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Coercive state, resisting society, political and economic development in Iran

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Abstract: In my studies, I have explored the political economy of Iran and particularly the relationship between the state and socio-economic development in this country. The importance of the oil revenue in economic development of contemporary Iran has been underlined since the early seventies and a vast literature on the rentier state and authoritarian modernization has scrutinized the specificities of the political and economic natural resource 'curse' in Iran. A new critical social history of the oil industry has recently endeavored to reconsider the spread effects of this industry on the emergence of new cities and labor activities. In this sense, the impact of oil revenue on economic development should be mitigated: it has not been only a 'curse' but also a 'blessing'. The precious results of natural resource curse or blessing notwithstanding, this approach is insufficient to explain why some predatory states reliant on natural resources could contribute to economic development while others hinder such development. Two recent examples provide a salient illustration: why did the Shah's regime which was dependent on oil revenues enhance economic development during 1962-1974, while Ahmadinjead's two terms presidency (2005-2013) imped economic growth despite the quadrupling of oil revenues?
In this essay, I will first introduce my theoretical framework and distinguish two types of predatory states, i.e. inclusive and exclusive (section 1). I will then apply this framework to explain oil and economic development (section 2). Section 3 will be devoted to the Shah's regime as an inclusive predatory state, and section 4 to Ahmadinjead's presidency as an illustration of an exclusive predatory state. A short conclusion will follow.

Keywords: Capital flight; Captive, Intermediary and Fugitive assets; Confiscatory regimes; Inclusive and Exclusive Predatory States; Islamic Republic of Iran; Land Reform; Oil revenues; the Shah regime

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Coercive state, resisting society, political and economic development in Iran[1]

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Introduction

In my studies, I have explored the political economy of Iran and particularly the relationship between the state and socio-economic development in this country. The importance of the oil revenue in economic development of contemporary Iran has been underlined since the early seventies and a vast literature on the rentier state and authoritarian modernization has scrutinized the specificities of the political and economic natural resource 'curse' in Iran. A new critical social history of the oil industry has recently endeavored to reconsider the spread effects of this industry on the emergence of new cities and labor activities. In this sense, the impact of oil revenue on economic development should be mitigated: it has not been only a 'curse' but also a 'blessing'. The precious results of natural resource curse or blessing notwithstanding, this approach is insufficient to explain why some predatory states reliant on natural resources could contribute to economic development while others hinder such development. Two recent examples provide a salient illustration: why did the Shah's regime which was dependent on oil revenues enhance economic development during 1962-1974, while Ahmadinjead's two terms presidency (2005-2013) imped economic growth despite the quadrupling of oil revenues?

In this essay, I will first introduce my theoretical framework and distinguish two types of predatory states, i.e. inclusive and exclusive (section 1). I will then apply this framework to explain oil and economic development (section 2). Section 3 will be devoted to the Shah's regime as an *inclusive predatory state*, and section 4 to Ahmadinjead's presidency as an illustration of an *exclusive predatory state*. A short conclusion will follow.

1. Theoretical framework

In his insightful book, North (1981) suggested a simplified classification of two general types of theory about the state: 1) a 'contract theory' largely accepted by the mainstream economics in which "the state plays the role of wealth maximizer for society"; or 2) a 'predatory theory' of the

[1] I would like to underline ~~that~~ the fact that ideas developed on "The Shah and land reform" (section 3.1) is the outcome of a joint research I and my longtime friend and colleague, the historian Nasser Mohajer have undertaken for some time. We hope to put this study in print soon.

[2] This paper was first presented as "Coercive State, Resisting Society, Political and Economic Development in Contemporary Iran", *Dr Sadighi Annual Lectures*, Sadeghi research Fund and International Institute of Social History, Amsterdam, June 8th, https://socialhistory.org/en/events/lecture-political-and-economic-development-contemporary-iran

state shared by a remarkably varied collection of schools according to which the state would specify "a set of property rights that maximized the revenue of the group in power, regardless of its impact on the wealth of the society as a whole" (ibid, p. 22).

1.1 A positive theory of the predatory state

In the first type of theory, the boundaries of state intervention into the economy are defined by the nature of goods and services. Public goods and services call for state intervention, and are characterized by two properties: *non-rivalrous* in consumption, i.e., the existence of a positive consumption externality; and *non-excludability* from consumption, even by those who have not contributed to financing the goods' provision.[3] Accordingly, the optimal boundary of state action is decided by the scales and scopes of public goods and services. This is clearly a *normative* theory of the state's boundaries. But this theory does not explain how the boundaries of the state evolve and how they were delineated throughout history. In fact, many so-called 'public goods' (such as military security, highways, and lighthouses) are now provided privately (Coase 1974), while some non-'public services' (like the postal service) have been nationalized, e.g., as in the United States, according to Article I, Section 8 of the US Constitution.

While the distinction between public and private goods is essential in developing a *normative* theory of the state as provider of public goods and services, my contention is that this distinction lacks a strong explanatory power in defining the contours of a predatory state as they *are* or as they have evolved throughout history. In studying the political economy of Iran, my focus will be specifically on what the boundaries of a state *are* rather than what they *ought to be*. In practice, the boundaries of the state are determined by a balance of power between the predatory role of the state in coercive appropriation and the mobility of agents and their assets in resisting predation.

Many scholars in the eighteenth and nineteenth centuries including the founders of the political economy like Montesquieu, Quesnay, Mirabeau, Adam Smith, Sir James Stuart Mill emphasized *the role of 'capital flight' in restraining tyranny* (see Hirschman, 1970, [1977] 2013). They defined money, notes, bills of exchange, equity shares of companies, ships, all commodities and merchandises as 'movable assets' that could escape from tyranny. Hirschman (1978) also cited Turgot regarding the role of the emigration of persons in addition to physical capital in enhancing democracy. Bates and Lien (1985) added several other scholars, including Quesnay, Mirabeau and Marx, the latter stating that capital was the most mobile factor of production. This line of thought has been prolonged in recent economic literature by Hirschman in the seventies and eighties and recently by Acemoğlu and Robinson (2006) among others. Similarly, political scientists such as Rogowski (1998); Przeworski *et al.* (2000); Scott (2009); Clark and McGirr, (2010); Connolly (2012); Freeman and Quinn (2012) discussed the relationship between the political competition among authoritarian regimes on the one hand, and the capacity of certain crops, commodities and agents to escape or to be hidden in thwarting the state's coercive appropriation, on the other hand.

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[3]Samuelson (1954) referred to 'collective consumption goods' versus 'private consumption goods,' but Desmarais-Tremblay (2014) argued that the two dimensions of public goods already were adumbrated by Musgrave in 1939. Later, Musgrave (1969) formulated the 'free-riding' problem as an explanation for market failure in the case of public goods, and Musgrave and Musgrave (1973) originally conceived a two-by-two table as a pedagogical device for classifying different families of goods based on the possibility of satisfying both or only one of two criteria: *non-rivalrous* and *non-excludability*.

This line of work is helpful in developing a positive theory of the predatory state, but it suffers from a fundamental confusion between two distinct properties: 'appropriability' and 'mobility'. The former pertains to the state's ability to prey; the latter refers to the prey's ability to escape. 'Mobility' of an asset provides a means to escape, but does not necessarily imply a lesser ability of the state to appropriate. Consider two movable assets: books and expert knowledge. The books can be easily stolen but the expert knowledge are hardly appropriable. Generally speaking, specific or idiosyncratic assets are almost non-appropriable, as illustrated by the story of Ghazali and the robbers (see Giffel 2009). The story describes a man who was robbed of his books, but later retrieved them and memorized their contents so that no thief could rob him of his knowledge. This pertains to a particular type of asset specificity: *human capital asset specificity*. Unlike books, personal knowledge cannot be stolen or confiscated. That explains why any authoritarian regime must tolerate and compromise with experts if it wants their help and collaboration; otherwise, it must slaughter them, as in Cambodia under Pol Pot's regime. Moreover, in face of tyranny or warfare, experts often opt for 'exit option' and emigrate: 'brain drain' is usually the result of such a choice.

Immobility does not necessarily imply appropriability. Consider two immobile assets: a landed property and a specific investment in physical capital (for example, a branch of a car industry in an undeveloped country). An authoritarian regime might easily confiscate a landed property, but it cannot gain much by appropriating coercively a branch of a car industry since the continuation of particular investments requires specific entrepreneurial capabilities, including marketing, financing, monitoring, coordinating and networking abilities. In the absence of these capabilities, specific assets break down into generic assets, losing all or most of their value. I have already demonstrated that highly specific assets are less vulnerable to strong opportunistic behavior (e.g., theft, predation) *outside* the contractual relationship, and are more prone to subtle forms of opportunistic behavior (e.g., moral hazard, adverse selection) *within* the contractual relationship (Vahabi, 2011). In other words, specific investments in physical capital are hardly subject to confiscation.

In discussing the 'exit option' we need to clearly distinguish two distinct criteria: 1) *appropriability* (predator); 2) *mobility* (prey). *Appropriability* determines the *benefits* of predation and *mobility* decides the *costs* of predation.

1) *Appropriability***:** *idiosyncratic assets* (ex., human capital or investment in physical capital) are hardly appropriable whereas *generic assets* (ex., landed property) are easily appropriable. *Concentrated* assets are more easily appropriable than *diffused* ones.

*2) Mobility***:** some assets are movable, (i.e. capable of escaping from a given state space), since they can be easily *hidden* (ex., potatoes) or displaced *geographically* (the ratio of value to weight, ex. alluvial diamonds). Movability also refers to the possibility of *altering political (authority) allegiance* without any physical (geographical) displacement. Ex: vassals' rebellion against princes in Germany during High Middle Ages.

A caveat is warranted with regard to the *mobility* capacity of a commodity or an agent: *mobility includes invisibility* (i.e., hidden ability) or the ability to be hidden. Cocaine can be easily hidden.

In dire contrast to cereals, potatoes are 'escape crops' since they can be easily hidden: "A reliance on root crops, and in particular the potato, can insulate states as well as stateless peoples against the predations of war and appropriation…. Enemy armies might seize or destroy grain fields, livestock, and above ground fodder crops, but they were powerless against the lowly potato, a cultivar which Frederick William and Frederick II after him had vigorously promoted. It was the potato that gave Prussia its unique invulnerability to foreign invasion" (Scott, 2009, p. 196). Other examples of 'escape crops' are roots and tubers (having the hidden ability) such as yams, cassava, manioc, and yucca. Obversely, there is an intimate relationship between cereals and state formation, since only this crop could serve as the foundation of taxation. Cereal grains are visible, legible, storable, and divisible. Indeed, all the pristine agrarian states in Mesopotamia, Egypt, Indus Valley, and Yellow rivers, were *grain states*: wheat, barley, and millet (in the case of Yellow River) (Scott 2009, Chapter 3, pp. 64-97).

As mentioned above, the exit option depends on the benefits of predation (coercive appropriation) and the costs of predation (capacity to escape). Why is it important to examine the 'exit option' of an asset? The answer is that each asset has two types of value: *economic* and *booty value*. Its economic value is determined in a *voluntary* transaction. But the booty value of an asset depends on its *exit option*. The *exit option* of an asset is crucial in determining its value for the state; it is defined by the difference between benefits and costs of forced appropriation. Coercive 'appropriation' refers here to 'capture by force' or *involuntary* redistribution, including state confiscation, expropriation, extortion and theft. Other modes of appropriation, such as acquisition by market transaction, donation, inheritance and option value of financial assets, assume voluntary transactions.[4] Classifying assets according to their value for the state (and not market) requires a taxonomy of assets with regard to their booty values.

1.2 Captive, fugitive and intermediary assets

Instead of focusing on private versus public 'nature' of assets, it is necessary to investigate their booty values or the degree of easiness or difficulty of appropriating them coercively. The booty value of assets is their value as 'seen by a state'[5] in the context of coercive relationship which is different from the assets' economic value in consensual relationships. Considering the two criteria, appropriability and mobility, all assets may be regrouped into four major categories: 1) *pure captive assets* that are both appropriable and unmovable (like landed property); 2) *mixed captive assets* that do not satisfy the mobility criterion but are non-appropriable (like investment in physical capital, a branch of a car industry); 3) *mixed fugitive assets* that satisfy the mobility criterion but are appropriable (for example, precious manuscripts); 4) *pure fugitive assets* that satisfy both mobility and non-appropriability criteria (for example, human capital). In reality, state space is not decided by public goods and services that are non-excludable and non-rivalrous, but rather by *pure captive assets*.

