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Controversies Surrounding Iran's Growing Authoritarianism

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Introduction

My purpose tonight is to provide a brief assessment of the Iranian situation.

In particular: What are some of the more important developments that have been moving the country toward a more militaristic, authoritarian state?

What key factors are facilitating the country's transition in this direction?

Are there internal developments that might constrain this development?

Which external factors might alter this transformation?

How does Iran's nuclear program play into this transformation?

What are the longer-run ramifications of these trends? For the region? For the U.S?

Difficulties in Assessing the Iranian Situation

Policy makers, the intelligence community, and academics are all deeply divided over the Iranian situation and especially the country's intentions.

The problem is captured in a Persian poem of an elephant in a dark room.

One felt the elephant's back and claimed it resembled a great throne.

Another touching its ear declared it was in fact a huge fan.

A third felt its leg and concluded it must be a large pillar.

Iran is much like this, political scientists see one thing, historians another, economists paint a different picture and security experts something else.

After nearly three decades of Islamic rule, the country remains a paradox.

First Some Background—What We Know

Iran was one of the first countries to be occupied by the early Islamic armies coming out from Arabia in the seventh century.

Persia had been one of the greatest empires of the ancient world.

It has long maintained a distinct cultural identity within the Islamic world by retaining its own language and adhering to the Shia interpretation of Islam.

While never a colony, did fall under both Russian and British influence.

Because of its rich cultural history and relatively large size (about the size of Alaska), large oil reserves (second to Saudi Arabia), perhaps the largest gas reserves, and a population of, 70 million, the country sees itself as the dominant country and religious-cultural trend-setter in the region.

Contemporary Setting -- Demographics

The population is relatively young – 33% under 15 years with only 4.5% above 65. It has a large workforce – now around 22 million.

Demographic profile has led to high growth in the workforce. Around 700,000 million new job seekers each year – only 300,000 jobs created.

Brain drain significant with more than 200,000 leaving the country each year to seek better employment opportunities in Europe and North America.

Urbanization has been accelerating since the 1960s. 66% of the population lives in towns compared with 31% in the late 1950s – few nomadic.

High drug addiction rate 2-4 million addicted to opiates.

One of world's highest refugee populations – about 3 million.

Contemporary Setting – Present Difficulties

Diverse 60% Persians with Azerbaijanis, Kurds, Arabs, and other groups. 99% Muslim, 95% Shiites and 4% Sunnis, 25,000 Jews – largest outside Israel.

Increasing Ethnic unrest in Kurdistan, Khuzestan and Sistan/Balochistan.

At time of revolution in 1979 Iran had a GDP roughly equal to Spain's. Pumped one tenth of world's oil and nurtured a vibrant middle Class.

Today per capita income is one-Third of Spain's, Oil production down 30% and the middle class is being squeezed by inflation (15%) , unemployment (15-20%), increased inequality, and stagnant wages.

In many ways an environment similar to the Pre-Revolutionary days.

Economically and in other Areas Country Underperforms Across the Board

Low Economic Freedom. In 2007 the 150th freest economy.

It is ranked 16th out of 17 countries in the Middle East/North Africa – just ahead of Libya. Its overall score is almost one third the regional average.

Corruption is rampant and property rights problematical.

Out of 62 major countries Iran consistently ranked least globalized.

Last in Foreign Direct Investment and Technology Transfer

Classified as a border-line failed state (52 of 60) – Major shortcomings in human rights and an oppressive state security apparatus.

In many ways Iran resembles other oil states and the paradox of plenty.

Never Broken the Oil Curse – Shah’s Crony Capitalism with Different Cast

Political support of groups and parties gained through client ties and patronage.

Wide social and income disparities, lack of consensus, politicized bureaucracy and judicial system

Short policy horizon, policy instability, policy non-transparency

Strong state role in production, with strong interests attached directly to state expenditures -- Politically weak private non-oil sector

Fiscal mess -- pro-cyclical expenditure instability, rents transferred to different interests and through subsidies, policy distortions, public employment. Off-budget expenditures out of control.

Some Specifics--Price Distortions and Subsidies Major Economic Drain

Annual subsidies on fuel, electricity and basic foodstuffs run into billions of dollars.

