

File Name: problems III of economic liberalization in Iran

**Problems of Economic Liberalization in Iran**  
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**Paper presented at**  
**Allied Social Science Associations**  
**Annual Convention, January 3-5, 2020, San Diego, California**

**Abstract**

This paper examines economic liberalization reforms in post-revolutionary Iran. The paper explores the problems that have been encountered in implementing economic reforms in recent years, which include adjustment of prices, unifying of the exchange rates, and privatization of state-owned enterprises. The paper also discusses the methods used in privatizing the state-owned enterprises and their fallout due to the underestimation of their assets' values and corruption in their selling process. The paper further explains why the current structure of the Iranian government makes the reforms unsuccessful and why neoliberal economic policies are not compatible with Islamic egalitarian values.

Key words: Neoliberal reforms, privatization, exchange rate, Islamic values.

## **Background on Neoliberalism and Islam**

The resurgence of the 19th-century ideas associated with economic liberalism (*laissez-faire*) and free-market capitalism reemerged in the 1970s, which is referred to as neoliberalism or neoliberal reforms. That constituted a paradigm shift away from Keynesian economics, which had prevailed since the Great Depression. Neoliberalism is generally referred to as policies of economic liberalization, which include privatization, deregulation, free trade, austerity, and reductions in government spending in order to increase the role of the private sector in the economy.

Pro-market economists argue that free-market allocates resources efficiently and enhances economic growth. Therefore, the best way for developing countries to promote economic growth is to liberalize their economy. The theoretical justification for the free-market is based on the ideas of neoclassical economists who argue free-market absorb additional domestic and foreign investments, which in turn contribute to economic growth. This theory is based on traditional models of economic growth by Harrod-Domar and also the more recent model by Robert Solow, which both indicate the importance of savings, and in turn, capital accumulation for thriving economic growth.<sup>1</sup> Yet, most oil-rich countries do not necessarily need foreign funds because their oil wealth usually generates enough foreign exchange for domestic investments. Nonetheless, they need technical expertise and industrialists to promote technological innovation in their economies.

In the past few decades, experience has shown that neoliberal economic reforms in many developing countries have not improved the wellbeing of the populace poor. Instead, neoliberal policies have led to greed for accumulating wealth by the affluent class and have resulted in uneven distribution of income and wealth in many countries.<sup>2</sup> The so-called “Washington Consensus,” which is the neoliberal agenda for improving the economies of the developing countries, does not directly aim at alleviating poverty. It instead relays on “trickle-down” income distribution from the wealthy to the poor, which has not been commonly materialized in these countries. As it appears, the trickle-down idea has not worked. The unfair distribution of income is an important matter that cannot be improved except by pursuing welfare policies, but that is in contrast with the austerity requirements of neoliberal reforms.

Experience of the countries in the Middle East and North Africa (MENA) has shown neoliberal economic policies have not contributed to the well-being of populace poor. For example, Tara Povey argues economic liberalization in Egypt that began in the 1970s under President Anwar

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<sup>1</sup> Roy F Harrod, (1939). "An Essay in Dynamic Theory". *The Economic Journal*. 49 (193): 14–33. And also Domar, Evsey (1946). "Capital Expansion, Rate of Growth, and Employment". *Econometrica*. 14 (2): 137–147. Also, Robert M Solow, (February 1956). "A contribution to the theory of economic growth". *Quarterly Journal of Economics*. 70): 65–94.

<sup>2</sup> Thomas Piketty, *Capital in the Twenty-First Century*, Belknap Press: An Imprint of Harvard University Press, Cambridge, MA. (2014).

Sadat's openness (ifitah) policy and continued under President Hosni Mubarak resulted in higher unemployment and increased poverty. Also, foreign investment was slow and did not create jobs. Povey compares neoliberal reforms in Iran and Egypt and concludes that economic liberalization deteriorated the situation of the working and middle class in both countries.<sup>3</sup>

The spread of neoliberal capitalism has specifically run to problems in Islamic countries. The neoliberal capitalism goal is to maximize profit and accumulate capital, which both contradict the Islamic egalitarian values. It cuts welfare for the poor without replacing the ethical values that have been traditionally existed in the Islamic World. The egalitarian objective of reducing income differentials through taxation and targeted subsidies run into conflict with using market forces to allocate resources. These problems have made it difficult to incorporate neoliberal reforms in Islamic economies.

The Islamic legal system is primarily moral rather than commercial laws and intends to govern all aspects of life. Koran is the original source of Islamic laws, which later gradually was supplemented by the second traditional source, Sunnah.<sup>4</sup> Islam concerns injustice and is critical of those who earn profits from the exploitation of others. The concentration of wealth is expected to be controlled by the obligatory Islamic charity (zakat). Under Islamic Sharia, the wealthy class obligated to redistribute one-tenth of their income to the poor by Zakat (alms or Islamic tax).<sup>5</sup>

Islam does not object to free-enterprise, legitimate profit from investment and trade, and also protects private property rights, which are incline with capitalism's aim. However, Islam forbids interest on loans (Reba) and the concentration of wealth, which both are the inadvertent consequence of neoliberal capitalism.<sup>6</sup> Even though the problem of Reba has been disregarded by innovative Islamic banking that bypasses Sharia law, nonetheless pursuing neoliberal policies has widened the poverty gap and has increased the wealth of top strata as happened in most Muslim countries.

In the past few decades, the implementation of neoliberal policies in Iran has encountered contentious disputes between the two political factions within the Iranian government. One faction that is known as principalists (*osolgara*) relies upon impoverished Iranians' political support to challenge the West's influence in Iran. Another faction that is referred to as reformist (*Eslahtalab*) is affiliated with the affluent Iranians and acts as compradors to promote the interests of the West in return for gaining political support. The two political factions' views

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<sup>3</sup> Tara Povey, Reformism, Economic Liberalization and Popular Mobilization in Iran, *Middle East Critique*, Volume 28, 2019 - Issue 4, PP. 365-380.

<sup>4</sup> I. P. Petrushevsky, *Islam in Iran*, translated by Hubert Evans, SUNY Press, New York, 1985, p. 101.

<sup>5</sup> J I Saunders, *A history of Medieval Islam*, Routledge; London, (1965) p. 35.

Zakat is obligatory Islamic wealth tax which the percentage and how applies is debatable among Islamic scholars.

<sup>6</sup> This has been bypassed Sharia law in some countries by innovative Islamic banking. One way to formally charge or pay interests is Morabeh that is a markup contract which function the same as charging normal interest.

regarding neoliberal reforms are different. The principalists believe in “resistance economic,” which means self-reliance and inward-looking development and strengthening the domestic economy. They see economic liberalization and privatization as the brainchild of the International Monetary Fund (IMF) and the capitalist's plot to dominate the country’s economy. They argue privatization will inevitably lead to large-scale job cuts and misery of the workers. The principalists faction, which controls most organs of the government, is not willing to change the traditional Islamic rules. While the reformists believe in opening the economy to the West and promote neoliberal economic reforms, they favor expanding the private sector and argue that the current state-dominated enterprises need to be privatized to make them more efficient.

### **Economic Reforms in Iran**

After the government of Mohammad Reza Shah Pahlavi collapsed in 1979, the country fell under the clerical leadership who did not know how to run the country. The individuals who took the responsibility of various organs of the government did not know what to do. They intended to replace the prior Western economic system or dependent capitalism with Islamic economics.<sup>7</sup> The new leaders were mostly interested in adopting economic policies in line with the centrally planned economies and rid Iran from dependency on foreign powers. As a result, the Islamic government hastily nationalized a large number of Iran’s private financial and industrial institutions and tilted the economy toward state control. That was at the same time that China had begun to restructure its centrally planned economy toward the free market system.

