENT UNIVERSITY]**

Appendix 5: Questionnaire

PRIVATISATION IN IRAN

1. Personal Data of the Interviewee
 - 1.1. Name:
 - 1.2. Qualification
 - 1.3. Specialisation
 - 1.4. Employment Status

2. Are you involved in privatisation process
 - 2.1. Directly
 - 2.2. Indirectly

3. Field of professional experience in relation to the issue of privatisation
 - 3.1. Participation in policy making
 - 3.2. Implementation
 - 3.3. Research
 - 3.4. Share Acquisition
 - 3.5. Manager of the organisation

4. Which of the following objectives are important in the context of the existing politico-economic situation of the country

Objective	Very. Important	Important	Not important
Reduction of government financial burden			
Expansion of public ownership			
Constructive channelling of surplus assets and expansion of the capital market			
Efficient utilisation of productivity			
Increase labour productivity			
Reduction of state monopoly			
Structural adjustment within the organization			
Cash-flow for the government			

5. Problems affecting the successful implementation of a privatisation program

Problems	Very important	Important	Not important
The country's lack of social, structural and psychological preparedness			
The ambiguity of the interpretation of privatisation, related laws and procedures			
The ambiguity of the definition and interpretation of ownership in Islamic Republic			
Unavailability of a central body responsible for privatisation			
Lack of investor trust in the environment			
The existence of capital shortage			
Limitations on the sales procedure			
Lack of co-ordination between government, judiciary and parliament.			
Improper advertisement			
Ineffective stock exchange			

6. Importance of the rules related to privatisation

Laws	Very important	Important	Not important
Commercial laws			
Labour laws			
Taxation laws			
Capital, Market and banking laws			
Capital protection laws			

7. Sales options

Options	Very important	Important	Not important
Flotation			
Negotiation			
General tenders			
Sales to employees			
Management contracts			
Rental contracts			
Sales of assets			

8. Which country or countries do you suggest as a possible privatisation model for Iran to follow?
9. Whether state management is successful or not; Yes: No:
10. Your recommendations for the success of privatisation in Iran

Appendix 6: Examples of Material Relating to the Privatisation Process Published in the Iranian Media

- *Tadbir magazine May 1996*: The expansion of skill-development can be facilitated in the private sector, as they are not limited to set boundaries. The key for the development of a private sector is to enable managers to operate free from political interference and influence. This can only be achieved in the private sector where managers are free to be able to work according to their own commitments and requirements based mainly on productivity factors. As a result the improved utilisation of resources can be clearly seen by the public as they are operating under and according to market conditions. The government by comparison is under no such pressure and can easily cover up mistakes and alter figures by taking measures such as subsidisation. In the public sector allocation of resources are based on political and regional obligations and the objectives of elite's, so productivity is difficult to measure. In other words the change in ownership is not an end in itself but requires other changes in the economic structure.
- *Report by the Central Bank of Iran 1996*: Prior to privatisation all legal matters should be clear and settled otherwise major problems will occur for buyers of shares. Amendments or corrections of law regarding the stock exchange would facilitate the expansion of ownership and investment.
- *Bors (Stock Exchange periodical) October 1998*: The best conditions for privatisation occur when the government decides to reduce its involvement in the economy and assume a merely regulatory economic role. If the infrastructure is not sufficiently developed, then it is not guaranteed and extremely difficult to convince the private sector to invest. We have to assume that the private entrepreneur is looking for the maximisation of profit and anything hindering that goal will lead to a lack of investment in productive projects and result in the injection of capital into other more profitable areas either domestically or internationally.
- *Dr. Mahmood Motavaseli 1994*: The reconstruction of the economy and willingness of policy makers to allow other individuals to participate in the market decision-making process is a very important factor for increasing national productivity.
- *Ettela'at International - Daily News 30/06/00*: Headline from President Khatemi addressing an industry seminar, 'The grounds must be prepared to attract foreign investment.'
- *Ahmad Azizi, Managing Director of the Industrial & Mines Bank - Ebrar Economic Daily Newspaper 22/04/00*: The private sector has been pushed into a corner by the government and suppressed because there is not a clear economic development model in Iran. This situation is further exacerbated by the ambiguity that exist over the issues of ownership and distribution of wealth and the lack of clarity on the level of profits that can be accrued. Since the beginning of the revolution there has been fluctuations in the values and definitions of society and the economy in particular. The government has failed to create the necessary framework and atmosphere required for successful operation of a healthy private sector. Furthermore they have

been competing against the private sector, not in a just or equitable manner, but by monopolising various elements of infrastructure and the economy. The country has not shown willingness to chose or accepts other models even with adjustments specifies in *Shariah*. The 'Islamic model' currently in operation consists of vague theoretical values and in order to make it practicably applicable, we have to update with signs and economic principles of the present situation. We must be patient and consistent in the implementation of new models. They should be compatible with the context in which they are to be implemented.