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[4] In organization theory, 'appropriation' often refers to post-contractual opportunist behavior *within* voluntary transactions (Klein, Crawford and Alchian 1978). This type of 'appropriative' activity does not fall within the scope *of involuntary (coercive) transactions*.

[5] The title of James Scott's book (1998), "*Seeing Like a State"*, is clearly relevant to what I suggest below in distinguishing the *booty value* of an asset (as seen by a state) from the *economic value* of the same asset in a consensual relationship.

While pure fugitive assets (category 4) are out of the state space, and pure captive assets (category 1) belong to the state space, the ‘mixed captive assets’ as well as the ‘mixed fugitive assets’ (categories 2 and 3) are *intermediary assets* and have ambivalent positions with regard to the state space. They can become part of a state space or undertake political exit; everything depends on the outcomes of the bargains between the state and the owners of these assets.

In the case of ‘mixed fugitive assets,’ owners can exercise their ‘exit power’ to take advantage of rival predatory states to reduce the rent (tribute) they pay to protect their appropriable goods from threat of confiscation by local authorities, pirates or bandits. This ‘exit power’ of merchants and financiers is related to their ability to find a substitute protector. In this sense, competition *à la* Tiebout (1956) ensues among providers of protection (kings, lords, religious authorities) to attract consumers of protection (merchants, financiers, industrialists) (Pietri *et al.* 2017).

The owners of ‘mixed captive assets’ do not have such *exit* power, but the value of their assets and hence the amount of the state’s revenue or taxes depends on their *entry* to the market. Their ‘entry power’ gives them the opportunity to bargain with the state to guarantee the security of their physical capital investment through laws, regulations and privileges. Table 1 recapitulates the relationship between different types of assets and state space.

Table 1. Types of assets and state space[6]

Type of assets	Mobility (including hidden ability)	Appropriability	State or non-state space	Examples
1. Pure captive assets	No	Yes	State-space	Landed property, artisanal extraction of oil
2. Mixed captive assets	Yes	Yes	Ambivalent	Physical capital investment (a branch of a car industry), industrial extraction of oil
3. Mixed escape assets	No	No	Ambivalent	Notes, money, gold, alluvial diamonds, commodities, merchandise
4. Pure escape assets	Yes	No	Non-state space	Human-specific assets, ‘famine’ foods (e.g., potatoes)

[6] This table is a slightly modified version of Vahabi (2016a, p. 244).

In this table, one can note that 'pure escape assets' do not only belong to experts or privileged groups of society. Poor people might possess such type of assets. An emblematic figure is 'famine goods'. They include oats, barley, fast-growing millets, and buckwheat that are tolerant of poor soils, high altitudes, and short growing seasons. These are both *movable* (*hidden*) and *non-appropriable,* and typically belonged to poor and stateless people like fugitives and refuges of Zomia in the vast mountainous region of mainland Southeast Asia (Scott 2009). Furthermore, some rich people like merchants, bankers, and industrialists often own 'mixed escape goods' that are *movable but appropriable*. They could use their exit power to exact concessions from the state. In this sense, they were not 'out' of the state, but could threaten not to be 'in' the state.

There are three major strategies to extend the state space: 1) *predatory competition* or the use of aggressive force of the state depending on the size of the army; 2) *price competition* or the use of protective force of the state by offering better or the same quality of protection for less tax[7]; 3) *mixed competition* or the use of both aggressive and protective force of the state to *discriminately* protect certain assets. The first type of competition is particularly efficient in the case of captive assets; while the second one is particularly adapted to pure fugitive assets. Mixed competition is warranted for encompassing mixed (pure or fugitive) assets.

On the basis of above-mentioned strategies, two types of predatory states might be distinguished.
1) An inclusive predatory state: a state that does not only use aggressive force of the state to include pure captive assets, but also adopts an inclusive strategy regarding mixed and pure fugitive assets. Examples are the Young American Republic during 1850-1900 (Vahabi, 2016b), Chile after the coup d'état against Allende during the reign of General Pinochet and Iran during the Shah's agrarian reform 1962-1971). In this type of predatory state, coercive appropriation enhances economic development.

2) An exclusive predatory state: a state that mainly employs its aggressive force to include pure captive assets but also other types of assets. Since brutal force is highly costly to enchain fugitive and mixed assets, an exclusive predatory sate might be defined as a type of state that adopts an exclusive strategy regarding mixed and pure fugitive assets. A recent illustrative example is political Islam. Not only the ISIS which is an embryonic form of state but also more developed and sophisticated Islamic Republic of Iran are good cases in point. In this type of state, predation often impedes economic development.

2. Oil and economic development

In this second part, I will apply my theoretical framework to a particular type of predatory state that is dependent on oil revenue. However, since the literature on natural resource curse has extensively explored this kind of state (see Vahabi, 2017), I will start by summarizing the main results and shortcomings of this literature. After identifying the gaps that are not addressed in the resource curse literature, I will show the value added of my approach in addressing those gaps.

2.1 Oil and natural resource curse

[7] In *Public Economics*, this second type of competition is known as Tiebout's competition referring to tax reduction as an interjurisdictional competition by provincial states.

The term natural resource curse was initially coined by economic geographer Richard Auty in 1993. It has been defined as “the perverse effects of a country’s natural resource wealth on its economic, social, or political well-being.” (Ross 2014, p. 2). According to Ross (2012), the resource curse is overwhelmingly an oil curse and can be traced back to the early 1980s. Before the eighties, there was not much difference between oil and non-oil states with regard to their tendency towards authoritarian governments or their exposure to civil wars. Two types of natural resource curse should be distinguished (Vahabi, 2017):

1) *Economic* resource curse pertains to a stylized fact that resource rich countries tend to grow slower than their resource poor counterparts. Dutch disease, rent-seeking, corruption, and institutional explanations (Auty, 1993; Sachs and Warner, 1995; Van der Ploeg, 2011) provide four strands of economic analysis regarding the causes of economic resource curse.

2) *Political* resource curse describes a tendency in countries richly endowed with resources to be more authoritarian and more prone to civil wars than those without such resources (Mahdavy, 1970; Karl, 1997; Herb, 2005; Ross, 2012, 2014).

Until recently, while most studies report evidence of some type of resource curse, a considerably smaller literature either finds against the hypothesis (Herb 2005), or finds that the effect of natural resources on regime type is conditional on other factors (Dunning 2008). Contrarily to Ross (2001), Haber and Menaldo (2011) and Menaldo (2016) question that had Saudi Arabia not become oil-reliant, it might have developed the same political institutions as Denmark, provided it would have achieved the same per capita income and had fewer Muslims.

Reviewing his earlier works, Ross (2012, p. xiii) acknowledges that extracting oil does not necessarily lead to abnormally slow economic growth, or does not make governments weaker, more corrupt, or less effective. However, he still underlines the importance of natural (oil) curse since around 1980, and endeavors to explain why some countries have escaped the curse, and how resource curse might be turned into resource blessing in more countries in the future. Similarly, van der Ploeg (2011, p. 366) contends that "empirical evidence suggests that either outcome [curse or blessing] is possible". Thus, the literature now embraces both a pessimist and an optimist viewpoint of natural resources.

Countries relying on natural resources with institutions of mediocre quality are prone to natural resource curse, whereas countries dependent on natural resources having institutions with grand quality can escape from the pernicious effects of natural resources. Menaldo (2016) speaks of the ‘institutions curse’ rather than ‘resource curse’. According to Haber and Menaldo, the presence of democracy or a state of law can transform resource curse into resource blessing. Wiens (2014) argues that there is no systematic relationship between fiscal reliance on resource revenue and a country's level of democracy. Instead, he suggests that we should expect: “(1) resource dependence to be systematically related to a country’s *likelihood of establishing restrictive institutions*; and (2) that this relationship is conditioned by the nature of a country’s institutions prior to the onset of resource-dependence” (Wiens 2014, p. 212). Restrictive institutions are not necessarily democratic ones, but they, to different degrees, control the power of rulers. Considering institutional path dependency, it is assumed that if rulers' power is restricted before fiscal reliance of the state on resource revenue, then the curse will not occur. In this approach, unrestrictive domestic institutions permit a ruler to allocate resource revenue *in ways that inhibit sustainable broad-based economic productivity*. This is the cause of economic resource curse. Similarly, unrestrictive domestic institutions permit a ruler to allocate resource revenue *in ways that undermine stable executive accountability* to a broad coalition of citizens. This generates the political resource curse.

Recent natural resource curse/blessing literature emphasizes the determinant role of democracy or restrictive regimes in enhancing economic growth. Many historical evidence don't support this assumption. Among them, the regime of Shah Mohammad Reza Pahlavi especially during the White Revolution (1962-1971) and General Pinochet's military junta (1973-1979) are astounding, since they were autocratic and marked by *unrestrictive* institutions. Indeed, the Shah's 'White Revolution' strengthened his personal autocratic reign over all the economic and political spheres but simultaneously enhanced economic growth. Hence, I will argue that economic growth is not conditional on a democratic, non-predatory, institutionally restrictive character of the state.

Inclusive predatory states often enhance economic growth, while *exclusive* predatory states are an impediment to growth. In doing so, I will study two periods of the Iranian economic history, the Shah's agrarian reform (1962-1971) (section 3) and the two terms of Ahmadinejad's presidency under the Islamic republic of Iran (2005-2013) (section 4). During both periods, Iran's economy greatly relied on the oil revenue. Ahmadinejad's presidential terms largely cover the most important oil shock with each barrel attaining 150-200 dollars according to Goldman Sachs (*Economist*, May 7th, 2008). I compare the Shah's 'White Revolution' with Ahmadinejad's 'Messianic Revolution' exactly because the latter happened during an oil 'super-spike' and neither of them could be characterized as a non-predatory state.

A last caveat is warranted to shun any misunderstanding about the title of this communication. Any state is 'coercive' and thus 'coercive state' seems to be a redundant expression. By 'coercive', I mean a non-democratic, *unrestrictive* institution that permits a ruler to allocate resource revenues particularly that of oil *in ways that undermine stable executive accountability* to a broad coalition of citizens. The relationship between rulers and ruled is not based on transparency, accountability, law, or representative elections and rotations but coercion. I would like to add that in my opinion, every state is predatory, in the sense that it pursues its 'private interests' (i.e. not only the army's, and the rulers' personal interests but also different lobbying interest groups). Democratic states are also predatory. However, my focus here is on predatory states that are coercive (undemocratic and unrestrictive) in their relationship with public. This broad definition of coercive state covers both the Shah's regime and the Islamic Republic of Iran while in the political literature, the former is often characterized as 'autocracy' and the latter as a 'tutelary regime' or a specific type of 'hybrid regimes'[8] (Levitsky and Way, 2010). As an economist, I do not need to enter into political

[8] By a hybrid regime, they understand not only 'competitive authoritarianism' but also three other forms, namely: "1) *constitutional oligarchies* or *exclusive republics*, which possess the basic features of democracy but deny suffrage to a major segment of the adult population (e.g., Estonia and Latvia in the early 1990s); 2) *tutelary regimes*, in which elections are competitive but the power of elected governments is constrained by nonelected religious (e.g., Iran), military (e.g., Guatemala and Pakistan), or monarchic (e.g., Nepal in the 1990s) authorities; and (3) *restricted* or *semi-*

specifications as long as the predatory and coercive nature of the Shah's regime and the Islamic republic of Iran are stressed.