Energy subsidies alone account for \$15.7 bn in government expenditures.

Total consumer subsidies are equivalent to around 14 percent of GDP.

System encourages over consumption and waste and a bias towards capital intensive industries. The country actually imports 40% of its gasoline.

Fuel prices about one tenth world prices and Iran uses 16 times as much energy per head as India.

Policies have drained resources from the private sector leaving it unable to perform its normal function of creating a sufficient number of jobs.

Low Productivity and Technological Diffusion

These factors combine for a structural trap – political priorities and economic obstacles facilitated by oil revenues prevent the reallocation of capital from low productive firms to those more innovative and productive.

Has produced distinctive pattern of total factor productivity – key indicator technological change that reflects the adaptability of firms and institutions.

IMF data show it positive and high during the 1960-76 period contributing 3.2 – 4.7 percent per annum to the country's growth rate.

After the revolution it averaged between -5.5 to -9.6 percent 1977-88 and between -1.8 percent and 1.0 percent from 1988-2000. Comparable figures for many non-oil developing countries are in the 2.0-3.0 percent range.

Institutional Setting -- 1

Dysfunctional economy perpetuated by a unique set of political institutions – these are the key to understanding past events and gaining some insight as to future developments.

The political spectrum combines democratic and theocratic elements in an opaque mix of elected and appointed institutions.

Supreme Leader most powerful -- final say in virtually all political decisions, -- appoints commanders of the armed forces, the Head of the Judiciary, the Expediency Council and half of the Guardian Council directly.

In 1989 Ayatollah Khameni became the second Supreme Leader. The Supreme Leader serves for life.

Institutional Setting -- 2

Executive Branch – elected -- Since June 2005, Mahmoud Ahmadi-Nejad. He effectively won the elections through backing of the Revolutionary Guard – populist -- promised to distribute the country's oil money more equally.

Assembly of Experts – elected -- important because it selects and monitors the Supreme Leader. Headed by former president Rafsanjani.

The Guardian Council is the most influential because it forms a crucial link between the democratic and theocratic institutions. Next to vetting candidates for elections, the Guardian Council also has the power to veto bills that have passed through Parliament.

The Expediency Council acts as an arbiter in legislative conflicts between Parliament and the Guardian Council – supervises all branches of govt.

Political Dynamics -- Overview

The political dynamics of the country are extremely complex and not well understood in the West. How these dynamics are affected by economic constraints is also a matter of considerable controversy. What we know ---

The Islamic Republic is a government currently ruled by factions and competing power centers. Intentionally built into the 1979 Constitution.

All political groups represent important constituencies – operate in the complicated web of informal and formal institutions in the Islamic Republic.

The economy is complexly linked with the main sources of political power.

Its sub-par performance constrains these groups while at the same time providing them with the resources to retain their power and influence.

Reformists

Most favored in West, but currently least important -- in disarray and control few institutions of power within Iran.

Most Iranians were deeply disappointed in President Khatami's time in office (1997-2005). The regime has jailed many of the reformist leaders – others Council of Guardians disqualified from standing for election.

The reformists see nuclear weapons as being a low priority; they emphasize the need for economic and social reform, and want good relations with the West.

Were willing to give up the nuclear program altogether as part of a general rapprochement--which was then over-ruled by the Supreme Leader.

Pragmatic Conservatives - Technocrats

These men like former President Rafsanjani have long placed the highest priority on rebuilding Iran's economy and recognize that this is impossible without vastly improved relations with the West in order to encourage greater trade and investment in Iran.

Somewhat disillusioned with the Iran Revolution -- willing to sacrifice the nuclear program if it stood in the way of the improved relations with the West which they see (FDI and tech) as critical to Iran's economic health.

They have proposed country adopt something like the China model of increased growth in an authoritarian setting.

Clearly however Iran does not have the political will, institutions or competence to carry out broad based China-type reforms.

Radical Hard-line Conservatives

The worldview of this group is dominated by the events of 1979 and implies that Iran's current problems lie in its society's insufficient realization of revolutionary Islamic principles.

Most of them veterans of the Iran-Iraq war. Come out of the Revolutionary Guards or the security services. Fundamentalist and Anti-Technocratic.