The new leaders pursued self-reliant industrial policy by requiring manufactured goods to be built by using domestic raw materials. The manufacturing sector was heavily protected by tariffs, and in some cases, a total ban on certain products, and/or by using multiple exchange rates schemes to restrict the import of luxury products. Furthermore, quotas were imposed on imports of certain goods, and price control was imposed on industrial inputs and outputs.<sup>8</sup> However, Iran was caught off-guard by the Iraqi invasion into its territory in September 1980, which triggered an eight-year war and devastated Iran’s economy. Consequently, Iran’s economic development programs stalled because significant resources had to be diverted to supply logistics for the war. After the war, the economy was in shambles, the rate of inflation had reached about 30%, and unemployment exceeded 15%.<sup>9</sup> The war and population growth rate led to a substantial decline in per-capita income between 1978 and 1988. The country needed to rebuild its war-ruined economy and reforms needed to revive the economy. Since

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<sup>7</sup> Bahman Ahmadi Amouee, *Eghtesad-e Sissi-e Jomhuri-e Eslami* (Political Economy of Islamic Republic), 2003, Gaame-no, Tehran.

<sup>8</sup> Jahangir Amuzegar, *Iran’s Economy Under Islamic Republic*, Revised, Subsequent edition (1997) I. B. Tauris, New York, P. 202.

<sup>9</sup> Ibid, p. 75 and p. 368.

the late 1980s, there have been four rounds of economic reforms in Iran. The following is a brief review of these reforms under four successive presidents.

**a) The First Round** of economic reform began after the founder of the Islamic Republic, Ayatollah Rouhollah Khomeini, died on June 3, 1989. Subsequently, the revolutionary passion for creating an egalitarian Islamic state in Iran, and its expansion in the region subsided. Yet, the collapse of the Soviet Union in 1991 led Iran to shift its economic policy toward the free market reform. President Akbar Hashemi Rafsanjani adopted the IMF's structural adjustment program to promote the free-market economy in Iran. Subsequently, Mohsen Nourbakhsh, the economic and finance Minister, and Hossein Adeli, the Central Bank Chief, began to implement economic liberalization programs.<sup>10</sup> The IMF's economic adjustment (*Tadil-e Eqhtesadi*) and liberalization program included: privatization, deregulation, cutting subsidies, devaluation, and encouraging foreign investment in Iran. In a sense, the Islamic Republic reforms' program was similar to the Chinese, which was strictly economic reforms as compared to the Soviet Union reforms under Michael Gorbachev, which included both economic and political (the perestroika and glasnost) reforms.

The reforms' objectives were to promote private sector participation, reduce government expenditures, and encourage foreign investment. Also, the government established free trade zones, in the Persian Gulf islands of Kish and Qeshm, and devalued the national currency rial. The Tehran Stock Exchange (TSE) that had been closed since the revolution was re-opened, and shares of some previously nationalized companies were sold in the stock exchange. As part of economic liberalization reforms, certain state-owned enterprises were planned to be privatized. Almost a decade had passed since the confiscation and nationalization of major private establishments when the government decided to re-privatize them. At the same time, some industrialists and educated elites who had left Iran to live abroad were encouraged to return home. In short, Rafsanjani replaced the Islamic social and economic justice objectives by neoliberal economic policies of the World Bank and IMF.

Yet, the liberalization policies were not welcomed by most of the Majles representatives who were elected in 1992. They did not support the liberalization policies due to their divergence from the revolutionary goals, in which economic justice was its base. Subsequently, liberalization caused rising prices and stagnated wages. In May 1992, riots spread in several Iranian cities, including Arak, Mashhad, Shiraz, and Shushtar. Thousands of demonstrators set buses, banks, and government offices on fire. The government had to use force to repel the rioters, which caused a number of protestors' death until the unrest stopped, and martial law was enforced to restore order.<sup>11</sup> To reduce prices, the government eased imports by virtually eliminating tariffs. But the free trade policy increased the unemployment rate due to the

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<sup>10</sup>Ahmadi Amouee, p.59.

<sup>11</sup>Dilip Hiro, *Neighbors, Not Friends: Iraq and Iran after the Gulf Wars*, Routledge, New York, 2001, p. 198.

inability of domestic producers to compete with imported goods. Moreover, the increase in imports caused record foreign debts.

Despite the failure of his economic liberalization program, Rafsanjani was re-elected for the second term in 1993. He defeated his main contender Ahmad Tavakoli, a non-cleric and former labor minister who had also advocated free-market policies and had the support of bazaaries, the traditional retail merchants. Subsequently, the economy worsened as the unemployment rate rose to about 14%, and the inflation rate reached to approximately 28%, based on official reports.<sup>12</sup> Moreover, falling oil prices worsened trade deficits as lax trade policy had increased imports. That led to a foreign debt of about \$30 billion in 1993, the highest in Iran's history. Rafsanjani's neoliberal policies led to profiteering and corruption.<sup>13</sup> As a result, he was forced to curtail his free trade policy by imposing import quotas and limiting foreign currency to leave the country. In brief, the first round of economic liberalization program brought misery for the poor and failed to progress due to constitutional barriers and corruption in implementing the privatization process.

Subsequently, with the support of reformists, Mohammad Khatami was elected president and succeeded Rafsanjani in August 1997. President Khatami proposed a platform for "*samandehi-e eghtesadi*" (organizing the economy), which was a diluted version of the economic adjustment program. In February 2000, the reformists defeated the conservatives in the parliamentary election and gained majority control in the Majles. That provided more support for liberalization reforms.

**b) The Second Round** of economic reforms began during Khatami's second term in office.<sup>14</sup> In early 2002, his government began implementing the IMF economic stabilization and structural adjustment programs, which included exchange rates unification, easing trade restrictions, ratification of the foreign investment laws, tax cut and ending tax-exempt status of bonyads, reducing subsidies, and issue licenses for private banks and insurance companies.<sup>15</sup> The multiple exchange rates were discontinued on March 21, 2002, and the rial became a unified manage-float currency.<sup>16</sup> The constitution states primary mother industries and financial institutions ought to be run by the government.<sup>17</sup> To attract foreign investment, Iran had to enact a new foreign investment law since Article 81 of Iran's constitution strictly forbade "giving concession" to

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<sup>12</sup> Amuzegar, *Iran's Economy Under Islamic Republic*, p. 370.

<sup>13</sup> Dilip Hiro, *Neighbors, Not Friends: Iraq and Iran after the Gulf Wars*, Routledge, New York, 2001. PP. 195-210.

<sup>14</sup> Sohrab Behdad, Khatami and His "Reformist" Economic (Non-)Agenda, *Middle East Report Online*, May 21, 2001 <https://merip.org/2001/05/khatami-and-his-reformist-economic-non-agenda/>

<sup>15</sup> Alizadeh, Parvin, PP. 268, Iran's Quandary: Economic Reforms and the "Structural Trap", *The Brown Journal of World Affairs*, Vol. 9, No. 2 (Winter/Spring 2003), pp. 267-281.

<sup>16</sup> AAbdelali Jbili, Vitali Kramarenko, and José Bailén bdelali, *Islamic Republic of Iran Managing the Transition to a Market Economy*, IMF, Washinton DC, 2007, p. 48.

<sup>17</sup> *Iran (Islamic Republic of)'s Constitution*, Article 44, [https://www.constituteproject.org/constitution/Iran\\_1989.pdf?lang=en](https://www.constituteproject.org/constitution/Iran_1989.pdf?lang=en).

foreigners.<sup>18</sup> In late 2002, the parliament passed the Foreign Investment Promotion and Protection Act (FIPPA).

On the whole, the economic liberalization policies that were implemented during 16 years under the two successive cleric presidents tilted the economy toward the private sector and benefited the affluent class. That was a turnaround from the revolutionary goal of forming an egalitarian Islamic society that Khomeini had promised. As a result, the reformists' camp did not gain grassroots support in the subsequent parliamentary and presidential elections.