2.2 Oil as a mixed (pure) captive asset

In my theoretical framework, oil is considered as a *mixed captive asset*. It is *captive* since it is an immobile mineral resource but it is *hardly appropriable* because its exploitation at a large scale depends upon industrial extraction requiring specific investment in know-how, machinery and equipment. Artisanal refining or subsistent distillation of crude petroleum over a specific range of boiling points is also possible for the local use. This type of extraction might be organized on the basis of traditional knowledge skills with little reliance on high-end technology at a small-scale. In this sense, oil is a *pure captive asset*. However, the use of artisanal refining for oil theft aiming at capital accumulation is highly costly since it often constitutes a source of colossal water, land and air pollution. In recent years, artisanal refining has become widespread in southern Nigeria with increasing oil theft. This method is associated with severe environmental pollution and serious adverse health effects for the workers as it is clearly reflected by the ISIS experience in Iraq, Syria, and Libya (*Iraq Nineveh Governorate*, December 2, 2016).

The domination of multinational oil companies since the First World War and that of the Seven Sisters over the oligopolistic oil market from the mid-forties until the mid-seventies are partly related to their role in providing idiosyncratic investments in oil industry. The Middle Eastern states up until now can hardly appropriate oil without acquiring the required skill, know-how, machinery, equipment and access to world market. However, they could be the major beneficiaries of petrol-rent as partners of major multinational oil companies compared to other sectors of the economy`. A rentier state reliant on the oil revenue is not dependent on taxes from the private sector to develop its military apparatus and/or bureaucratic administration. Hirschman was one of the first economists who noted the 'enclave' characteristic of an economy dependent on oil revenue. By 'enclave', Hirschman (1977) meant a staple like oil and other similar mining activities that do not involve the rest of the economy, and do not have any productive backward, forward, or final demand linkages[9]. In an enclave economy, *fiscal linkages* become particularly determinant.

It is precisely because of this absence of connections that the enclave becomes an obvious and comparatively easy target of fiscal authorities. "Being a foreign body, often owned by foreigners to boot, the enclave has few defenders of its interests once the state acquires the will and authority to divert toward its own ends a portion of the income stream originating therein." (Hirschman 1977, p. 74). In this sense, strong fiscal linkage in an enclave economy is in contradiction with

competitive democracies, in which elections are free but a major party is banned (e.g., Argentina in 1957-1966 and Turkey in the 1990s)." (Levitsky and Way, 2010, pp. 14-15).

[9]Vahabi (2017) defines backward, forward and final demand linkages in the following terms: "*Backward* linkages lead to new investments in input-supplying facilities and influence the pattern of investment activity, notably transport for collection of the staple. *Forward* linkages are a measure of the inducement to invest in industries using the output of the export industry as an input; they often stimulate processing and service industries. Together with the *final demand* linkage, which measures the derived demand for consumer goods from staple production, these relationships determine the strength of the spread effects from the staple to the economy as a whole."

other forms of linkages. In fact, if there was a productive activity with many direct links to the rest of economy, either because of strong backward and forward linkages or, more simply, because it is carried on in the central region of a country by producers with intimate ties to a dense network of traders and townspeople, then fiscal linkage would be difficult. "Clearly, with so many friends in court this activity is not likely to be subjected to significant special taxation. The situation that is brought to mind here is that of coffee-growing countries such as Brazil and Colombia" (Hirschman, Ibid, p. 75).

Interestingly, similar to Hirschman the recent contribution of Mitchell (2011) opposes coal to oil's supposedly curse-like properties from the viewpoint of production process. He gives pride of place to the power of coal miners to strike as the basis for gaining the rights to vote, to organize, and to create political parties to democratize European countries in the late nineteenth and early twentieth centuries. The linkage effect in the coal industry is explored throughout the strike movement that spread to an array of interconnected industries of coal mining, railways, docking and shipping sectors. In the same vein, Mitchell notes that the oil mines had similar effects in the early twentieth century. For example, the oil industry in Baku (presently called Azerbaijan) launched protests that would eventually result in the 1905 Russian revolution. The ripple effect in oil industry in Baku was due to the fact that "The proximity of wells, workshops, pumps, power supplies and refineries created a concentrated labor force with the ability to disrupt supplies of energy across a broad region." (Mitchell 2011, p. 34).

According to Mitchell, international oil companies and governments learnt from these early movements. They restructured the management of oil extraction to eschew worker pressures. For example, given the distance between oil mines and industrial centers, they exploited ethnic divisions or emigrant workers to insulate the oil industry in many countries. Moreover, various types of transport (maritime, pipeline, etc.) were developed to protect the delivery of oil in case of workers strikes. Although some social historians do not always agree with Mitchell's diagnostic of the workers' movement in oil industry (see for example Atabaki, forthcoming), his contribution is an addition to staple theory[10] by identifying a new linkage effect, namely *industrial conflict*.

Overcoming the 'enclave' oil economy, forward and backward linkages should be created between the oil sector and other sectors in national economy. This diversification process strengthens the private sector and the basis for a fiscal state. The choice between a *rentier* and a *fiscal* state is a political choice. In Iran, this political choice was on the agenda of rulers after the Second World War particularly during the early fifties. The national government of Dr. Mohamad Mossadegh, the Iran's Prime Minister, opted for the nationalization of the Iranian petrol in 1951 to create a *fiscal* state and terminate with the 'enclave' economy, establishing linkages between the oil sector and other sectors. The first step in controlling a tyrant reliant on oil revenue was to tie the oil industry to other sectors so that the new interest groups in other economic sectors would be incentivized to support a *constitutional* monarchy and avoid *absolute* monarchy. In doing so, the state could not only count on its coercive force but should behave as an 'industrial and merchant' state, i.e. a state monitoring industrial extraction, training the national technocratic and engineering

[10] For a detailed critical review of the staple theory and its relationship with natural resource curse, see Vahabi, 2017.

staff to gain the skill, know-how, and the networking capacity for trading the oil in the world market.

The monarch's choice was a *rentier* state, since it could strengthen his autonomy from all social classes by leaning on the partnership with multinational oil companies. Mossadegh's project failed because of the economic embargo and the American-British coup d'état covertly supported by the court, the bureaucracy and certain Shiite religious leaders in 1953. The economic embargo against the Iranian oil showed that the appropriation of a mixed captive asset on the sole basis of sovereignty rights is considerably costly.

Generally speaking, the brutal force is insufficient to appropriate coercively the idiosyncratic assets requiring specific investments in production, exploration, development, distribution and marketing networks (Vahabi, 2011, 2016a, b). The economic embargo caused arrear payments for the state employees and provoked contradictory reactions. While some supporters of Mossadegh massively bought the state's bonds to finance the depleted treasury, certain layers of the state employees grew dissatisfied with the government. The embargo paved the road to coup d'état that led to the failure of Mossadegh's goal to create a 'fiscal state' as the basis of a constitutional monarchy. Of course, he never employed the term 'fiscal state' but his idea of an "economy without oil" was describing an economy in which the state relies on tax acquisition rather than oil rent. The former could link the state to social classes including the nascent national bourgeoisie whereas the latter would strengthen the state's autonomy from social classes and consolidate the Shah's personal rule.

A year after the overthrow of Mossadegh's government, the Shah's regime concluded an agreement with a new consortium of international oil companies called Iranian Oil Participants Ltd (IOP) according to which while the National Iranian Oil and gas Company (NIOC) preserved the formal ownership of Iran's natural resources, it had to pass the effective control over the resources to this new consortium. To put it differently, the NIOC kept *de jure* sovereignty rights while IOP exercised *de facto usus fructus* property rights including the production, exploration, and development of oil fields. The consortium put an end to the British monopoly over Iran's oil, since the formerly AIOC (Anglo-Iranian Oil Company) newly baptized as the British Petroleum's share was reduced to 40 percent. Five American companies[11] each having 8 percent gained 40 percent of the total share; Royal Dutch Shell won 14 percent and the French oil companies (later called Total) also gained 6 percent. It was not until 1973 that NIOC came into its own as an operator, both in governance and with regard to capabilities.

During the whole period of 1954 to 1973, the NIOC was granted a stronger position in owning the installations, exploitation and sale management, and gradually achieved the know-how, skill and required capabilities to manage the whole industry. The consortium solution was in line with the Shah's political ambition to establish an absolute monarchy independent from the pressure of internal forces. However, while the coup crushed the organizational backbone of the pro-Soviet Tudeh Party and deprived the Iranian national bourgeoisie from political power, the situation after

[11] These companies included Gulf Oil and the four Aramco partners, namely Standard Oil of California, later named Chevron; Standard Oil of New Jersey, named later as Exxon, then Exxon Mobil; Standard Oil Co. of New York, later called Mobil and then ExxonMobil; Texaco, later called Chevron.

the coup d'état was still far from unrestrictive power of the autocrat. The high ranking military officers in the army, the upper echelons of Shiite clergy and the big landowners gained autonomous political power before and right after the coup. For example, two of the top military intelligence officers (Teymur Bakhtiar, and Mohammad-Vali Gharani) have been accused of conspiring against the Shah. The failure of Gharani's putsch plot in 1959 was a turning point in the Shah's grip over the army and its pressure on the U.S. to eschew any contacts with dissidents or oppositional forces in Iran[12]. The shah personally controlled all the nominations, rotation, firing and promoting of high military officers, and he took all the necessary precautions to avoid any political influence of high commanders in the army.

After establishing its control over the army and securing the loyalty of his security forces by the means of the SAVAK[13], the Shah could attack the landowners' authority in the rural regions that had extended their local powers due to years of weak centralization: "In the rural areas government control was very weak in the 1950's. For the most part, power in the countryside was monopolized by the large absentee landlords, especially those who lived in the major provincial towns." (Hooglund, 1982, p. 46). This was also true for the Khans or the chieftains of nomadic tribes such as Qashqai and Bakhtiari. Landlords' rural power base was a source of centrifuge political currents in the major provincial towns where they lived. In addition to large landlords and tribal chiefs, high Shiite clergy centered in the city of Qum who implicitly supported the Shah in the coup d'état against Mossadegh were the new autonomous center of power. They were against the westernization trend that threatened their religious and traditional culture. Moreover, the clergy's strategic interest was against a strong absolute monarch that could endanger their autonomy from the state as a religious caste. While big landowners and some influential Shiite clergy were in support of coup d'état, the urban civil society particularly students, workers, and some strata's of the middle classes were against the coup and were striving for independence, freedom, and social justice.

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[12]The American relationship with this plot is still unclear. For instance, the full memorandum of the meeting of three members of the U.S. embassy in Tehran (Fraser Wilkins, minister counselor of the embassy, Colonel Baska, and Lieutenant Colonel Braun) with the General Gharani on January 22, 1958 at the house of Esfandiar Bozorgmehr is still classified as "sensitive", not releasable to Foreign Nations (Milani, 2011, pp. 209-210). "On February 27, in an angry communique the Iranian government announced that 39 Iranians, including general Gharani, had been arrested for attempting to overthrow the government and that an "unnamed foreign power was involved." The reference to the "foreign" power was, according to the British embassy in Tehran, "intended to give the American a freight." In later versions of the communique, the reference to foreign powers was deleted." (Milani, Ibid, p. 210). Following this event, the Shah pushed the Americans to shun contacts with the Iranian political opposition and dissidents inside Iran. The U.S. vigorously rejected the idea at the time, but later accepted it to the point that on the verge of the Iranian revolution, the U.S. had not its independent channels to know about the Iranian oppositional parties and dissidents' activities in Iran.

[13]*SAVAK* or *Organization of Intelligence and National Security* was the secret police, domestic security, and intelligence service created in 1956. General Teymur Bakhtia was the first director of the agency from 1957 until 1961. He was dismissed in 1961 and Hassan Pakravan (1961-1965) was nominated as the new director. In 1965, Nematollah Nassiri replaced Pakravan until the eve of revolution (1965-1978). Finally, Nasser Moghadam directed the agency during the revolutionary year of 1978-1979 (see Keddie and Gasiorowski, 1990, pp. 148-151, 154-155).

Considering these independent power centers, what was the role of the agrarian reform in the Shah's strategy of consolidating its absolute monarchy? To what extent this reform can be regarded as a strategy of an inclusive predatory state?