Espouse populist programs, but in practice pay little heed to Iran's economic problems, believing that the Iranian people are willing to make further sacrifices in the pursuit of the Islamic revolution.

They are determined to acquire a nuclear weapon, because they believe it is necessary for their larger struggle with the United States, which they see as the principal threat to Iran and the revolution.

Mainstream Conservatives

Positioned between these two conservative groups are the mainstream conservatives. The Supreme leader Ali Khamene'i falls in this group.

They understand the importance of not allowing the economy to collapse because of widespread popular unrest. Yet they are reluctant to undertake extensive reforms because would threaten their power bases.

Feel that in the end the Europeans will be unwilling to impose sanctions and that with patience and their current window of opportunity be able to have their cake (the nuclear program and support for terrorism) and eat it too (the trade and investment they need from Europe and East Asia).

Very unpopular -- Corruption rampant -- primarily interested in keeping power and privileges at any cost.

Future Trends – Increased Authoritarianism

Now, as the conservatives control all branches of government once again, power is increasingly concentrated in the hands of the Supreme Leader.

The consolidation of conservative power in the Iranian state is proceeding along conventional authoritarian patterns with an increasing shift of power to the state security services – key cabinet and ministry posts.

A product of their increased role during the Khatami years -- silencing and intimidating reformist sympathizers.

In short -- the hard-liners have a window of opportunity while oil prices are high to consolidate and strengthen their position. -- oil revenues will likely continue to underpin a vast system of expenditures, patronage and repression that solidifies a support base and deters opposition.

Existing System is Stable – Many Sources of Stability -- Expenditures

Expenditures. Regime does deliver -- supporters can justifiably point to quality of life improvements that tend to be lost in the review of Iran's dismal post-revolution macroeconomic performance.

For example, adult literacy rates have increased from 50 percent in 1980 to 78 percent in 2002. The number of physicians per capita more than doubled during the same period.

Moreover, the Islamic republic fares much better than the shah's regime in providing public services to rural areas, where one-third of the Iranian population lives.

Sources of Stability – Patronage Organizations

Regime has created a sophisticated web of patronage through state and quasi-state organizations.

The unique feature of the Islamic republic is the wide array of quasi-state foundations called bonyads, which are semi-nongovernmental foundations holding private companies. Seized properties of Shah and followers.

Under the direct control of the Supreme Leader, the nominal purpose of these foundations is to provide social services under the auspices of religious guidance. Estimate vary – account for 20-40% GDP.

The bonyads are the preferred tool of social engineering for the clerical establishment. They accomplish three functions that strengthen the regime: social mobility, social security, and popular mobilization.

Movement to Authoritarianism Facilitated by Surge in Oil Revenues

The shift towards oil-based authoritarianism as in Russia and Venezuela is will documented by the recent deterioration in World Bank governance:

	percentile 2005	1996-02	2002-05
Voice and Accountability	9.7	3.5	-45.8
Political Stability/No Violence	16.0	-10.8	-30.7
Government Effectiveness	26.3	-10.8	-30.4
Regulatory Quality	6.9	54.7	-30.3
Rule of Law	20.0	60.2	-9.9
Control of Corruption	41.4	128.1	-1.9

For the Future – Internal Pressures

Even if the regime has recently had to subdue disgruntled youth, demographic trends indicate that the regime might soon not even be required to call on its coercive apparatus.

As birth rates began to drop toward the end of the Iran-Iraq War in 1988, demographic pressure has been easing, with the last of the baby boomers due to enter the labor market by the end of this decade.

Subsequently, the labor force growth rate will shrink to 1.7 percent, about half of the rate in 2000 and easily supported by current growth.

The government does not face an imminent popular challenge and certainly through patronage and repression has the means to confront any domestic opponents until this demographic reversal is completed.

External Pressures – Nuclear Program

These factors together with defeat of the reformist movement will continue to reduce internal demands for change.

Instead, the regime is primarily concerned with withstanding international pressure. Rightly or wrongly, the regime feels possession of nuclear technology lessens the chance of external encroachment – North Korea.