The Failure of the reformists' economic policies under Rafsanjani and Khatami administrations led to a gradual gain of power by the conservative Islamists who are known as principalists. In February 2004, the conservatives succeeded in gaining a majority in the parliament and subsequently obtained total control over the government when Mahmoud Ahmadinejad from their side was elected president in June 2005. Ahmadinejad had advocated populist economic policies during his presidential campaign and had promised "putting oil money on impoverished peoples' dining table (*Sofreh*)."<sup>19</sup> As a result, Ahmadinejad gained strong grassroots support from urban poor and rural dwellers. He became the first enduring non-cleric president who wanted to pursue the original goals of the revolution, explicitly: economic justice and political sovereignty. President Ahmadinejad, who chanted slogans against the reformists, was reluctant to continue implementing economic liberalization. He instead stressed for egalitarian distribution of income and maintaining statist policies to manage the economy.

**C) The Third Round** of economic reform initiated after President Ahmadinejad presented his "economic transformation" (*tahavol-e eghtesadi*) program with the intention of pursuing the original goals of the revolution. The central elements of his program were "targeted subsidies" (*Hadafmand Kardan-e Yaraneha*) and "justice shares" (*saham-e adalat*). The Justice Shares program was a privatization policy that was devised for partial divesting of the state-owned enterprises and distributing their shares to low-income Iranians. Justice shares were mutual fund shares of the privatized state-owned enterprises. The program was approved by the parliament in 2006. Also, the Targeted Subsidies Reform Act was approved by the parliament on January 5, 2010. The targeted subsidies program began implementation on December 18, 2010, when President Ahmadinejad announced a drastic change in subsidy reform to reduce the implicit basic product subsidies. The details of the new economic policy were released the following day, which included a substantial increase in prices of bread, natural gas, gasoline, diesel fuel, electricity, and water. At the same time, the government indicated nearly 80% of Iranians would receive compensatory payments for the price increase in their bank account.<sup>19</sup> The compensatory payment was initially \$45 per month per person to low-income households.

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<sup>18</sup> *Iran (Islamic Republic of)*'s Constitution, Article 81.

<sup>19</sup> Dominique Guillaume, Roman Zyteck, and Mohammad Reza Farzin,, *Iran—The Chronicles of the Subsidy Reform*, International Monetary Fund, WP/11/167 IMF Working Paper., 2011, p. 3.

However, since the government did not have an accurate measure of people's income, a few months later, the cash payment changed to a uniform payment.

The program was intended specifically to reduce the massive indirect subsidy of the energy products. The rationale for the reform was to enhance social equality in the distribution of the oil wealth because, under the existing prices, the poor were benefited much less from the fuel subsidies than the rich. The program would have both income and substitution effects. The cash subsidies would increase the poor incomes, and the price increase in energy products would substitute demand for other goods and thus contribute to economic growth.<sup>20</sup> Furthermore, the price increase would reduce the consumption of oil products, specifically gasoline, and would cut their wastes. In fact, in the following 12 months, the price increase cut gasoline consumption from 66 million liters per year before the increase to about 54 million liters for the year.

Additionally, Ahmadinejad increased government spending on development projects and reduced interest rates despite objections by the neoliberal economists who were on the side of the reformist faction. He also initiated the construction of affordable housing for low-income families. Besides, he tried to encourage domestic companies to invest in the energy and petrochemical sectors. However, because of his resolve to expand Iran's nuclear program, the United States, along with its European allies, put Iran under heavy economic sanctions, which significantly hurt the Iranian economy in 2012.<sup>21</sup> Subsequently, the sanctions reduced Iran's oil exports to about one-third, about 800,000 barrels per day, by August 2013.

**d) The Fourth Round** of economic reform began after Hassan Rouhani became president in August 2013. Rouhani had shown a key during his presidential campaign as a sign that he would have the tool to solve the country's problems if he became president. After taking power, he pursued neoliberal economic reforms both domestically and in foreign trade. The main figures of his economic team were from the Institute of Planning and Management Education and Research, who had served in president Rafsanjani's administration.<sup>22</sup> Rouhani, with a few in his economic team, had published a book in 2010 entitled "National Security and Economic System of Iran,"<sup>23</sup> in which they had indicated the necessity to implement structural reforms in Iran's manufacturing, banking, commerce, and to reduce inflation. Subsequently, Rouhani incorporated privatization of the communication and manufacturing sectors in his initial agenda and began to open Iran's economy to the West.<sup>24</sup>

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<sup>20</sup> Guillaume et al. show an example of the microeconomic effects of the targeted subsidies program, see page 7.

<sup>21</sup> Akbar E. Torbat, *Politics of Oil and Nuclear Technology in Iran*, Palgrave MacMillan, 2020, New York, Chapter 9.

<sup>22</sup> Ismael Hossein-Zadeh, Neoliberal Economics: The Plague of Iran's Economy, OCTOBER 3, 2018, <https://www.counterpunch.org/2018/10/03/neoliberal-economics-the-plague-of-irans-economy/>.

<sup>23</sup>The co-authors of the book were Mohammad-Bagher Nobakht, Mohammad Nahavandian, Mohammad Hossein Malieri, and Akbar Torkan. <https://www.tribunezamanah.com/wp-content/uploads/2013/11/critic-rouhani-total-41.pdf>.

<sup>24</sup> IMF, <https://www.imf.org/en/Countries/IRN>



To get the West support for his economic reforms, Rouhani sought to make a deal with the U.S. regarding Iran's nuclear program, hoping to end the economic sanctions that had crippled the Iranian economy. Rouhani prematurely thought if he yielded to the U.S. and Europeans' demands regarding Iran's nuclear program, they would end economic sanctions and bring about economic prosperity to Iran. In 2015, Rouhani's Administration hastily signed a nuclear agreement with the U.S. and five other world powers, called the Joint Comprehensive Plan of Action (JCPOA or BARJAM in Farsi). Consequently, some sanctions were temporarily lifted In January 2016. However, that did not last long as the presidential candidate Donald Trump criticized the agreement that President Barack Obama had approved. Subsequently, when Trump was elected president in 2016, he contemplated pulling the U.S. out of the nuclear deal. Eventually, Trump withdrew the U.S. unilaterally from the agreement and reimposed the economic sanctions on Iran effective May 2018. President Trump's backtracking from the JCPOA ended a period of openness and market reforms that Rouhani had started.

As a result, Rouhani faced two challenging issues: large-scale protests over the economic problems at home and constraints associated with the U.S. economic sanctions, which curtailed Iran's oil export drastically. Aside from the US-led sanctions, Rouhani's liberalization policy deteriorated inequality and contributed to the accumulation of wealth by the top strata, which actually contradicted the goals of the Islamic revolution. Under Rouhani, income inequality was worsened. The Gini index, a measure of the income distribution that had been reduced significantly under president Ahmadinejad to as low as 34.0, began to rise. The Statistical Center of Iran reported the Gini index in the last Iranian year (2018-19) had increased to 40.1 from 39.8 in the previous year. The wealthiest top tenth of the population held 14 times more wealth than the lowest 10%. As a result, Rouhani had to change course from his economic liberalization plan to deal with the economic problems he had created.

Rouhani's neoliberal policy made Iran's economy worse than was before, as unemployment and inflation surged to historic highs. During his presidency, Iranian banks, in collaboration with CBI (Central Bank of Iran), became finance sources of big currency speculators and contraband importers. The banking system granted huge sums of credits to close relatives and cronies of the government officials, who were engaging in speculative trading of foreign currency, real state, and precious metals. These trading activities of buying and reselling to profit from transactions are referred to as "*eghtesad-e rant*" (rent-seeking economy) in Iran.<sup>25</sup> Furthermore, financial corruption increased under Rouhani, which involved some individuals close to his administration, including his brother Hossein Fereydoun, who was convicted of bribery and sentenced to 5 years prison in October 2019.<sup>26</sup>

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<sup>25</sup> Ismael Hossein-Zadeh, *Neoliberal Economics: The Plague of Iran's Economy*, October 3, 2018, <https://www.counterpunch.org/2018/10/03/neoliberal-economics-the-plague-of-irans-economy/>

<sup>26</sup> Reuters, October 1, 2019, Iran court sentences brother of president Rouhani to five years in prison: report <https://www.reuters.com/article/us-iran-rouhani-brother/iran-court-sentences-brother-of-president-rouhani-to-five-years-in-prison-report-idUSKBN1WG3F6>.