3. An inclusive predatory state and the agrarian reform (1962-1971)

It is almost a common belief that land reform was imposed by Kennedy administration on the Shah in the early sixties and that the Shah 'betrayed' his landlord allies and British supporters by implementing what Dr. Ali Amini and Hasan Arsanjani were planning to enact. This idea gained currency among the opposition since the Shah was considered to be an American 'puppet' in the public opinion after his return to power by the 1953 American-British coup d'état. The land reform vigorously supported by the Kennedy's administration was thus attributed to the Americans hegemonic influence in the Middle East (*Pax Americana*) to replace the British Empire. Moreover, following the French bourgeois democratic revolution, the Iranian intelligentsia had long believed that land reform was also the basis of 'Great Transformation' (Polanyi, 1944) in Iran. Since the puppet regime of the Shah could hardly be credited for such a transformation, many Left-leaning groups preferred to speak of the Shah's 'manoeuver' instead of land 'reform', or conceived of it as a pure outcome of the American neocolonialist policy.

In this section, I will argue that the Shah did not 'betray' landlords or his British supporters, since he was himself an advocate of agrarian reform long before Kennedy's administration. Moreover, the gradual replacement of the British influence by the Americans took place a few years prior to the appointment of Dr. Amini as Prime Minister. I will also argue that the agrarian reform was principally a *political project* for the Shah to extend his monopoly of power over the rural areas. From an *economic* viewpoint, the development of capitalism was mainly dependent on the oil revenue rather than land reform. The combination of the agrarian reform and the industrialization through oil revenue gave rise to the Shah's unchallenged autocracy that can be described as an *inclusive* predatory state.

3.1 The Shah and land reform

The background of land reform in Iran can be traced back to the Constitutional Revolution of 1905-1911. Land redistribution was included in the political platform of the Democratic Party formed by some progressive representatives of the second Majlis. Although the Democrats believed in land redistribution, *constitutionalism* rather than *agrarian reform* was their principal political issue. The reason was that Iran has never had its *Manga Carta* to acknowledge the property rights of landlords or any other social class. The Constitutional Revolution was against despotism and its social institutions; and "it strengthened private property in land, and laid the foundation for the emergence of a property institution resembling that of the West." (Katouzian, 1974, p. 222).

The same was true for Mosaddegh; he was more concerned with a new economic source of despotism, i.e. oil rent. He never advocated land redistribution since his foremost political agenda was the nationalization of the Anglo-Iranian Oil Company as a basis for constitutionalism. However, he took a few initiatives regarding the agrarian reform among them two decrees in October 1952. The first stipulated that after the division of the crop, twenty percent of the landlord's share was to be returned to the village. Ten percent of this amount had to be devoted to the village development projects while the remaining ten percent would be distributed among the sharecropping peasants. Furthermore, the decree envisaged the establishment of village and rural district councils to operate as local governments. The second decree abolished all forms of corvée and various dues that landowners exacted upon peasants. Of course, these reforms were insignificant compared to the sufferings and daily problems that peasants had to endure[14]. According to Lambton (1969, p. 40), the issuance of these two decrees were probably prompted by a desire to counter the tactics of the left notably Tudeh Party criticizing Mossadegh's lack of land reform, rather than to impress world opinion.

Arsanjani was one of the political players of the time who did not limit himself to call for land redistribution but tried to elaborate some practical measures to implement it in his journal *Darya* (1944-1952). Among them, a paper published on January 15, 1951, advising the Shah to distribute the royal estates among peasants as an exemplary act so that large landowners follow his initiative (Hooglund, 1982, p. 42). This could open the door for a land reform bill enforcing legal measures to redistribute other properties. Later on, Arsanjani explicitly pleaded for a more radical measure of government expropriation of landed property of large absentee landholders and handing them to cultivating peasants. But did the Shah follow Arsanjani's advice?

Interestingly enough, "in January 1951 the Shah issued a royal decree (*farman*) providing for the sale of his 2000 villages to the peasants. While this gesture had tremendous symbolic impact, its actual effects were not very dramatic. Distribution proceeded very gradually over a ten-year period, and fully one-third of the royal lands were sold to various wealthy favorites of the Shah, rather than to peasants. Nevertheless, two political consequences resulted from the policy: (1) the Shah became associated with the growing land reform movement, while (2) major landlords, far from following his example, became very suspicious of the court's intentions." (Hooglund, 1982, p. 43) [15]. This may explain why the distribution of the "crown lands" among the peasants was stopped for a time by order of the government[16] and resumed after the fall of Mossadegh in 1954 (Lambton, 1969, pp. 49-55).

To avoid any misunderstanding, I must add that this royal decree was not because of Arsanjani's advice[17]. Although the Shah accepted Hasan Arsanjani as the minister of agriculture in the Cabinet of Dr. Ali Amini, the idea of land redistribution in his thought dated back to his seating on the throne in the aftermath of his father's abdication in 1941 in the wake of the joint Anglo-Soviet invasion of the country. Reza Shah had acquired 2000 whole or partial villages as personal estates through legal and illegal means. The fall of Reza Shah and the reemergence of political parties, associations and other civil society institutions, led to a democratic atmosphere in which victims

[14] Interestingly, the Shah refers to these decrees and claims that: "Actually this decree merely copied a law passed in 1947 while Qavam was Prime Minister." (Pahlavi, [1961] 1974, p. 108).

[15] Concerning the royal decree, it is noteworthy that the Shah sold the crown lands mostly confiscated by his father Reza Shah.

[16] There were not many large landowners who followed the Shah's example, but only a few, among them Alam in Khorasan and Mohammad-Vali Farman Farmaian in Mianeh province (Azarbayjan) (see Amini, 2009, p. 395).

[17] The Shah claims that he initiated the program of land redistribution after his failure to secure increased economic and military aid for Iran from President Truman in late 1949 (Pahlavi, [1961] 1974, p. 89).

of autocracy could step forward, raise demands and petition the parliament. The request to return confiscated estates and seized landholdings was resonated in towns and villages especially the 1942 July- August trail of some of ancient regimes officials responsible for political persecution. It was during this time that liberal and left Journals called for the necessity of Land Reform in Iran.

In contrast to his father, the young king wished not only to build a new reputation for himself through land reform, but he was particularly concerned about the autonomy that landlord enjoyed after 1941. Milani (2011, p. 243) also notes: "As early as 1943, he had told a new session of the Majlis that 'we must make every effort to ensure that every citizen of the country, particularly those from the working and farming classes, and the poor in general, have as much free housing, free food, education and health as is common in the modern world.'" But Milani misses to note that the Shah's talk of reform had to restore the despotic power by depriving landlords' from the source of their power in the name of propertyless peasants.

This idea was strengthened in the Shah when he observed the popularity of the Firgheh Democrat Azarbayjan (Democratic Party of Azarbayjan) among peasants following the adoption of a land reform law in April 1946 when the party conquered the local authority for a short period. This law provided for the distribution of Khaliseh (the state's land properties) and confiscated property among the peasants. The royal decree of 1951 formally expressed the Shah's desire for land distribution. Although the Shah refrained from active implementation of his land reform policy because of his uncertainty about the loyalty of his military and security forces, he showed a clear tendency for such a reform in the early fifties[18].

The principal reason behind the Shah's motivation for land reform was seemingly both the extension of his monopoly power over rural areas and the dispossession of his political adversaries particularly progressive and left from one of their major reform platform. Indeed after the abdication of Reza Shah and the ensuing power vacuum, the large absentee landlords dominated the rural areas wherever the Tudeh party or the Democratic Party of Azarbayjan were not influential among peasants. Following the dismantlement of these two parties, the landlord's monopoly of power in the countryside was unchallenged. The deposition of landlords by land redistribution could terminate their political power and extend the Shah's power in the villages. But the political defeat of landowners was only one side of the coin. The other side was that by taking the initiative of land reform, the Shah could thwart its progressive and left opposition. Retrospectively, the Shah claimed that his land distribution project was not tolerated by Mossadegh and accused him of jeopardizing it: "When Mossadegh later became Prime Minister, he stopped my programme of distributing royal lands to poverty-ridden peasants. This project was a practical means of helping the common people of my country to raise their standard of living,

[18] By 1959, the Shah was sufficiently confident in his military and security forces to advise his prime minister to draft a land reform bill for presentation to the Majlis. The landlords formed a union, called the "Agricultural Union of Iran", to unite against the 1959 land reform bill. Additionally, the Shiite clergy joined force with the large landowners and opposed the bill. Ayatollah advised the Shah not to undertake this measure. Despite the landowners' and clergy's opposition, the Majlis followed the Shah's order since the government controlled it. But the landowner's deputies tried to amend the bill in a way that its implementation became impossible. What was finally adopted in May 1960 after the senate's approval was a sterile land reform. However, the economic and political crisis of 1958-1961 radically altered the balance of power in favor of land redistribution.

but Mossadegh couldn't tolerate such direct and positive action. The social welfare aspects of my programme seemed not to interest him at all. I think, too, he was jealous of the popularity of my land distribution scheme; and he, a wealthy landlord who was hanging on to his properties, felt shamed by the precedent I established of dividing my holdings. Fortunately Mossadegh was overthrown before he could fritter away my lands." (Pahlavi, [1961] 1974, p. 85).

Land reform was also the Shah's winning card against the National Front in the early sixties. The latter has no reform programme and its main slogan was "free elections". They could not even believe in Amini-Arsanjani's land distribution program. When the reform adopted in January 1962 and implemented in the summer 1962, the National Front leaders were completely disarmed and as one of their leaders, Allah-Yar Saleh said later, they adopted the policy of "Patience and Waiting". Except the Shiite clergy who opposed the Shah's reform in defense of its traditional and retrograde interests, all other political parties were confused and paralyzed in face of land reform. Students manifesting massively in the early sixties instinctively reacted to the Shah's reforms by voicing "Yes to the reform, no to dictatorship!"

There were three other reasons behind the Shah's motivation for pursuing an agrarian reform.

First, land distribution was the central piece of the Shah's claim for a "revolution from above" (*White* revolution[19]) as opposed to a "revolution from below" (*Red* revolution). We knew by the end of the seventies that that there was no threat of peasant revolution or even peasant rebellions in the fifties or the sixties in Iran in dire contrast to many other countries such as Algeria, Angola, China, Cuba, Greece, Indonesia, Philippines, and Vietnam. As Kazemi and Abrahamian (1978, p. 260) correctly noted in their paper "On the Nonrevolutionary Peasantry of Modern Iran": "The social scientist studying Iran, however, is struck not by the importance but by the conspicuous absence of any large-scale peasant rebellions in the modern era." While In Iran, the urban movements were the source of "revolution from below", peasant movements were present in certain regions during 1949-1953. More importantly, the Americans' perception at the time was that such kind of movements could endanger the regime's political stability. Retrospectively, it can be said that in the early sixties, contesting movements included some vigorous demonstrations by students, and reached its climax in a widespread teachers' strike. Workers particularly workers of brick forges, printing houses, and taxi drivers in Tehran also went on strike, but there was not a revolutionary situation in the countryside.

Second, land reform could create a social-political base among peasants supporting the Shah. Indeed, land reforms initiated by the central government in other countries such as Prussia have created such a social basis for the charismatic leaders.

Finally, land redistribution could gain the American's support in contrast to the British government who was still supporting landlords as its social base in Iran. In fact, after the Second World War

[19] Who was the inceptor of the term 'White Revolution' is controversial in the Iranian modern historiography. The Premier Minister, Amini, employed it in the course of answering a journalist's question a few months after his appointment. It has also been claimed that the term was coined by Chester Bowles, the American official sent to Tehran by Kennedy in 1962. However, quoting a report by the British Embassy in Tehran in 1958, Milani (2011, p. 290) attributes this expression to Alam: "Alam went to the embassy and offered a 'program of reform which he said he wanted the Shah to adopt. He used the now much quoted phrase 'White Revolution'. It is possible that in voicing these views Mr. Alam was acting as a 'sounding board' for some of the Shah's own ideas.'"

and notably since the Kennedy administration, the United States regarded land reform as a panacea to developmental problems in Asia and America. An agrarian reform was recommended for motivational reasons notably to shun peasant rebellions or revolution.

It is noteworthy that after the fall of Mossadegh, the British influence in the new Consortium was reduced compared to the Americans. After the seizure of the Suez Canal by Egyptian leader Gamal Abdel Nasser in 1956, the British hegemony in the Middle East was definitely replaced by the Americans. The traditional neutralist policy[20] of Iran in the twentieth century was abandoned by the Shah in 1955, when Iran joined the Baghdad Pact, then CENTO. The Shah's shift towards the U.S. was underlined by the latter through a bilateral military defense pact with Iran. Moreover, since 1953 coup, the U.S. has furnished Iran more than a billion dollars in economic and military aid.