The regime also feels the program is a symbol of accomplishment of Iranian science and is evidence the country an advanced modern industrial power.

From the government's perspective these benefits outweigh the potential costs of confrontation over the nuclear program. The regime sees Western opposition as an attempt to keep it down and to prevent it from assuming its rightful place as a leader in the region and broader Muslim world.

Consolidation of Political Power

International pressure could only affect Iran's political dynamics and economy in the short term if it sparked elite rivalry, particularly among the three conservative groups. Recent UN smart sanctions are an attempt.

That being said, the current process of consolidating Iran's new authoritarianism is aimed precisely to reduce such factional infighting.

In the process the government is gradually modifying its unique clerical theocracy with a shift toward a more conventional authoritarian model.

The immediate winners are the office of the supreme leader and the state security apparatus, especially the Revolutionary Guards and the Basij.

Increasingly, Iran is resembling other Middle Eastern authoritarian regimes.

Longer-Run Challenges -1

In the long term, however, there are three major challenges to the regime.

First, at some point, the militarization of Iran's government may directly pose a threat to the Supreme leader and thus provoke an internal power struggle.

Second, as noted earlier, oil, patronage and corruption have placed the country in a "structural trap" in which the political system prevents the proper allocation of economic resources.

Within a decade Saudi Arabia will be able to ramp up production to 15 mbd and to force oil prices down to levels threatening Iran's economic stability if the country is perceived as a threat. In short, the economy cannot be forever supported by buoyed oil prices and revenues.

Longer-Run Challenges - 2

If the government cannot control the consumption of oil products and if the projects for increasing the oil production capacity do not occur, there will not be any oil for export in 10 years.

At some point, Iran will have to pursue a path of economic liberalization and develop a more accountable and productive mechanism for spending its oil revenues.

This development in turn will undermine the elite's power bases and open the system for new social forces.

As for now, the system is changing and not for the better.

Implications for the Region -- 1

Iran's leaders now very-self assured – many favorable circumstances.

End to threats to country from Iraq and Afghanistan; U.S. bogged down in Iraq, victories by pro-Iranian groups in Iraq, Lebanon and Palestinian.

Oil and gas exports increased from \$23 billion in 2002/03 to \$55 billion in 2006/7 driven entirely by higher prices.

Oil has allowed sharp increase in off-budget expenditure helping to drive economic growth into the 6% per annum range. Foreign exchange reserves have increased to over \$60 billion more than twice all foreign debt.

Now feel more confident and self-reliant – harder to persuade the country to cooperate with international community.

Implications for the Region -- 2

With Ahmadi-nejad seem to be rekindling the lost fervor of early revolutionary days. Enjoys confrontation with the West.

Evolution to a more authoritarian state with abundant oil revenues enables the government to develop more of a consistent, aggressive approach towards expanding their regional influence.

In contrast the Supreme Leader has preferred low-level confrontation with the West – just enough to keep the revolutionary spirit alive, but not enough to risk open hostilities.

Subtle shift – SL seems to feel that West, despite is tough rhetoric will do nothing to stop Amadinezhad so why not let him push ahead. Will keep probing the system until confronted. A direct threat to U.S. interests

U.S. Interests in the Region

The reconstruction of Afghanistan and Iraq as more peaceful and democratic states.

The defense of the security and regional interests of Israel

To contain the violence between Israel and Hizbullah and Israel and the Palestinians.

Global access to energy supplies in the gulf.

To contain and defeat the spread of terrorism.

In all of these areas, Iranian growing influence is seen as posing a major threat to US interests and hegemony across the region.

Military -- Overview

Iran's ability to expand its influence is controversial and a matter of great policy debate with views ranging from major threat to minor irritant.

The conventional military forces are probably a minor threat -- The revolution and eight-year war with Iraq substantially weakened Iran's conventional military capability.

Many senior officers were purged following the revolution and a great deal of Iran's weapons and equipment were destroyed during the war with Iraq.

The Armed forces are 500,000 active personnel coordinated by a single high command under the Supreme Leader, with further 350,000 in reserves. The Iranian Navy has 18,000 men, and 20,000 of the IRGC are dedicated to Naval activities.