The main elements of economic reforms under each successive president explained above. The following sections describe the problems that have been encountered in implementing economic reforms in Iran, which include the unification of the exchange rates, adjustment of basic goods prices, and privatizations of the state-owned enterprises.

### **The Decline of the Rial**

When the revolutionary fever heated up in 1978, the Iranian national currency, rial valued about 70 per dollar, however shortly after its value declined precipitously due to capital flight from Iran. Studies had estimated that capital flight from Iran shortly before and after the 1979 revolution was in the range of \$30 to \$40 billion.<sup>27</sup> After the revolution, Iran established multiple exchange rates to control prices due to the war with Iraq. After the war, the rial value continued to decline in the free market. For a brief time in 1993, the central bank attempted to unify the existing multiple exchange rates, but it was not successful. By 1999, the exchange rate in the free market had reached to about 9,430 rials per dollar, a cumulative loss of about 99% since 1979.

In March 2002, Iran initiated a unified managed float exchange rate system,<sup>28</sup> and in August 2004, it accepted Article VIII, sections 2, 3, and 4 of the IMF Articles of Agreement.<sup>29 30</sup> That meant Iran agreed to refrain from imposing restrictions on payments and transfers for current international transactions or from engaging in discriminatory currency arrangement or multiple currency practices, except with IMF approval.<sup>31</sup> This was a step for further economic liberalization; however, due to the U.S economic sanctions imposed on Iran, liberalization could not proceed as was planned.

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<sup>27</sup> Maboud Ansari, *The Making of the Iranian Community in America*, New York, NY: Pardis Press, 1992.) p. 127.

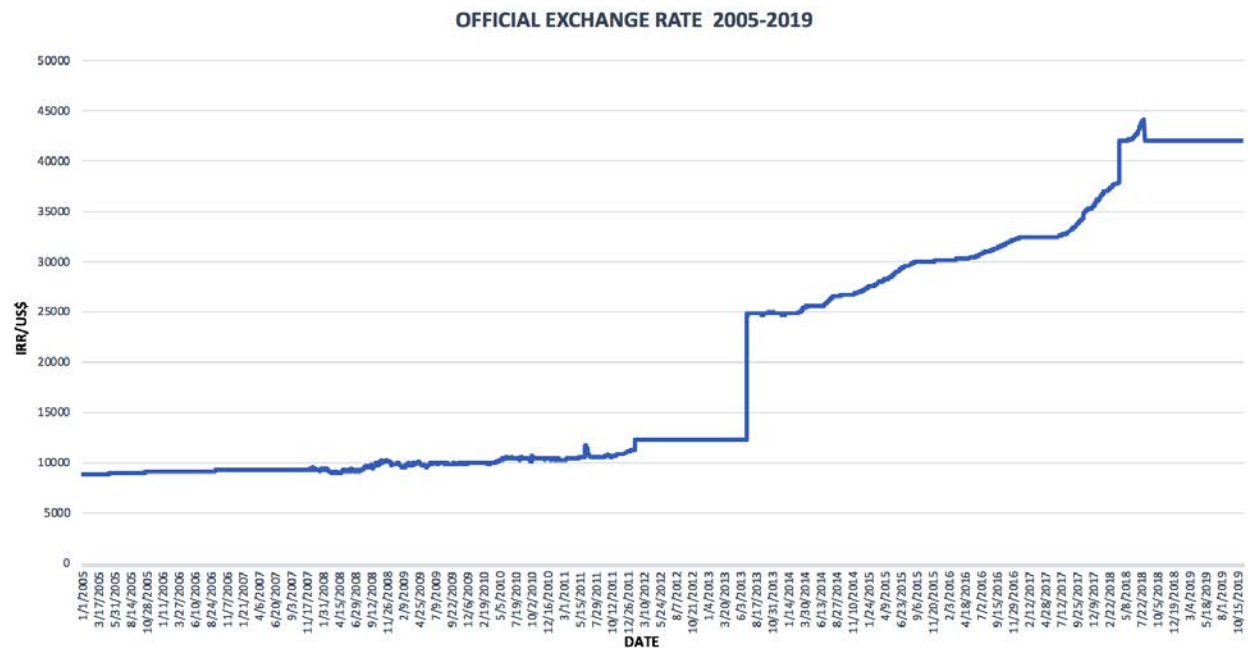
<sup>28</sup> Abdelali Jbili, et al, <https://www.imf.org/External/Pubs/NFT/2007/iran/market/market.pdf> , p46. , see also Iran Medium Term Framework for Transition: Converting Oil Wealth to Development, A Country Economic Memorandum, April 30, 2003, <http://documents.worldbank.org/curated/en/521011468771291547/pdf/multi0page.pdf>

<sup>29</sup> Hossein Farzin, The Political Economy of Exchange Rate Reform, in *Iran After the Revolution*, Edited by Saeed Rahnama and Sohrab Behdad, T. B. Tauris, 1996. PP. 174-200.

<sup>30</sup> The IMF Articles Of Agreement, <https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf>

<sup>31</sup> See chapter 4, IMF book for the history of exchange rate. [https://www.elibrary.imf.org/doc/IMF058/03890-9781589064416/03890-9781589064416/Other\\_formats/Source\\_PDF/03890-9781451949735.pdf?redirect=true](https://www.elibrary.imf.org/doc/IMF058/03890-9781589064416/03890-9781589064416/Other_formats/Source_PDF/03890-9781451949735.pdf?redirect=true)

**Figure 1. The trend of the Official Exchange Rate (rial/dollar)**



Source Author<sup>32</sup>

Additional sanctions by the U.S. and the European Union caused further depreciation of the rial, leading the currency to free fall in the free market in 2012. As a result, in July 2013, the central bank was obliged to devalue the rial official exchange rate from the previous IR 12,260 to IR 24,777 per dollar, which reduced its value by about 50% and brought the official rate close to the free market rate. Figure 1 shows the price of rial per dollar at the CBI official exchange rate, which changed from 8,000 in 2005 to 42,000 rial per dollar in 2019. As shown in the figure, the rial continued to decline because the U.S. sanctions forced SWIFT to cut the Iranian banks from its system in 2013.<sup>33</sup> In December 2016, the rial value fell from about 36,000 to 41,000 per dollar in the free market due to delays in the unification of the official rate and free-market exchange rate, which was expected to take place on March 20, 2017. As of the end of February 2017, the official rate was around IR 32,404, while the market rate reached to IR 38,490 per dollar. The rial went into a tailspin again in 2018 in anticipation of the U.S. re-imposing economic sanctions on Iran. Ultimately, in May 2018, President Donald Trump decided to pull the United States out of the nuclear deal and vowed to impose “maximum pressure” on Iran.<sup>34</sup> Since then, the rial has fluctuated within a wide range.