- *Bahar weekly magazine 08/05/00*: In headline article they [MPs] referred to and are critical of a recent parliamentary report aimed at discrediting the privatisation process.
- *Iranian daily newspaper Ettela'at 13/04/00*: The government has two duties, to govern and implement rules for the redistribution of income and for the provision of social services and general supervision. If the government expands its involvement in all aspects of the economy it is to the detriment of its governing duties. In other words the government should concern itself with major rather than minor issues.
- *Tadbir monthly magazine January 2000*: Privatisation and deregulation are linked to one another. Respect to individual ownership in a stable atmosphere could attract investments for major projects, particularly manufacturing. Clarity of government objectives in economic affairs is an essential precondition for privatisation. Recruiting and involving international experts in pricing would prevent further problems.
- *Weekly International Kayhan 06/07/00*: Ownership is the main instrument of production in any ideology and unless it is respected you can not expect growth in the society. Also, unless the risk of confiscation is eliminated capital flow cannot be encouraged.
- *Hammihan daily newspaper, 24/04/00*: The private sector is depressed. Due to the implementation of the Article 44 of the Constitution, the private sector has lost its originality and impetus, mainly due to the effect of leftist and socialist opinions towards the idea of private ownership. It is believed that after the revolution a new class originated in the country, which held political positions and attached themselves to the government in one way or another through personal contacts. This new class has been misusing and abusing government resources through rent seeking and insider trading. Also they have succeeded in influencing certain bills in parliament, which gave little concessions to the private sector.
- *International daily newspaper Ettela'at 27/06/00*: President Khatemi declares that society should seek to attract the participation of capital and world technology for foreign investment to be secured.
- *Jahan daily newspaper 07/04/00*: In a headline it stated that 'the war of the future is to be on capital formation.'
- *Jahan daily newspaper 11/04/00*: Iranian economy is ill because of an inflated and inefficient government, lack of investment in productivity, lack of clarity in rules, lack of security for investment, mismanagement of the economy, high unemployment, lack of capital, economic monopolies, bureaucratic rules and

regulations for production and export, high inflation, high levels of poverty, little saving or investment, minimum utilisation of Iran in the sphere of global capital, lack of professional accountancy and statistical bodies, lack of proper of education and practical training to suffice the future requirements of industry.

- *Jahan daily newspaper, 13/04/00*: Articles in the constitution concerning property confiscation and the promise of cradle to the grave social security have hindered and prevented investment. The public sector, with a surplus labour force, facing a shortage of capital and overly dependent on oil exports, is another part of this vicious circle. Assigning jobs to unqualified but political managers lacking the proper training or skills reduces the national wealth. This has seen a reduction in the middle class who have shifted from (or being forced to due to diminishing status and returns) production and services, which have further implications for the future development of the economy. However, there is an organised resistance to the privatisation process from within the government by corrupt managers and lazy workers, a fact made even worse by various competing political factions within the country.
- *Ahmad Seif* (senior university lecturer in economics in the UK) *Monthly Magazine Economics Iran 08/04/00*: The current structure of the state belongs to a bygone era, thousands of years ago, and is incompatible with trying to introduce modern economic policies.
- *Monthly Magazine Economic Iran 08/04/00*. In an article regarding stock exchange and foreign investment, it states that imbalance in the capital market and economy after the war saw foreign investments almost become non- existent. In spite of recent government efforts to attract foreign investment it is still like the necktie in Iran, although it is not forbidden people are reticent about wearing it. In a country with a population of 63 million, a potential additional workforce of 18 million and 3.5 million unemployed, we cannot just rely on oil. There should be a clear plan of action to attract foreign investment whilst keeping the values of society intact and maintaining the country's sovereignty.
- *Former president Bazargan quoted in Azadegan daily newspaper, 23/01/00*: Dictatorship creates false platitudes and it clears real human personalities, prevents human developments and as a result it curtails the initiatives of people effecting a productivity of the country both in the private and public sectors. Unless law, freedom and justice established in society then corruption and dictatorship will prevent science and economic professionalism from development. These are the basis of productivity in any society.
- *Economics Iran 22/09/1999*: Iran does not have any participation in, or receive any contributions from world capital in comparison with other countries in the area, e.g., Kazakestan which attracted about US\$ 3,200 million of foreign capital, Azarbayjan \$ 601million, Hungry \$2,079 million and Pakistan \$ 714 million.
- *Economics Iran 03/03/00*. President Khatemi states that 'due to the ambiguities that exists concerning ownership in Islam much damage has been done to many people. It is the duty of the Islamic government to create justice and a reliable infrastructure, and encourage the participation of all in order to be able to utilise all capabilities, financially and spiritually, to their full potential.

- *Economics Iran 20/02/00*: Privatisation can only be successful if it is part of a comprehensive reformist plan free from intervention of interest groups or the concerns of opportunistic individuals.
- *Ahmad Seif in Economics Iran 13/03/00*: The historical insecurity and instability that have existed in Iran have prevented substantial investment in production. Security of ownership and ownership rights and its effect on the accumulation of capital has assumed high importance due to the lack of social and political security.
- *Economics Iran 01/03/00*: During the last 20 years, the productivity of the banking system has been reduced seven fold [while the number of prisoners have gone up seven times]. This is mainly attributed to the inactivity of the private sector and the governments politicising of the economy.
- *Iran Daily News 21/06/00*: The sixth parliament has stated that it will prevent accumulation of capital and power.
- *Iran Daily News 24/06/00*: Kar and Kargar wrote that the global trend towards the privatisation of government organisation has influenced our economy. It is noted that although the government has not succeeded in implementing its privatisation programmes, the Khatemi administration intends to privatise more than 2000 SOEs during the course of the Third-Five Year Plan. However these privatisation plans will not succeed unless all people participate in the process on an equal footing.