Military -- Strength

Navy has three Russian manufactured Kilo class submarines and three frigates. Could easily mine the Straits of Hermoz were 60% world oil flows.

The air-force battles continuously against deteriorating equipment; only about half of its US built aircraft are thought to be operational. However, the Iranians have surprised many with sophisticated modifications.

The purchase of MiG-29 fighters from Russia has partially alleviated shortages of top line equipment.

The country has begun to manufacture its own military hardware, including field artillery, helicopeters and battle tanks. It has also built its own medium-range missiles, which are believed to be propelled by rockets imported from North Korea. Indigenous technology very limited however.

Military – Strength -2

They have compensated for a lack of conventional military strength through the creation of unconventional asymmetric forces.

The Basij created in 1980 and used as human wave attacks in the Iran-Iraq War -- mainly comprised of conservative men from disadvantaged backgrounds. Used to enforce societal restriction on secular groups— suppress student movements. Could be easily mobilized for regional conflict.

In addition the 120,000 man Iranian Revolutionary Guard Corps provides a supplement of highly motivated, mostly well trained and well armed fighting force. The IRGC controls Iran's Scud missiles and chemical and biological weapons arsenals as well as missile production.

Military – Strength - 3

Also has 5,000 men is the Qods Force, a branch of the IRGC that is explicitly tasked with unconventional warfare and working in foreign countries. Similar in many ways to our Special Forces.

Asymmetric and unconventional capabilities give it the ability to create great turmoil through the use proxies and partners without openly declaring war. By far the main Iranian threat at this time

Examples: Iran's support of Shi'ite militias in Iraq, ties to elements in the Iraqi government, partnership with Syria and ties to the Shi'ite population in Afghanistan and to the Hezbollah in Lebanon.

Other Threats

Religious and ideological threats in a region and Islamic world polarized along sectarian lines. Clearly a major US/Israeli/Sunni concern – Major threat to stability in Bahrain. Shia predominate Saudi Arabia's Eastern Province where the oil fields are located.

Oil Threat The country has often threatened to suspend oil sales or cut back on production – given their need for cash, this is not a credible threat. They have been aggressive in OPEC for higher prices and reduced quotas – however, can't even meet their own OPEC production quota.

Economic warfare – shifting out of dollar reserves – creating an Iranian Euro Denominated Oil Bourse on Kush Island. Empty threats – little economic merit. But has become a major topic on web conspiracy sites.

How Can US Combat the Iranian Threat? -- 1

Most analysts come up with pretty much the same laundry list:

Rely on actions and not words. Abandon efforts to achieve Iranian regime change without abandoning efforts to influence evolutionary change.

Focus on Iran's human rights abuses rather than promotion of democracy.

Accept the seriousness of the dangers posed by Shi'ite and Sunni religious extremists.

Support negotiating efforts to have Iran comply with IAEA and UN and peaceful situations to the nuclear issue.

Redefine GCC relations with the US to create a true Gulf security partnership.

How Can US Combat the Iranian Threat? --2

Understand that the failure to deal with regional disputes and equity for the Shi'ites in the Arab world empowers Iran.

Do not give up on Iraq or Afghanistan.

The economy is very shaky and vulnerable. However, in the short run only sanctions that would limit oil sales or refined product imports would be effective. Over time, measures halting foreign investment in the oil sector would be very damaging.

Make it unambiguously clear to Iran that seeking nuclear armed missile forces will trigger a major defensive reaction. Carrots Won't Work. The only thing the Iranian regime will understand is that the costs of troublemaking will be higher than benefits of this action.

There are a number of wild cards that make any assessment difficult.

Supreme Leader may be gravely ill with cancer. The Expediency council headed by Rafsanjani will pick his successor – a pragmatist?

Oil prices and markets – Always difficult to forecast and Iran can manipulate these to a certain extent. Likely many of the crisis initiated by them have been to drive up oil prices – made about 200 million on the British crisis.

Situation in Iraq and Afghanistan – can draw many scenarios here.

Will the Iranian public passively accept their gradual loss of human rights?

In the end, as former Secretary Rumsfeld might have said: With regard to Iran there are some known-knows. There are more known-unknowns and unfortunately, probably even more unknown-unknowns.