Figure 2 shows the price of the rial in the parallel free market from November 2012 to November 2019, which shows rial value depreciated from 3,000 to 12,000 toman (1 toman is

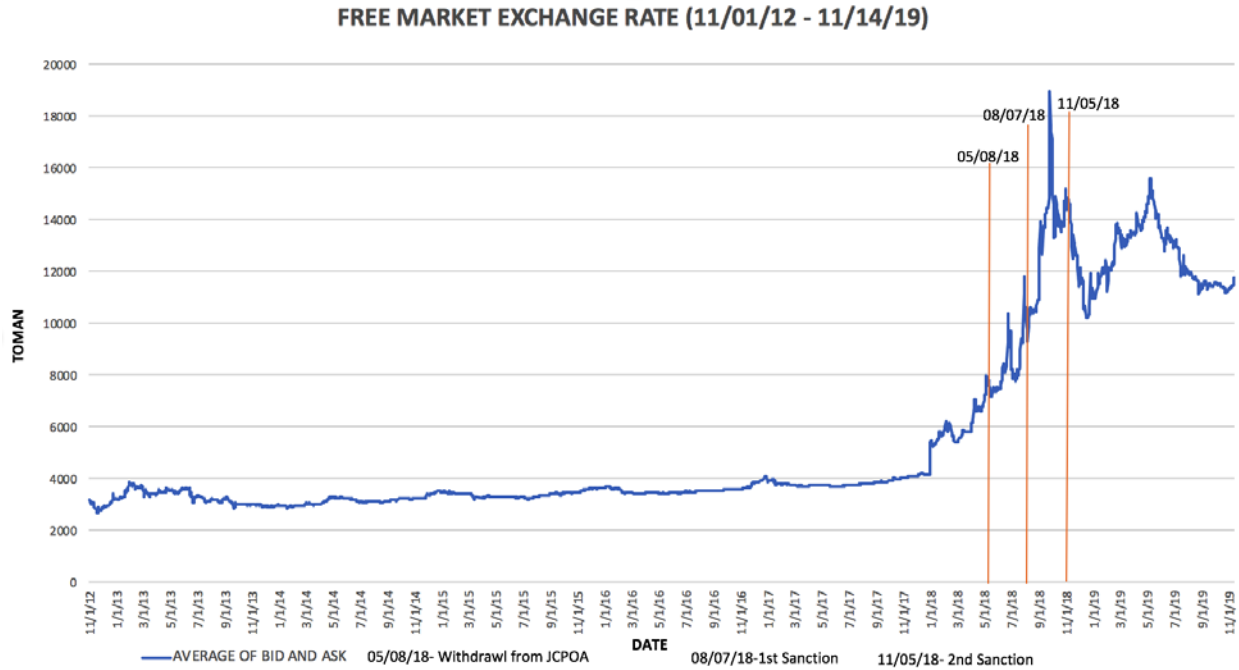
<sup>32</sup> The official rial exchange rates data were obtained from Central Bank of Iran, [www.cbi.ir](http://www.cbi.ir).

<sup>33</sup> After President Trump pulled out the U.S. from the nuclear agreement in May 2018, the cut off resumed again.

<sup>34</sup> Sarah Townsend, Explainer: the collapse of the Iranian rial, <https://www.thenational.ae/business/economy/explainer-the-collapse-of-the-iranian-rial-1.754707>, July 28, 2018.

equal to 10 rials) per dollar. The value of the rial in the parallel free market began to decline when the U.S. announced it would re-impose further economic sanctions on Iran and eventually exited from the JCPOA in May 2018.

**Figure 2. The trend of Rial in Parallel Market (toman/dollar)**



Source: Author<sup>35</sup>

The government attempts to stabilize the rial by introducing a single official exchange rate have failed, as the free market exchange rate has moved much higher than the official rate set up by the central bank. Because of the heavy economic sanctions, CBI's conduct of monetary policy has become ineffective. The sanctions have undermined the central bank's ability to control prices, clear payments for Iranian oil export, and to prop up the Iranian rial. Also, because the central bank has increased banknotes at the hand of the public, the rial has lost its value further.

Because of the U.S. sanctions, Iran cannot currently export enough oil to obtain its needed foreign exchange; thus, it may run to current account deficits in the future. Iran currently has some foreign-exchange reserves; therefore, it should be able to support the official exchange rate at the current IR 42,000 per dollar for a while. However, if the sanctions continue to pressure Iran's economy, it will be hard for the central bank to maintain the official rate at its current level. As of December 2019, the official price of toman was 4,200 tomans per dollar while the dollar was being sold in the free market more than three times that price. The difference between the two rates has become an income source for people who have relations

<sup>35</sup> The rial free market exchange rates data obtained from (<https://www.bonbast.com/historica>)

with the government officials to obtain dollars at the official price and sell them at a much higher price in the free market.

Because of the collapse of the rial's value, the Iranian government intends to change the currency unit from rial to toman, which is commonly quoted in domestic trades. In 2019, government ministers passed a bill to drop four zeros, as well as revalue one toman to be equal to one hundred 100 rials instead of the existing ten rials.<sup>36</sup> However, such a change requires the approval of the Iranian parliament.

Since the political risk is high in Iran due to economic sanctions, it causes large amounts of foreign currency to flow out from the country. Also, because of the high inflation rate, speculative demand for dollars and other foreign currencies has increased from those who do not normally need to buy them. The speculative trading of the national currency and other financial corruptions led the Supreme Leader Ali Khamenei to order, in August 2018, the establishment of special courts to deal with suspected financial crimes.<sup>37</sup> Since then, these courts have sentenced a few individuals to death in trials that occasionally broadcast live on state television. On November 14, 2018, Vahid Mazloumin, a currency trader who was known as the "Sultan of Coins," and his accomplice Mohammad Ismail Ghasemi were hanged. They were charged for amassing some two tons of gold coins in order to hike their prices at later times in terms of the national currency.<sup>38</sup> Mazlouman claimed in his defense that the Central Bank had not set any limits on the number of coins a person could hold.<sup>39</sup> Another victim was Hamid Bagheri Dermani, who was known by the Iranian media as the "Sultan of Bitumen," he was executed on December 22, on charges of economic corruption.<sup>40</sup> The regime said these individuals received the death penalty for "spreading corruption on earth." Though the clerics associated with the regime are not subjected to punishment or death sentences as others, for example, Grand Ayatollah Makarem Shirazi, who has been known for some time as the "Sultan of Sugar" for monopolizing and ruining the domestic sugar industry, has not gone under any investigation.

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<sup>36</sup> Iran government approves to drop four zeros, revert to toman, 31 July 2019,

<https://www.presstv.com/Detail/2019/07/31/602314/Iran-currency-rial-central-bank-sanctions-US>

<sup>37</sup> Iran's Goals In The Fight Against Economic Corruption , OCTOBER 18, 2019, <https://lobellog.com/irans-goals-in-the-fight-against-economic-corruption/>

<sup>38</sup> Iran executes 'Sultan of Coins' amid currency crisis , 4 November 2018, <https://www.bbc.com/news/world-middle-east-46206435>

<sup>39</sup> Iran's Execution of Two Traders Convicted in Iran's New Corruption Courts Is Unlawful, November 14, 2018, <https://www.iranhumanrights.org/2018/11/irans-executions-of-persons-convicted-in-irans-new-corruption-courts-are-unlawful/>

<sup>40</sup> Iran: Hamid Bagheri Dermani, Executed for Economic Corruption, 22 Deceber 2018 <https://iranhr.net/en/articles/3594/> .