If the Shah was himself an advocate of land reform and had already shifted towards the U.S. before Kennedy's presidency, then why did the Kennedy administration support so vigorously the appointment of Amini as Prime Minister by putting pressure on the Shah? It seems to me that Kennedy's major concern was the arbitrary power of the Shah, the corruption and the colossal expenditure on the army. Kennedy actively pushed for an important administrative reform, a rationalization of the military expenditure and an improvement in the relationship between the Shah and the growing urban middle classes. These points have been clearly acknowledged in the Shah's interview on March 6, 1961 with *U.S. News & World Report*: "For my regime is always called "corrupt" in the Western press, despite the fact that there is corruption in all countries. We have fired more than 4000 Government officials and Army officers in the past 18 months for corrupt practices, yet Westerners keep assuming nothing is done here about "corruption"". (pp. 64-65).

Since 1956, the Shah was 'ruling' instead of 'reigning'. The Americans wished a strong Prime Minister, like Qavam, Razmara, or even Zahedi for assuming full responsibility for his government, insisting that the Shah be separated from such responsibility. This separation was more compelling in case of the Iranian monarch since the military forces were under his command, not of the civilian chief of state. The American's paradox was that while they actively participated in overthrowing Mossadegh because of their economic interests in Iranian oil, they wished to control the Shah so that his rule could not be too personal and arbitrary. But Mossadegh was the best opportunity to keep the Shah's regime within a constitutional monarchy. Kennedy's administration initially hoped that Amini could play an intermediary role between the Shah and the National Front. However, "that hope has been dimmed as events have moved the Premier nearer the Shah, farther from the Front-primarily because he has postponed new elections indefinitely, returned to a strict press censorship, denied public assembly, agreed to governmental policing of the university campus, and tacitly fostered the confusion, if not indeed identification, of the National Front with the Tudeh Communists." (Young, 1962, p. 287). The removal of Amini was then inevitable, and the Shah had never appointed any strong premier until the 1979 revolution. The Americans revised their strategy: they now accepted the Shah's personal power

[20]This neutralist policy consisted of playing one major power against the other. It was born out of the rivalry of Britain-in-India and Russia since the eighteenth century.

but tried to train and control the Iranian technocracy. The education and training of highly qualified technocrats were given to the Americans and Plan Organization was run by Harvard educated technocrats.

3.2 The Shah and paradoxes of Great Transformation

Karl Polanyi (1944) described *Great Transformation* in the West by two major transitions: 1) the transition from agriculture to industry; 2) the transition from villages to cities. These two transitions were prepared by the transformation of inputs, namely labor and land into commodity. The great transformation was accompanied by rising bourgeoisie and democratization of political institutions, on the one hand, and agrarian reform leading to surplus product in the market and industrialization. In addition to agricultural revolution, certain historians also insisted on the importance of military revolution as a prelude of industrial revolution (Roberts, 1956; Parker, 1988).

The land reform in Iran (the law adopted on January 9, 1962) furnished the conditions for both transitions from agriculture to industry and from villages to cities. Table 2 shows the transition from agriculture to industry (both oil and non-oil) and services.

Table 2. Distribution of Gross National Product by Sectoral Origins, Various Years (percent)

	Share in GNP (including oil)				Share in GNP (excluding oil)		
Year	Agriculture	Industry, mining and construction	Services	Oil	Agriculture	Industry, mining and construction	Services
1959	32.0	17.0	41.0	10.0	36.0	19.0	45.0
1972	18.0	22.0	40.0	20.0	23.0	27.0	50.0
1974	10.0	16.0	28.0	46.0	19.0	29.0	52.0
1976	9.4	18.5	55.0	37.0	15.0	29.5	55,5

Source: Katouzian (1978, p. 356) based on Bank Markazi Iran, *Annual Report and Balance Sheet*, various dates.

While the share of agriculture is constantly shrinking from 1959 until 1976, the share of industry and services in GNP (excluding oil) is increasing.

Table 3 indicates the transition from rural areas to urban areas attributable to migration.

Table 3. Migration to Selected Cities: 1966-1976

Rank	City	1976 Population (Thousands)	1966 Population (Thousands0	Absolute Increase (Thousands)	% Increase	% Increase Attributable to Migration

A	*Large cities*					
1	Tehran	4,496	2,719	1,777	65.4	52.5
2	Isfahan	671	423	248	58.6	47.1
3	Mashhad	670	409	261	63.8	51.3
4	Tabriz	598	404	194	48.0	35.6
5	Shiraz	416	269	147	54.6	43.5
6	Ahvaz	329	206	123	59.7	48.1
8	Kermanshah	290	187	103	55.1	43.7
9	Qumm	246	134	112	83.6	62.9
B	*Medium cities*					
13	Ardebil	147	83	64	77.1	59.4
16	Karaj	138	44	94	213.6	85.1
19	Arak	114	71	43	60.6	48.8
21	Khorramabad	104	59	45	76.3	60.0
24	Sanandaj	98	54	44	81.5	61.4
C	*Small cities*					
26	Bandar Abbas	89	34	55	161.8	80.7
31	Sari	70	44	26	59.1	47.7
36	Shahi	63	38	25	65.8	52.4
40	Bushehr	57	23	34	147.8	79.4
44	Mahabad	47	28	19	67.9	52.6

Source: Hooglund (1982, p. 117), calculations derived from Iran statistical Organization, Preliminary Report of 1976 Census.

This table shows the "deracination of peasants" (Keshavarz-Sadr, 1984) or massive emigration of peasants to cities of all sizes. This abandon of villages was related to the fact that the majority of peasants did not materially benefit from land reform. At best, they became owners of small parcels of land not even sufficient for a subsistence economy. Moreover, almost half of the rural population notably the agricultural laborers (*khoshnesheen*) did not acquire any land. This transformation of *immobile* peasants to *mobile* labor was a precondition of capitalism to which land reform largely contributed. However, the Iranian grand transformation was marked by two paradoxes compared to the same process in the West: A) Oil versus Agriculture; B) Economic growth and despotism.

A) Oil versus Agriculture

The first paradox was that, in contrast to the Western grand transformation, land reform in Iran did not lead to surplus product and higher productivity of agricultural sector to finance the industrialization. In fact, land reform generated the downfall of the agricultural sector. Table 4 illustrates productive share of principal sectors in GDP for the period 1962-1967.

Table 4. Productive share of principal sectors in GDP (1962-1967)

Sectors	1962 (as a percentage)	1967 (as a percentage)	Average annual rate of growth

Agriculture and Cattle-breeding	30.9%	23.4%	2.8%
Industry and Minerals	12%	14,4%	12.7%
Construction	5.3%	6.1%	11.4%
Water and Electricity	0.9%	1.2%	14.5%
Oil (Iran's share)	11.6%	14.5%	13.6%
Other sectors	39.3%	40.4%	9.3%
Indirect taxes	N.D.	N.D.	11.7%
GDP	N.D.	N.D.	8.8%

Source: Leilaz, p. 86

This table indicates that while oil revenues increased by an average of 13.6 percent followed by an average rate of around 12 percent for industry (including non-oil mining and construction) and 9.3 percent for services, the average annual growth rate of agriculture was around 2.8%. Considering the average rate of population growth estimated around 2.8 and 3 percent (see Katouzian, 1974, p. 231; 1978, p. 355), the average rate of increase of agricultural output *per capita* has been about *zero* or *even negative*. In fact, the balance of agricultural trade went into deficit while 'shanty towns' in the suburb of urban centers increased rapidly in the number of population. The Iranian grand transformation was principally supported by oil revenues rather than the agricultural surplus product. Indeed, the agrarian reform consisted of a transition from an 'agricultural oil-exporting country' to a 'non-agricultural oil-exporting country' with growing service and industrial sectors. Katouzian (1978) correctly noted this process and described it as a *negative linkage* between oil and agricultural sector, whereas the relationship between oil and services as well as industry was a *positive linkage*. Katouzian's analysis about the negative and positive linkages comes within the so-called Dutch disease explanation of economic resource curse. The agrarian reform contributed to growing *mobile assets* by producing high migration rate among peasant population and by reducing the role of agricultural land as an immobile asset compared to mobile assets in services and industry.

B) Economic Growth and Despotism

Land reform played a key role in the Western economic growth and the transition from tyranny to liberal democracy. The French revolution provides the classical model of such transformation. Two factors were decisive in this transformation: 1) overhaul of the ancient agrarian system gave rise to independent small holders in the rural areas; 2) the dependence of monarch on the financial support of merchants and bankers, and the latter's exit option in case of tyrant's defection with regard to his commitments. In the Iranian case, both factors were absent.

First, while land reform substituted the central state's power for that of the landlord, it did not strengthen independent small peasant landowners. The first phase of land reform was conducted speedily under the supervision of Arsanjani whose goal was to replace subsistence agriculture for profit-oriented farming. The landownership was limited to one six-*dang* village; all property in excess of this amount had to be sold to the government. The price of the land was determined by the value included in tax declaration. The land then had to be resold to each *nasagh*-holder peasant who had recently been assigned to the land. The results achieved in land distribution during the first eighteen months of the program were never seen during the remaining three phases: "By

September 1963, a total of some 8,042 whole and partial villages had been purchased by the government and transferred to 271,026 peasants. At that time it was estimated that at least half of the villages subject to the law had been affected." (Hooglund, 1982, p. 60). The expeditious distribution of land provoked a strong enthusiasm and dynamic among peasants that could have produced a revolution from below. The Shah felt the 'danger' of an *independent* smallholder peasants taking power in the villages parallel to the deposition of large landlords. Not only Arsanjani was removed as Minister of Agriculture but he was succeeded by a military officer, General Ismail Riahi. The pace of redistribution was halted so that independent peasant initiatives could be stopped totally and the government could be able to consolidate its authority in rural areas. As Lambton (1969, p. 215) aptly remarked: "As the efforts of those who aimed at the creation of an independent self-reliant peasantry, were attended by an increasing measure of success, those holding the reigns of power began to realise that the emergence of an independent peasantry might constitute a new factor in the political situation and threaten their own power." The second phase of the reform affecting over two thirds of villages was launched: it was largely oriented towards a tenancy reform. This phase should be viewed as "an attempt to prevent the power-base of the landlords from being occupied by a strong independent peasantry, while the landlords themselves had been sufficiently weakened." (Katouzian, 1974, p. 228).

Second, the Shah did not need merchants and bankers to finance his industrialization program. The oil revenues could provide the required financing. In this context, merchants, bankers, and industrialists could not use their exit option as a bargaining means with the despot. Quite to the contrarily, the despot could consent fiscal exoneration to these social groups having access to 'mobile' assets. The lack of combativity of the Iranian nascent industrial bourgeoisie should be attributed to their *lack of exit option*. Generally speaking, in an oil reliant country, asset mobility has less restraining effect on tyranny during 'normal' or 'booming' periods of oil revenues. However, it has a direct political effect during 'bust' or negative oil shocks. A significant decrease in oil revenue reduces the state budget and expenditures, and consequently those social groups having access to mobile or fugitive assets would gain significant bargaining power in their relationship with the ruler. In such case, they might push a strong pressure on tyrant for political concessions. The *political* implication of oil cycles will shrink with growing economic diversification. This brings me to formulate a fundamental assumption: a political stable tyrant reliant on oil revenues has a tendency to diversify the economy to the point that oil revenues downfall during 'busts' could be politically neutral. I call this the tyrant's limited diversification tendency for political stability. By political neutrality, I mean a level of capital flight that could undermine the tyrant's monopoly of power. An example can cast light on this process. After the creation of consortium and the reactivation of the oil industry late in 1954, the Iranian economic experienced a great leap forward. The annual rate of investment was at least 20 percent, and the rate of economic growth was around 5 to 6 percent. The rising oil royalties, a succession of good harvests, and substantial American loans and grants generated this rapid growth. During the period of 1952-1962, the amount of United States loans amounted to over two hundred million dollars, whereas economic and military grants reached eight hundred and fifty million dollars. During 1956-1957, "one third of new investment was from private sources; spread in the fields of industry; construction; agriculture; and trade and banking-in that order of percentage. For the first time the industrial investment exceeded that in construction, traditionally the main area for private capital." (Young, 1962, p. 280). The economic boom was related to an 'agricultural oil-exporting country' in which different layers of capitalism, i.e. merchant, financial, but also industrial were growing.