## **Control of Basic Goods Prices**

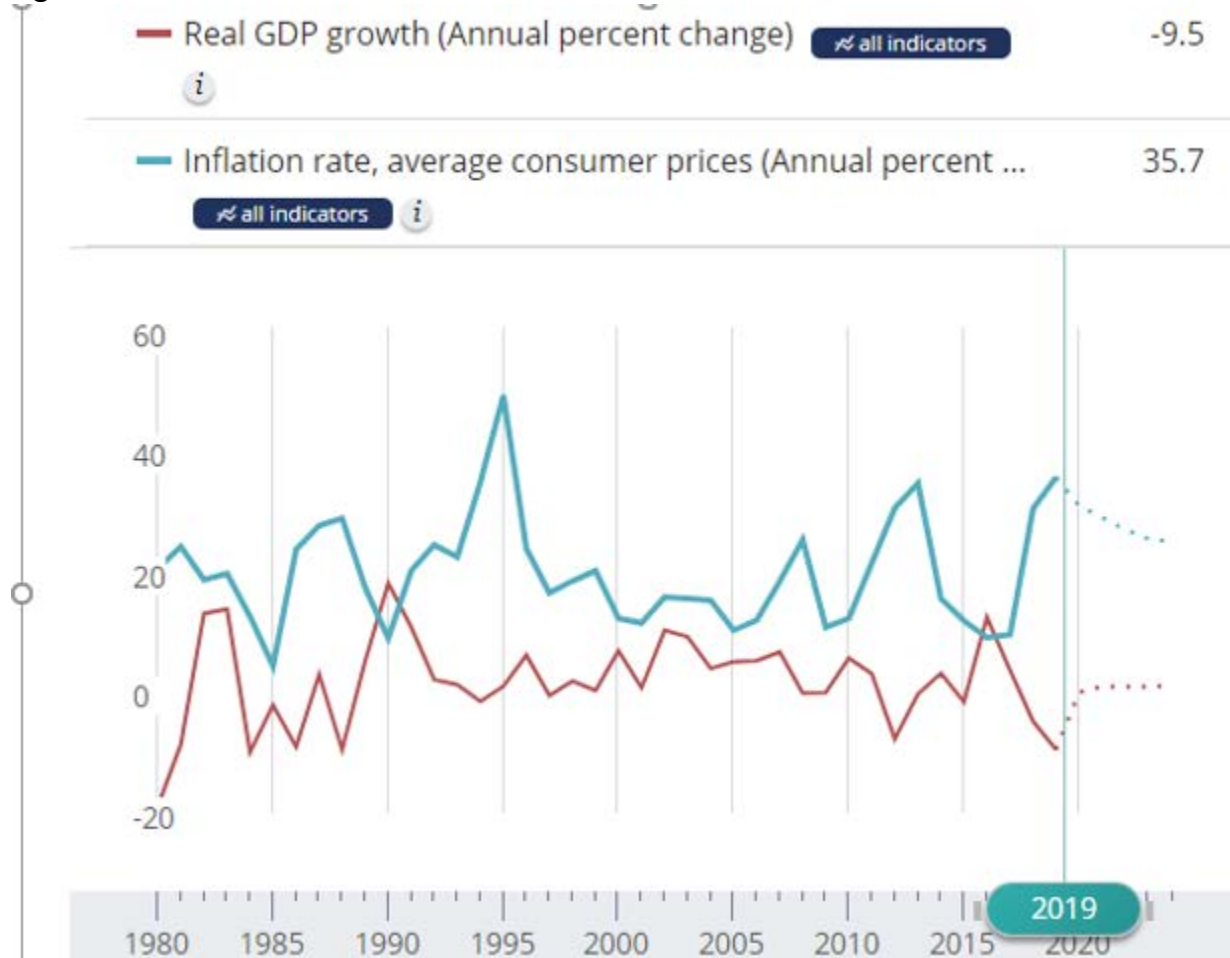
Since the early years of post-revolution, the Islamic government has subsidized some basic goods prices. The subsidies were initiated during the war with Iraq to limit people's hardship and continued to avoid economic discontent to challenge the regime. Ayatollah Rouhollah Khomeini had promised to provide free water and electricity to everyone. For that reason, prices of oil products, utilities, and some other basic goods have been set too low, and their consumption has become conducive to excessive use and waste. The government has monopoly power to set some basic goods prices. It normally controls such prices through its owns companies, which indirectly create a ceiling on private sector market prices.

As was mentioned earlier, President Ahmadinejad initiated a gradual increase in prices of some basic goods such as bread, electricity, furnace oil, gasoline, natural gas, and water. Increase the prices of those goods by cutting subsidies would allocate resources more efficiently. In 2010, he lifted fuel subsidies and rationed gasoline by issuing smart fuel cards to control gasoline consumptions and gave compensatory cash subsidies to low-income individuals. However, President Rouhani stopped rationing of those goods and pursued free-market reforms. Since the prices of basic goods were set too low, the free market did not help to avoid waste and improve the efficient allocation of such goods and services. Rouhani's other neoliberal policies ran into problems as well. His economic liberalization could not be continued while Iran was under severe economic sanctions, which subsequently became equivalent to economic war against Iran after President Trump withdrew from the nuclear deal in May 2018.

Since the U.S. re-imposed economic sanctions, the rate of inflation has increased to the highest level since the early 1990s. Specifically, food prices increased sharply to nearly 100% in 2019. The high Inflation rate has caused a substantial decline in the value of the national currency. The rial depreciation has increased prices of imported goods, while domestic prices of the subsidized goods such as gasoline comparatively have remained too low. Figure 3 shows Iran's average rate of inflation annually and the percentage change in annual Gross National Product since 1980. As a result of the U.S. sanctions, the Iranian economy went to recession in 2018-2019, and the rate of inflation measured by the average consumer price index has surged. As shown in Figure 3, in 2019, GDP declined by 9.5%, and the rate of inflation reached 35.7 %.

Because the U.S. economic sanctions have prevented the normal export of Iran's oil, the Iranian government suffered budget deficits along with an economic recession in 2019. Hence, the government had no choice but to act quickly to raise prices of basic goods in order to reduce subsidies, which gasoline and other oil products were the primary candidates.

**Figure 3. The Pattern of Inflation and GDP Growth Rate**



Source: World Economic Outlook 2019 <sup>41</sup>

### The Problem of Gasoline Prices

Gasoline prices in Iran have been historically too low-- leading to smuggling, excessive consumption, and increasing air pollution in major cities, specifically in the capital Tehran. The refined petroleum products are sold at a heavy subsidized price for domestic consumption. Gasoline consumption in Iran has increased over the years because of its low subsidized price to the point that domestic consumption has been higher than gasoline consumption in the entire European Union region.<sup>42</sup> To deal with this problem, President Ahmadinejad planned to

<sup>41</sup> IMF, <https://www.imf.org/en/Countries/IRN>

<sup>42</sup> Mashregh News, ۰۱:۳۰ - ۱۳۹۸ آبان ۲۷: تاریخ انتشار: 1011028 کد خبر: 1011028/%D9%85%D9%82%D8%A7%DB%8C%D8%B3%D9%87-%D9%82%DB%8C%D9%85%D8%AA-%D9%88-%D9%85%DB%8C%D8%B2%D8%A7%D9%86-%D9%85%D8%B5%D8%B1%D9%81-%D8%A8%D9%86%D8%B2%DB%8C%D9%86-%D8%AF%D8%B1-%D8%A7%DB%8C%D8%B1%D8%A7%D9%86-%D9%88-%D8%AC%D9%87%D8%A7%D9%86 .

increase gasoline prices and to ration its use by issuing smart cards. In 2010, the parliament passed the comprehensive Targeted Subsidies Plan to gradually replace most of the subsidies on basic goods with targeted financial assistance (yaraneh). The targeted subsidies plan was implemented in December 2010 (1389). As a result, the gasoline prices increased from 1,000 rials to 4,000 rials -- limited up to 60 liters per vehicle at that price, and non-rationed gasoline priced at 7,000 rials. In 2014 (1393), for the second time, the rationed gasoline prices increased from 4,000 to 7,000 rials and non-rationed gasoline from 7,000 to 10,000 rials. The price hike did not increase the overall rate of inflation.<sup>43</sup>

However, in pursuing his economic liberalization agenda, Rouhani ended rationing and unified gasoline prices in 2015 (1394) to 10,000 rials per liter for unlimited quantity. That meant the formerly rationed gasoline prices increased from 7,000 to 10,000 rials or 43%. In April 2016, President Rouhani removed 3.3 million individuals from the cash subsidy payments. Rouhani's unification of gasoline prices was a big mistake. It contributed to the higher consumption of gasoline and indirectly subsidized the rich. The falling of the rial exchange rate led to an increase in gasoline smuggling to the neighboring countries. In fact, the original two-tier price scheme was the best approach in Iran's situation. Because the state monopoly company distributes oil products, it can sell gasoline to high-consumption users at a substantially higher price than the price it charges the low consumption users. In that case, those paying the higher price bear the burden of those who pay a lower price.<sup>44</sup>

Figure 4 shows the countries that had the lowest gasoline prices as of November 11, 2019, just three days before Iran increased domestic oil product prices. As shown, after Venezuela and Sudan, Iran had the lowest gasoline price of \$0.29 per liter. This price was based on the official exchange rate of 42,000 rials per dollar, while the free market exchange rate at the time was about 130,000 rials per dollar. Converting the price to the free-market price results  $\$0.29 \times 42000/130000 = \$0.093$  or approximately 9 cents per liter. Multiply 0.093 by 3.785 would result in \$.35 per gallon, which was at the time about one-tenth of \$3.5 regular gasoline price in the US. At that time, gasoline price in some European countries was, on average, about \$1.75 (in France \$1.66, Italy \$1.74, and Norway \$1.86) per liter, approximately 19 times the price of the gasoline in Iran.

Since the distribution of oil products is under control of the government monopoly, there is no competitive market to set gasoline prices. The government has set oil products prices too low, and that has led to gasoline smuggling from Iran to neighboring countries. For example, the price of gasoline in Turkey was 156,000 rial per liter as of November 2019, which had caused significant smuggling from Iran to Turkey.

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<sup>43</sup> Kayhan, news code 174739

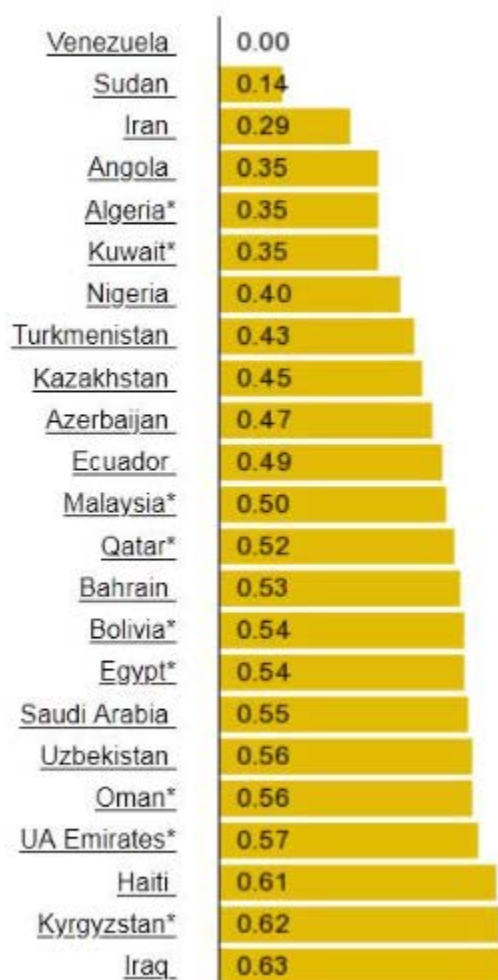
<sup>44</sup> For analysis of two-tier scheme prices by a monopoly, see *Microeconomic Theory: Basic Principles and Extensions* 10th Edition, by Walter Nicholson and Christopher Snyder, South-Western College Pub; 10th edition (2007), p. 511.



Eventually, since the reduction in oil exports reduced Iran's foreign exchange income, the government decided to increase gasoline prices to cut its budget deficits. Rouhani restarted gasoline rationing and increased its price without any advanced notice. On November 14, 2019, the National Iranian Oil Products Distribution Company (NIOPDC)<sup>45</sup> announced the price of regular gasoline would be increased by 50% from 10,000 rials (\$0.09) to 15000 rials (\$0.127) for rationed gasoline, limited to 60 liters per month, and 30,000 rials (\$0.25) per liter for more than 60 liters per month per each private vehicle.

**Figure 4. Countries with Lowest Gasoline Prices**

Gasoline prices, 11-Nov-2019  
(liter, U.S. Dollar)



Source: GlobalPetrolprices.com

<sup>45</sup> <https://www.niopdc.ir/>, gasoline consumption before rationing was 98 million liter per day

The price increase came at the worst time as the economy had been severely damaged by the U.S. economic sanctions. The resulting price increase would certainly impose pressures on the Iranian domestic industries. The industries that had run their operations based on subsidized energy prices will suffer, and they must raise their prices to compensate for their higher cost.

Subsequently, the sudden increase in gasoline prices led to major protests and riots against the regime. The protests against hiking gasoline prices began on November 15 and turned into violent political demands in 3 days. The government blamed thugs linked to the US, Israel, and Saudi Arabia for stirring the street unrest. During the protests, some 731 banks, 140 government sites, 50 military bases, and 70 gas stations were burned.<sup>46</sup> Amnesty International reported that 363 of protesters were killed and injured. The government said it had arrested about 1000 of the protestors. On December 23, Reuters reported up to 1,500 persons may have been killed during the riots, while the government denied such a high figure.

### **Privatization of State Enterprises<sup>47</sup>**

After the revolution, a large number of private firms and factories were confiscated by the new Islamic regime. They were all collected under the National Iranian Industrial Organization (*Sazman-e Sanaye Mellī Iran*), which was later dissolved in 1990. These establishments needed innovations and investment, which were not done adequately. In 1991, the government established the Privatization Organization of Iran (*sazman khososisazi Iran*) for the purpose of selling those enterprises back to the private sector.

In the early 1990s, a number of state-owned enterprises that had been under control of the National Iranian Industrial Organization (NIIO) and Industrial Development and Renovation Organization (IDRO) were offered for sale to investors directly and/or via the Tehran Stock Exchange. However, the privatization project ran into problems. First, in most cases, privatization was not real since the largest buyers of the state enterprises were state banks and bonyads (Islamic Charity Foundations), which themselves were quasi-governmental entities, while purchases by private businesses and/or individual investors were minimal. Second, most of the enterprises offered for sale were widely overstaffed and not profitable. Even though the government obliged the new owners to comply with strict labor laws, privatization worsened unemployment due to downsizing by the new owners. That led to protests of the laid-off workers, and in a few cases, privatization had to be reversed. Third, the appraised value of the enterprises often did not reflect the fair value of their existing assets, and their sales involved corruption, favoritism, and malfeasance.<sup>48</sup>

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<sup>46</sup>New York Times, December 1, 2019, With Brutal Crackdown, Iran Is Convulsed by Worst Unrest in 40 Years, What started as a protest over a surprise increase in gasoline

<https://www.nytimes.com/2019/12/01/world/middleeast/iran-protests-deaths.html>

<sup>47</sup> Hossein Akhavanī-Pour, Privatization in Iran, : Analysis of the Process and Methods, in *“Iran and the World Stability”*, edited by Hami Zangeneh, 1994, Saint Martin’s Press, Pp. 187-199.

<sup>48</sup>Amuzegar, Jahangir, Iran’s Economy under the Islamic Republic, Revised Edition, 1997, 344.

In some cases, the factories' inventories could be sold to pay for the entire enterprise cost of purchase. In particular large chunks of a few lucrative enterprises were "sold" to the regime's top officials or their relatives and cronies.<sup>49</sup> An example of such cases was "selling" of Iran Vanet, a manufacturer of pickup trucks. In April 1994, the carmaker was offered to several top officials, namely Mohsen Rafighdost, the head of Bonyad; Ali Fallahian, the Intelligence Minister; Mohsen Rezaee, the Commander of Revolutionary Guard Corps; and Ali Shamkhani, the commander of the Navy, who "paid" \$38.6 million overnight for the stock of the company.<sup>50</sup> Another example was the sale of Rasht Electric, which was sold to the wives of the leaders of Executives of Construction Party (*Hezb Kargozaran Sazandegi*), including the wife of its leader, Gholam-Hossein Karbaschi. This party is composed of some family members and friends of Karbaschi, the former Mayer of Tehran. In July 1998, Karbaschi was convicted of corruption and misuse of funds, and sentenced to a two-year prison in May 1999.