While oil export was becoming the major source of revenue, the loan and grants were still playing a considerable role.

The open door policy combined with easy and uncontrolled credit furnished the conditions for large sums of expenditure on imported *luxury goods* exclusively accessible to the rich and higher echelons of the modern middle class as well as an economic growth based on shoestring capital. As soon as the oil barrel price decreased from 84 cents to 80 cents in 1960 and the Rial's exchange rate for the American dollar decreased, the economic recession ensued. The recession lasted throughout the whole period of 1958-1961 and it was the first oil-revenue cycle. The economic recession had strong economic and monetary origins. From a *monetary* or short-run viewpoint, it was an *illiquidity crisis* or *credit inflation* marked by the depletion of foreign-exchange reserves. From an *economic* long-run perspective, the recession was related to the limited size of the market, confined to luxury goods and a tiny industrial sector. The merchant and banking capital were still the principal forms of capital accumulation, but oil-financed capitalism was growing in Iran independently of the other sectors. Landlord relationships were hindering the extension of markets for this growing capitalism. An agrarian reform in conjunction with developing capitalism reliant on oil-revenues could enhance the growth of services and industry although it was detrimental to a prosperous agricultural sector capable of exportation.

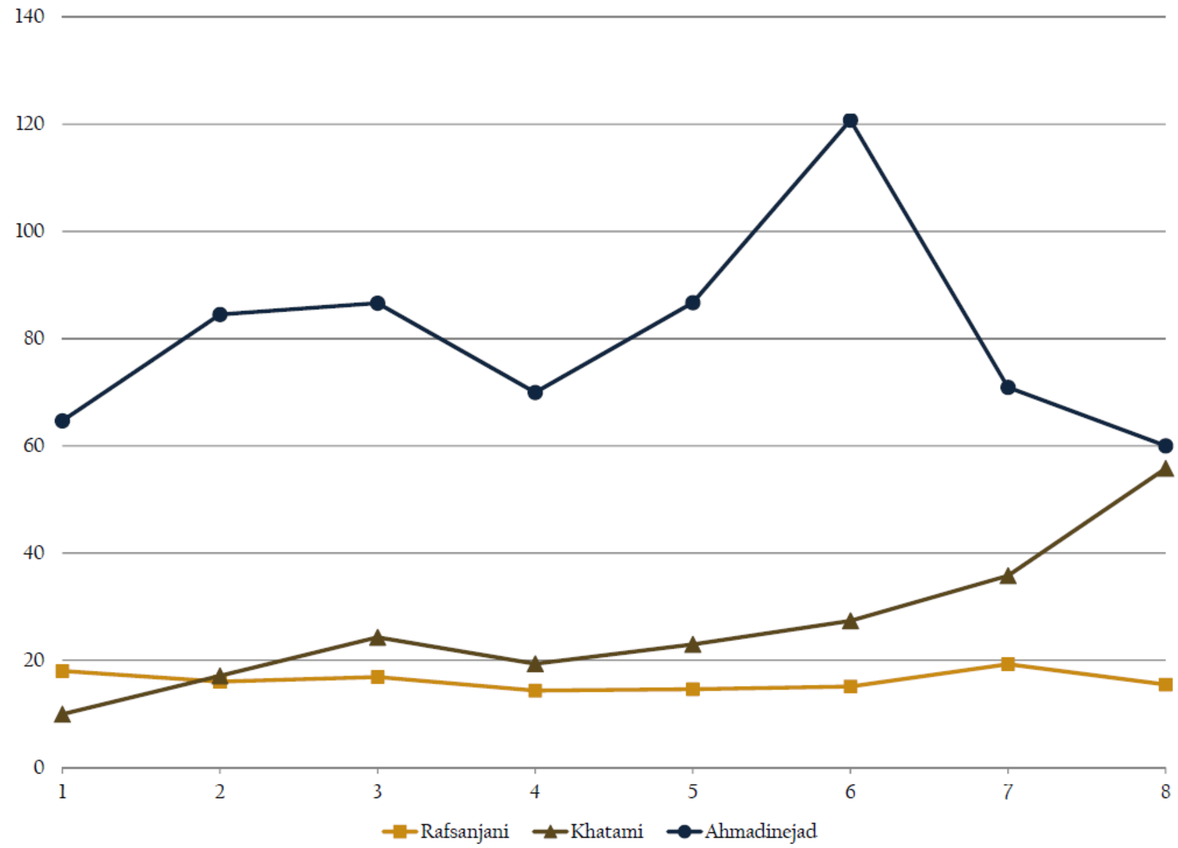
In fall of 1960, the government was forced to adopt a stabilization program under the pressure of the IMF and World Bank refusing otherwise to consent further loans. To conserve foreign exchange, the government prohibited exchange of some two hundred super-luxury imports, imposing a fourfold custom duties on many other items, and abolishing strictly all travel abroad except in force major cases. More importantly was the political implication of this economic recession, since Kennedy administration refused to consent any loan or military grants without the Shah accepting to appoint his favorite Prime Minister Amini. The vulnerability of economic growth reliant on oil revenue was linked to its political implication during the contraction phase. To avoid such consequences, a politically stable regime had to diversify the economy by broadening the industrial and service sectors during the oil booms. The Shah's regime was not limited to captive assets, it included mixed and fugitive assets by developing oil industry, non-oil industry, services, and investing heavily on training highly skilled technicians, and talented managerial technocratic cadre. His inclusive predatory state was based on a combination of land reform and oil-financed capitalism.

4. An exclusive predatory state and economics of escape (2005-2013)

One of the underpinning tenets of the post-revolutionary Islamic Republic of Iran was to build an economy non-reliant on oil revenues. But the outbreak of the eight-year Iraq-Iran war, soon after the 1979 revolution (1980-1988), provided an excuse for the prolongation of an 'enclave' oil economy. With the end of the war, the idea of a diversified economy non-reliant on oil revenues was reborn. Three post-War presidents, each having two presidency terms, successively promised this transition and all failed. They were: 1) Mohammad Hashemi Rafsanjani (August 3, 1989-August 2, 1997); 2) Khatami (August 2, 1997-August 3, 2005); 3) Ahmadinejad (August 2, 2005-August 3, 2013). Fig. 1 shows the value of Iran's oil exports during the three presidents.

Figure 1. Value of Iran's Oil Exports ($US billion)

(X-axis shows the 1st to 8th years of each president's term)

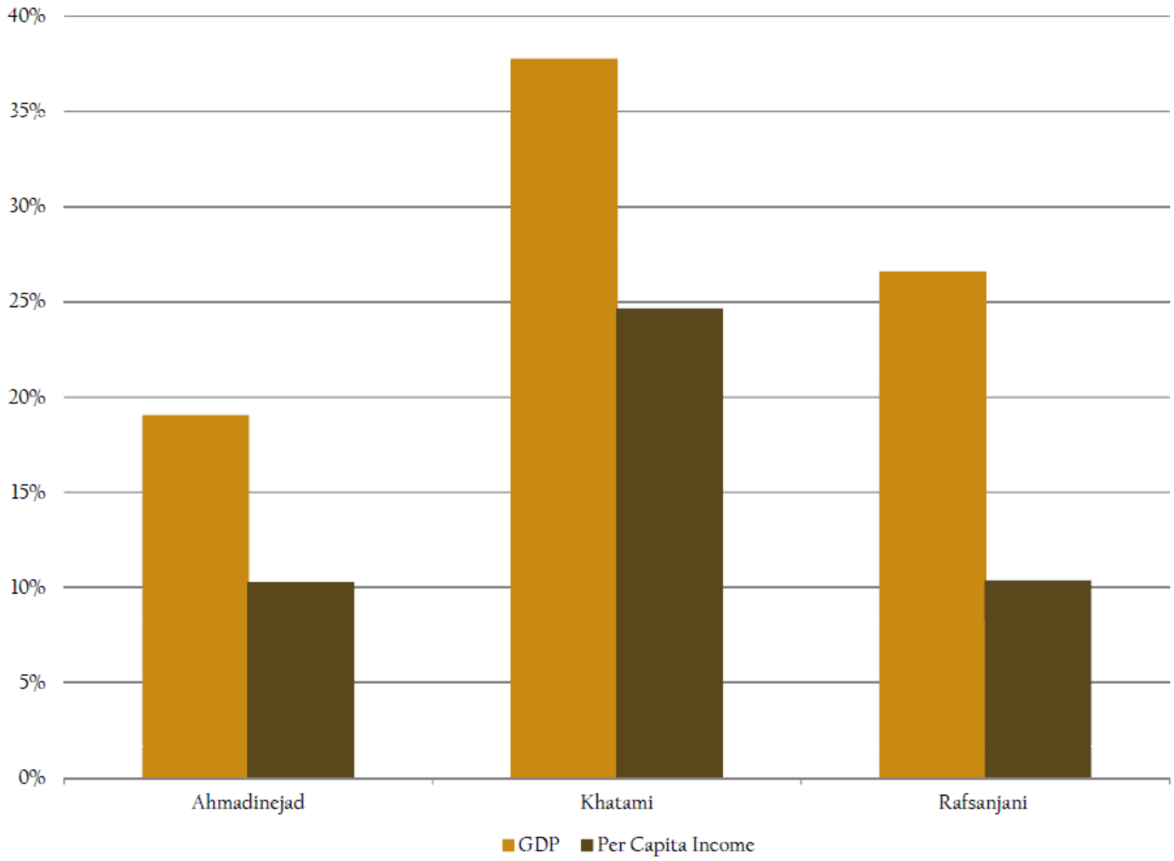


Source: IMF, World Economic Outlook Database, October 2012, (Author's estimate for the last year of Ahmadinejad's term.)

As Fig. 1 clearly illustrates, the oil revenues during Ahmadinejad were three times more than the sum of oil revenues during both Rafsanjani and Khatami taken together. In fact, Ahmadinejad's two terms presidency (2005-2013) covered the super-spike crude prices attaining \$150-\$200. Paradoxically, the income per capita in this period was the lowest compared to that of Rafsanjani and Khatami periods as shown in Fig. 2.

Figure 2. Iranian Current Account Balance (\$US billion)

(X-axis shows the 1st to 8th years of each president's term)



Source: IMF, World Economic Outlook Database, October 2012.

While economic performance during all three presidents furnish strong evidence of natural resource curse, Ahmadinejad's one provided the most striking illustration of this curse. I will argue that this stylized fact can be explained by an exclusive predatory state marked by accentuated confiscatory policy and economics of escape.

4.1 Confiscatory regime and indeterminate property rights

The Islamic Republic of Iran is an oxymoron, since it combines an *informal* 'Islamic' governance with a *formal* 'republican' regime. On the one hand, the 'Islamic' power pertains to the theocratic institution of the divine commission of the vicegerent of the jurisconsult (*Velayat Faqih*) that assumes political authority and sovereignty as the vicegerent of the Hidden Imam a defining concept in the Shi'ite creed of Islam. This sovereign power is *informal* since it is over and above all the *formal* legal, bureaucratic and military institutions. On the other hand, the formal 'republican' regime refers to the election of a president under the supervision of the Guardian Council. The elected 'president' cannot assume office without the approval of the Supreme leader. The outcome of this oxymoron has been a new constitution adopted in 1980 that simultaneously advocates parallel 'elective' (so-called "republican") and 'nominative' (theocratic) institutions. The latter are a permanent source of *de-institutionalization* of the formal government by opposing the decisions of the president and its cabinet through small and big ploys and plots implemented by 'revolutionary' paramilitary organizations acting as mobs (*Ummat Hezbollah*).

The pervasiveness of the parallel institutions under the Islamic Republic of Iran has been described in a nice way by Smith (1997): "Ask an Iranian official, even a junior minister, what is going on and he is quite likely to answer that 'they' are doing this or that, rather than 'we'. The Islamic Republic has come to depend on a system of parallel powers that keeps everybody, government servants included, partly in the dark. Most obscure is the identity of those who take the decisions that count. Almost every organisation has its shadow, and the shadow is often the weightier of the two." The army has *Sepah*; the provincial governors, appointed by the Ministry of the Interior, are shadowed by the *imam jomeh* (Friday prayer leaders) nominated by *Vali Faqih* (the supreme leader). The 270-member Majlis (Parliament) is officially shadowed by the 12-member of the Guardian Council, whose six clerical members are appointed by the Leader. In case of conflict between the Majlis and the Guardians, another body named Expediency Council arbitrates between them. This institution has become a lawmaker of its own.

The extension of parallel institutions into the Iranian economy under the Islamic Republic is the *parastatal* sectors independent from the state and the traditional Shi'ite hierarchy under the supervision of the supreme leader or its 'revolutionary army', i.e. *Sepah Pasdaran* (*Iranian Revolutionary Guard Corps*- IRGC). "These organizations represent the dual power structure in Iran which reinforces the financial authority of religious leaders without accountability" (Saeidi, 2004, p. 479).

The parastatal sector reflecting indeterminate property rights is the result of systematic confiscatory policies of the Islamic Republic of Iran since its foundation. The first wave of confiscation started on the morrow of the 1979 Revolution and resulted in a large para-governmental sector, known as *Bonyads* or *religious foundations* under the tutelage of the Supreme Leader. The second wave of confiscation followed the eight-year Iran-Iraq war (1980-1988) in 1989. This wave extended the guardianship of the Supreme Leader to 'abandoned' and confiscated assets and led to the creation of *Setad*[21] or the *Headquarters for Executing the Order (Verdict) of the Imam*. The third wave of confiscation is linked to two-terms of Ahmadinejad's presidency (2005-2013) during which *Sepah* became the major beneficiary of the so-called 'privatization' of the state-sector launched in 2006 by the supreme leader's edict in revising Article 44 of the Constitution. In the post-war period and during the presidency of Hashemi Rafsanjani, the new army of the ruling Shi'ite clergy, *Sepah* was authorized to involve in economic activities to achieve financial autonomy. Consequently, *Sepah* created its own economic undertakings such as *Khatam* al-Anbya[22] (construction headquarters of *Sepah*) and its different subsidiaries *Ghorb*. It was particularly during the presidency of Ahmadinejad that *Sepah* won a large share in the exploitation of oil fields.

[21] The full name in Persian is "Setad Ejriye Frmane Hazrate Emam" that literally means *Headquarters for Executing the Order (Verdict) of the Imam.*

[22] Khatam al-Anbya literally means "Seal of the Prophet".

Bonyad[23] and *Setad* are under the auspices of the Supreme Leader while *Khatam* is the economic headquarter of *Sepah*. The three institutions hold more than thirty percent of the Iranian GDP (Vahabi, 2010, 2014, 2016a, chapter 6). They operate like a holding, with many enterprises extending into almost all sectors of the economy: mining, housing, construction materials, dams, lowers, civil development, commercial services, financing, manufacturing, trade, shipping, transportation, airline, tourism, five-star hotels, agriculture, horticulture, animal husbandry, food industry and soft beverages, chemicals, cellulose items, metals, petrochemicals, etc. (Vahabi, 2014, 2015). The Iranian private-sector is largely dependent on subcontracting with these parastatal sectors (Coville, 2017). More importantly, they are all beneficiaries of the Iranian oil industry. In fact, the oil industry in Iran is only *formally* nationalized, but in reality it is controlled by a new consortium in which four major actors, namely *Bonyad*, *Setad*, *Khatam*, and the *Iranian formal state* have each their share. The management of the Iranian oil industry and oil revenues provides a salient example of the 'tragedy of the commons'. The four principal beneficiaries use oil revenues to reproduce their authoritarian resources and strengthen their political position. None of them has shown a genuine interest in using the oil revenue to invest in modernizing the machinery, equipment, engineering, or other skills of the oil industry. They have all behaved as competing oligarchs of a rentier state.

It is noteworthy that all religious and military *Bonyads* and the *Khatam* were created in the name of 'revolutionary' organizations promoting Islamic fraternity helping the families of the martyrs, veterans, *Sepahi*, *Basiji*, the missing, prisoners of war and the downtrodden. They are all exempted from tax payments and are privileged by all types of quasi-budgetary redistribution (preferential and almost unlimited credit lines, low-interest loans from state-owned banks, lowest official exchange rates for international hard currencies, diverse types of subsidies, etc.). The warfare state in Iran was not replaced by a universal inclusive welfare state, it was superseded by a para-statal religious and military sector. In 1989, the responsibility for the management of the welfare of disabled war veterans was entrusted to these foundations. In this sense, *Bonyads* and *Sepah* absorbed the state's social function and hindered the development of a universal welfare-system under the name of Islamic charity and fraternity.

The institutional status of these giant holdings has chameleon-like characteristics. It can change at will, acting as a private economy when buying privatised firms, but going 'public' to control such 'strategic' businesses as the national shipping line, enshrined in the Iranian constitution as a publicly-owned agency. This chameleon-like position is the result of its *indeterminate* property structure: it is neither private nor state-owned. In terms of legal status, the Foundations have been described as public, non-governmental organizations. This classification is somewhat paradoxical, but it does reflect their 'indeterminate' nature. With no governmental discretion over their expenses, no shareholders, no public accounts, and no well-defined legal status, they have been operating autonomously from the government. However, as professed 'charitable' organizations,

[23] Bonyads are religious and military foundations. I am especially referring here to one of the most eminent of them namely, *Bonyad-e Mostazafan va Janbazan (*BMJ, Foundation of the Oppressed and War Veterans*)*. This religious foundation was created by confiscating the assets of the late Shah and 53 industrialists who escaped Iran in the aftermath of revolution (1979). Khomeini's injunction (1980) referred to these assets as 'spoils' and specified that 'they must be kept and controlled *separately from state properties under the Guardianship of the Jurist*'. The confiscation is justified according to Article 49 of the constitution of the Islamic Republic of Iran stipulating the "seizure of illicit assets from criminals." The size and scope of the BMJ is similar to that of a government (*New York Times*, January 8, 1995, see Vahabi, 2014, 2016, chapter 6).

they have been benefiting from tax exemptions (*IMF Staff Country Report*, 1998, p. 26), preferential bank credits, subsidies, and special ‘quasi-budgetary redistribution’ (Coville, 2002).

While Bonyads as *non–private* ‘Islamic charity organizations’ enjoy from every possible state financial support, they are the principal beneficiaries of ‘privatization’ programs as *non-state* organizations. The privatization programs were initially launched after the war during the ‘Adjustment Program’ and the ‘Stabilization Program’. These programs were introduced by Ali Akbar Hashemi Rafsanjani (1989-1997) during his two terms presidency as the first and second quadrennial programs. The two programs contained a ‘privatization’ policy. Accordingly, the fourth Majlis (parliament) (1992-1996) of the Islamic Republic of Iran passed a law in 1994 authorizing the government to sell the state enterprises in different ways. The law stipulates that *Isargaran* (devotees), namely those who devoted themselves to the war, prisoners of war, and relatives and members of those who were killed in the war have the priority to own privatized enterprises. In this way, the ‘privatization’ trend consists in transferring state enterprises to the religious foundations (Bonyads) or to the parastatal sector (Adeli, 2004, pp. 474-75).

In the same vein, the July 2006 intervention of the Supreme Leader, Seyyed Ali Khamenei, in favor of the privatization of 80 percent of the shares of some state-owned companies was preceded by the conclusion of two important contracts with Bonyads and *Sepah* (the Revolutionary Guard) for the construction of Lines 6 and 7 of Tehran’s subway that amounted to a total sum of two and a half billion dollars. This new phase of privatization also strengthened the grips of *Bonyads*, *Sepah* and *Setad* over economy: “In 2009, Setad emerged as a victor in Iran’s biggest state asset sale, the privatization of telecommunication Co of Iran (TCI). Through a subsidiary, Setad held a 38 percent stake in a consortium that was awarded majority control of the telecommunications provider, Iran’s largest, according to Setad documents seen by Reuters.” (Stecklow *et al*., 2013).

Finally, the Tehran Stock Exchange (TSE) is principally a market for the parastatal sector. Jbili, Kramarenko, and Bailen (IMF, 2004, p. 44) noted “Most listed companies [in TSE] are parastatal enterprises with a varying degree of direct and indirect government ownership” (the phrase in brackets is added). In fact, *Bonyads* are not only the principal impediment to the development of a universal welfare-state in Iran, but also the main obstacle to a genuine process of privatization.

Compared to two terms presidency of Rafsanjani and Khatami, the specificity of Ahmadinejad’s presidency is the size of transfer from the state sector to parastatal sector under the pretext of ‘privatization’.

Table 5. Transfer of property from state to parastatal sector

President	Presidential term	Percentage of property transfer
Hashemi Rafsanjani	August 3, 1989 - August 2, 1997	6.9%
Mohammad Khatami	August 2, 1997 – August 3, 2005	4.1%
Mahmoud Ahmadinejad	August 3, 2005 – August 3, 2013	89%

Source: Harris, 2013

This transfer was the thrust of the third wave of confiscation. *Sepah*'s lion share of the oil revenues provide it with an opportunity to buy a large fraction of the state sector. All economic projects and activities were ranked according to their interest with regard to the 'national security' eclipsing the economic efficiency or profitability criterion. In this sense, one may say that the entire Iranian economy was held up by Sepah. The rapid depletion of the oil revenues during Ahmadinejad's presidency are related to the accentuation of all fundamental characteristics of the political economy of the Islamic Republic of Iran (Vahabi and Coville, 2017). While the politically stable personal rule of the Shah led to a limited diversification of the Iranian economy during the land reform, the oligarchic rivalry over the oil revenues under the politically instable Islamic Republic brought de-industrialization and stagflation. The political instability under the latter is structurally related to parallel institutions, but it was particularly intensified during the presidential elections of 2009 because of the active fraudulent intervention of *Sepah* and *Basij* in securing Ahmadinejad's victory. The massive people's protest under the slogan "where is my vote?" and the ensuing repression was a turning point in the use of electoral means for regulating competition between the so-called 'reformist' and fundamentalist fractions of the government.

4.2 Appropriative regime and economics of escape

The political economy of the Islamic Republic of Iran is characterized by a division of the economy into two parts: 1) protected and 2) non-protected. The former is directly protected by coercive power, while the latter should incur high costs of protection to secure the enforcement of its property rights. The protected sector includes confiscated assets controlled by religious and military elites whose objective is to use these assets as authoritative resources to maximize their protection rent. This sector has direct access to oil revenue and benefits from quasi-budgetary policies. Giant parastatal holdings with indeterminate property rights prevail in this sector. Ahmadinejad's presidency institutionalized *Sepah*'s control over the economy by securing its access to oil revenues and by making it the winner of the 'privatization' of the state sector. The functioning of the protected sector can be described as an *appropriative* regime rather than a *productive* one.

The non-protected sector is composed of private enterprises that can easily become subject to confiscation. This part of the economy has no direct access to oil revenue and tries to maximize profit or to establish connections with the protected sector in order to share in rent-seeking through sub-contracting and commissioning. Religious minorities particularly Baha'is, Jewish community, and ethnic minorities like Kurds, Baluchis, and the Arabs who live in Southern Iran have been repeatedly accused of conspiracy against the Islamic state and their assets have been confiscated. Table 6 provides a general description of these two sectors.

Table 6. Protected versus non-protected economic undertakings

Type of economic undertaking	Protected	Non-protected
Type of enterprise	Violence-using enterprise	Non-violence using enterprise
Access to oil revenue	Direct	Indirect
Objective	Power maximization (rent-seeking)	Wealth maximization (profit-maximization)
Examples	*Bonyad*, *Setad*, *Sepah*, and other religious foundations	Private enterprises, personal holdings of certain religious minorities, and 'abandoned' properties

This illustrated that confiscatory regimes with indeterminate property rights generate economics of escape. In this sense, the Islamic Republic of Iran can be characterized as an exclusive predatory state. In economic literature, the economics of flight has been defined in various ways. The World Bank (1985) defines capital flight as the change in a nation's foreign assets. It captures the difference between the current account and official reserves on the one hand, and the increase in recorded gross external debt and net foreign direct investment, on the other hand. Accordingly, capital flight (KF) can be defined by the following equation:

Capital flight (KF) = Current Account Balance (CA) + Foreign Direct Investment (FDI) + External Debt (ED) + Foreign Reserves (FR)

Considering the paucity of direct foreign investment in Iran or Iran's foreign direct investment during the Islamic Republic of Iran, the term FDI can be removed. External debt is the term that captures the foreign resource for financing. Applying this equation to the Iranian economy, it can be argued that capital flight started since 1984. Indeed, capital flight did not exist during the Shah's period. According to a study by Majlis Shoorai Islami (the Islamic Parliament) (May 2000), during the period 1973-1977, there was a 95 billion dollars surplus (calculated in terms of 1995 constant values). The surplus was drastically reduced during 1978-1983 to 24 billion dollars, and finally it became negative for the 1984-1993 period. The latter experienced a deficit amounting to 46 billion dollars. Annual Capital Flight was in average 4.6 billion dollars. According to the same study, the amount of capital flight during 1984-1993 is equivalent to the sum of Iranian oil and gas export revenues in 1991, 1992, and 1993 (Ibid, p. 13). Borrowing the World Bank definition, Zobeiri *et al.* (2017) try to capture capital flight in Iran during 1981-2012. They find that capital flight has had an increasing tendency during the whole period, but "it has grown substantially from 2005 to 2007. After that, it began to decrease in 2008 and then, it rose significantly and reached to its peak in 2011 (38095.94 million dollars)." (Ibid, 2017, p. 418). To put it differently, capital flight is a specific feature of the political economy of the Islamic Republic of Iran that was vividly accentuated during Ahmadinejad's period.

This macroeconomic estimation of capital flight has a purely *accounting* nature and suffers from two major shortcomings. First, it does not grapple the *economic* nature of capital flight. Second, it does not capture the *illicit* capital exit.

The *economic* nature pertains to all the lost opportunity costs related to the lack of security in property rights due to the presence of a confiscatory regime. Several dimensions of this economic diversion are as follows.

1) *Brain drain*: as discussed in our theoretical framework (section 1), human specific assets are fugitive assets detained by experts and skilled workers. They massively emigrated from Iran during the post-revolutionary period. The emigration process has been a chronic tendency that continues to this day (Torbat, 2002; Chaichian, 2012). According to the *2009 Annual Report of the International Monetary Fund*, Iran had the highest level of brain drain among 91 developing and developed nations with the emigration of 150,000 to 180,000 educated and skilled individuals, costing the government an equivalent of $50 billion in foreign exchange currency. Moreover, the IMF report also highlighted that more than 420,000 Iranians with higher education degrees resided in the USA out of which 250,000 were physicians and engineers (cited in Chaichian, 2012, p. 19).

2) *Transformation of specific assets into generic assets*: Many industrialists dismantled their enterprises and sold the land, the machinery and the equipment separately because specific investments require a long period of gestation. This means a preference for generic assets rather than idiosyncratic assets. *Appropriative acquisition of resources prevails in an economy with generic assets rather than specific assets*. The difference between these two types of economy, i.e. productive and redistributive, lies in the prominence of confiscatory policies in redistributive economies. A confiscatory (predatory) regime results in dismantling specific assets and transforming them into generic, more liquid, and fugitive assets. Market forces then retreat from specific investments and leave it to economic sectors directly protected by coercive forces. This captive assets' profile of parastatal sectors might explain one of the often-quoted Iranian economic paradoxes, namely the high level of investment and low economic growth or the inefficiency of investment since the 1979 Revolution. Many authors have underlined the investment inefficiency problem in Iran. "The investment/GDP ratio in Iran is slightly higher than that for the MENA region, four percent higher than in Turkey, 3.5 percent less than Tunis, about the same as in Egypt, and a tad higher than in Morocco for the same period. However, the Iranian growth performance does not rank as high as its investment ratio within this group for 1975-2000 period. This indicates problems with the efficiency of investments." (Jalali-Naini, 2005, p. 98). The same stylized fact was noted by Esfahani (2002, pp. 28-29) who underlined the significance of "rent extraction" in deterring private investment. More recently, Esfahani and Pesaran (2008) substantiated the inefficiency of capital investment for the whole period of 1978-2005. Bjorvatn and Selvik (2007, p. 3) attributed the low returns to investment in Iran to "distortions in the allocation of capital caused by rent-seeking." These authors also noted the lack of property rights protection resulting in less private investment at the aggregate level. Regulatory rents through development projects and subsidized loans are identified as the sources of the state's investment inefficiency (p. 14). However, the specific asset structure has never been under scrutiny in explaining the inefficiency of investments. Specific assets require long-term relationships and investments, secure credit lines, clearly defined property rights and extensive use of skilled labor. While the Iranian private sector has no interest in contractual relationships involving specific assets, the non-state sector prefers

appropriating the oil revenue and importing ready-made products rather than investing in specific assets to produce such goods. The strategic industries like military-industrial complex under *Sepah*, telecommunications and to some extent car industry which was particularly developed during the war years are also a few other exceptions. Generally speaking, the added-value sectors do not develop due to the lack of contractual relationships involving specific assets. High protection costs are the ultimate cause of the lack of specific assets in physical capital and the high rates of brain drain.

3) *Voracity effect in the presence of oligarchic rivalry*: In contrast to the Shah's regime, the Islamic Republic of Iran is characterized by competing powerful oligarchic and non-oligarchic groups. Lane and Tornell (1996, 1999) modelize the "voracity effect" that measures the extent of rent-seeking or appropriative activity of organized powerful groups following an increase in the rate of return of common resources such as oil. They show that any increase in the oil revenue in countries like Venezuela, Nigeria, Trinidad and Tobago where such powerful groups are dominant, provoke a voracity effect: the private consumption of these groups surpasses the amount of increase. The appropriative activity of powerful groups reduces growth rate due to the voracity effect. Lane and Tornell's model confirm Olson's result (1982, 1993) that if there exist only one long-lived powerful group, for example a strong autocrat or a few powerful groups that can coordinate and act cooperatively, then the 'voracity effect' will disappear. A principal form of competing 'private consumption' of powerful groups is capital flight. The influential groups secure their fortunes by exporting them abroad. It is impossible to know the amount of capital flight related to the 'voracity effect' particularly when a country is sanctioned by the international community. One can give the example of the confiscation of eighteen and half billion dollars of gold bullions and US dollars coming from Iran by Turkish authorities on October 7, 2008. Was this a way to flee capital related to powerful groups in Iran? Or a way to detour international sanctions? Or other types of illicit financing by the Islamic Republic of Iran? Or a combination of all these elements?

4) Preference for liquidity: Liquid assets such as foreign currencies, high ratio value-to-weight (antiquities, gemstones, precious old manuscripts, books and paintings, etc.) can escape more easily. Economic agents have a tendency to hoard this type of assets rather than captive assets that can be easily confiscated. This tendency strengthens the diaspora's economic activity as an ally of capital flight. The Iranian diaspora in North America and in Dubai plays a decisive role in capital flight. But the frontiers between legal and illegal flows of capital become blurred in the presence of massive capital flight.

5) Illicit capital flows: Capital flight is also defined as illicit capital flows (Cuddington, 1986). This definition precludes brain drain but it includes the illicit flows of foreign currencies and commodities. For example, according to Majlis Shorai Islami (the Islamic Parliament) (May 2006, p. 18), two thirds of the carpet exportation as well as two thirds of the pistachio exportation, 90% of cumin's exportation and 80% of traditional and agricultural commodities' exportation (like caviar, dried fruits) are illicit. Table 7 provides an estimation of illicit capital flows.

Table 7. Estimation of annual average illicit capital flows for the period 1984-1993 (billion dollars)

Exit sources	Current prices	Prices calculated in terms of 1995 constant values
Deficit of foreign trade	-4	-4.6
Foreign currencies	-1.3	-1.4
Traditional and agricultural commodities	-2.3	-2.7
Total	-7.6	-8.7
Other commodities	?	?
Brain drain	?	?

Source: Majlis Shorai Islami, May 2000, p. 22

This table excludes the amount of illicit capital flows with regard to antiquities, precious paintings, books, etc. as well as brain drain. This estimation is very far from the amount of illicit capital flows if we take into considerations the fact that more than 60 unofficial maritime gates and airports belonging to Sepah were involved in non-recorded export and import of different types of commodities (Coville, 2017, p. 92).

Opposing economics of escape, parastatal sectors try to capture *intermediary and fugitive assets* by *immobilizing* them. Thanks to their access to oil revenues, they combine *coercive* means with *extortions* to immobilize intermediary and fugitive assets. In fact, it is not only the ruled who bribe the ruler, but also the ruler who bribes the ruled. In this sense, we are facing a corrupt society in which bribing is a common practice. For example, five thousand private sector companies subcontract *Sepah's* project. Bribing is an important means in immobilizing assets and it has various facets: populist redistributive strategies, subsidization, rent-seeking collusions, and monopolizations. For example, after the end of the eight-year war, large investments in higher education were conducted to 'silence' the young people returning from war and to reduce the youth unemployment. Hashemi Rafsanjani personally invested in this colossal enterprise by creating Azad University and supervised it through his relatives and close associates. Different branches of this university were extended to almost every province. Despite this massive investment, the significance of brain drain indicates the *inefficiency* of capital investment in human capital. Several factors are relevant. First, since its foundation, the Islamic Republic of Iran declared its preference for 'Islamic faith or piety' rather than 'expert knowledge' reflecting the tension between Hawza (a seminary where Shiite clerics are trained) and university. This led to the replacement of technocrats, experts, and university educated cadres by people loyal to the Islamic state lacking the expert knowledge. Pursuing the dominance of Hawza over university, the Islamic rulers launched the so-called 'Cultural Revolution' in 1980 to purge the university from most of the qualified professors in all disciplines particularly in social sciences. Second, the supreme leader declared social sciences as a vehicle for western 'Cultural Invasion' advising even the closure of social disciplines in the absence of alternative Islamic teachings. The outcome of this purge was a drastic reduction in the number of university professors which is still less than its level before the 1979 Revolution (Majlis Shorai Islami, May 2000, p. 20). Moreover, the systematic purge impacted the quality of teaching and research at universities motivating elite students to leave the country and continue their education abroad. While the creation of Azad university may be considered as a salient illustration of the 'immobilization of fugitive assets', it also confirms the inefficiency of such policies.

The political economy of the Islamic Republic of Iran in general and Ahmadinejad's presidency terms in particular is marked by confiscatory regimes, indeterminate property rights and capital flight.

Conclusion

Our starting point in this paper was a distinction between two opposing perspectives on the state, namely a *normative* public good and a *positive* appropriating one. The former is based on public versus private goods, whereas the latter favors captive versus fugitive goods. While brutal force is efficient in capturing pure captive assets, it is much less efficient in including intermediary and fugitive assets. Price and hybrid competitions are warranted to encompass non-captive assets. Inclusive and exclusive predatory assets can be distinguished on the basis of state capacity to include (or exclude) non-captive assets.

Applying this theoretical framework, oil can be characterized as an intermediary (pure) captive asset. Two strategies are often pursued in state-building by rulers in countries reliant on oil revenues: a rentier state and a fiscal state. In contrast to natural resource curse, I have tried to prove that oil revenues are not necessarily a curse in the face of a non-democratic, non-restrictive political regime. In fact, a politically stable autocratic regime might be a source of limited diversification and economic growth. By contrast, a politically instable regime marked by rivalrous powerful oligarchic groups might perpetuate confiscatory policies and capital flight hindering economic growth. Two illustrations have been furnished to support this pattern: 1) the Shah regime during the agrarian reform (1962-1971) as an example of an inclusive predatory regime; 2) the two terms of Ahmadinejad's presidency (2006-2013) as an example of an exclusive predatory regime.

A major issue is to understand different strategies used by the state to immobilize fugitive and intermediary assets. This research aims to open a new window to study different appropriative dimensions of the state throughout history by exploring their competitive strategies in financing the state and influencing the assets' structure in terms of captive or fugitive.

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