By March 1994, more than half of the 391 firms which had put on for sale were privatized through the Tehran Stock Exchange, tender offers, and/or direct negotiation with the original owners. However, when the news of favoritism and corruption spread to the media outlets in August 1994, the ongoing privatization process had to be stopped. Yet, to have the employees of the enterprises participating in the privatizations, in June 1995, new legislation had to be prepared to sell 10% shares of the enterprises to their managers and 33% to their workers and war veterans on preferential bases, and the rest to be sold to other interested parties.<sup>51</sup>

Despite selling some of the enterprises, a large portion of the Iranian economy remained under state control due to constitutional restrictions, because, Article 44 of the Islamic Republic constitution stipulates that the state should own and administer the large-scale "mother industries" such as Steel mills, power and telecommunication industries. Article 44 was amended and was approved by the parliament in 2008 in order to provide legal ground for the privatization of more enterprises. As a result, except for the defense and security institutions and also the National Iranian Oil Company, the other enterprises, including the oil industry downstream facilities, were permitted to be sold. That paved the way for further implementation of neoliberal reforms, which had been recommended by the IMF and World Bank.

However, at the time, President Ahmadinejad was reluctant to restart the privatization process. He wanted instead to promote Iran's technological progress through direct government involvement. But, because pressures by the Supreme Leader and the reformist's camp on him, Ahmadinejad was forced to privatize more of the enterprises. That was at the time that the sub-prime mortgage bubble-burst had triggered the global financial meltdown and had

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<sup>49</sup> The Economist, Iran Survey, January 18, 1997, p.13

<sup>50</sup> *Iran Times*, Officials Invest Big in Stock, April 15, 1994, p. 1.

<sup>51</sup> Amuzegar, *Iran's Economy Under the Islamic Republic*, p. 344-45.

discredited the neoliberal policies' advocates. For that reason, the so-called "Washington Consensus" model recommended for the development of the Third World countries went out of favor, as it partly blamed for causing the global financial crisis, which peaked in 2008. In fact, the crisis led some governments to reverse liberalization by interventions and bailout of their major financial institutions and to impose stricter regulations. That happened specifically in the U.S. and Britain, and in some countries in Europe. The Third World leaders suddenly realized that the economic liberalization that had been prescribed for them to improve their economies was failing at its home-base, the United States. As a result, the neoliberal economic policy were disfavored in many countries, and China intended to reverse liberalization.<sup>52</sup> Nonetheless, Iran continued to privatize more of its enterprises. Some political observers speculated that Iran had been under economic sanctions and threats of military attack for surrendering to American wishes by privatizing its industries and let foreign investors to buy them.<sup>53</sup>

Because of the reversed privatization sentiments at the time, the model of privatization adopted in Iran was transferring assets of the state-owned enterprises to quasi-public entities that had large amounts of cash. Most of the privatized shares were offered through the Tehran stock exchange (TSE) with a smaller number through Farabourse, a company that was set up in 2009 for financial securities transactions in the over-the-counter market. Most of the assets privatized were sold to bonyads (Islamic charities), the pension fund of Iran's social security organization (SSO), and Tamin Ejtemaei Nirohaie Mosalah (SATA).<sup>54</sup> Furthermore, when the government debts increased in subsequent years, more shares of the enterprises were exchanged with the money in the pension funds of Bonyad Mostazafan and Astan Ghods Razavi, and similar entities. The major enterprises sold were included provincial gas companies, agro-producer firms, power-generation facilities, thermal power plants, oil refineries, petrochemical plants, a meat-packing plant, a copper mine, and an aluminum smelter. According to the Iranian Privatization Organization (IPO), the proceeds from the privatization of enterprises from 2001 to 2019 were cumulatively 1,491,657 billion rials ( \$ 96.3 billion).<sup>55</sup> The total proceeds from selling the enterprises were equivalent to 3 times the national budget. There was no account of how the proceeds were spent. Figure 5 shows the distribution of sales between 2001 and 2019.<sup>56</sup>

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<sup>52</sup> Derek Scissors, Deng Undone, The Costs of Halting Market Reform in China, *Foreign Affairs*, May/June 2009.

<sup>53</sup> Michel Chossudovsky, Iran: War or Privatization: All Out War or "Economic Conquest"? Global Research, July 26, 2015, also, Global Research 4 July 2008 <http://www.globalresearch.ca/index.php?context=va&aid=9501> .

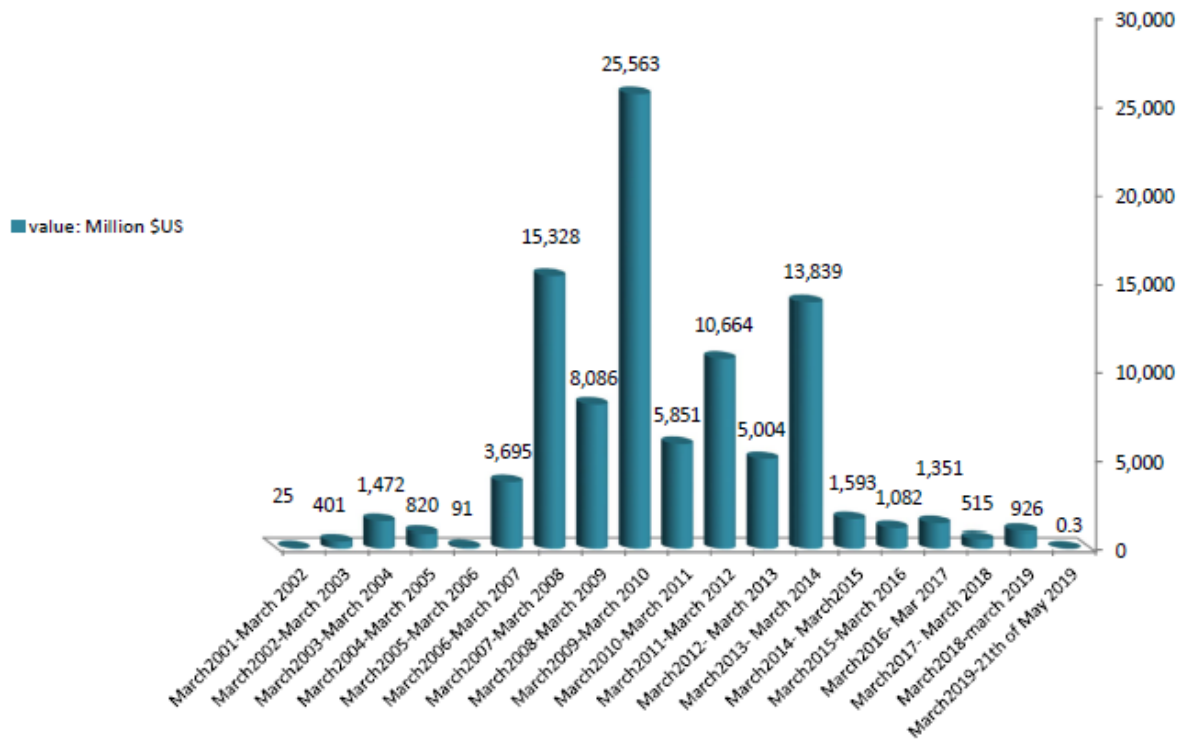
<sup>54</sup> Kevan Harris, "The Rise of the Subcontractor State: Politics of Pseudo-Privatization in the Islamic Republic of Iran." *International Journal of Middle East Studies*, Vol. 45, No. 1 (2013): 45-70.

<sup>55</sup> Iran Privatizations Organization, <https://en.ipo.ir/uploads/ipo-21062019-2.pdf>

<sup>56</sup> Iran Privatization Organization, <https://en.ipo.ir/uploads/ipo-21062019-3.pdf>

Figure 5. Annual Proceed from Privatization in U.S. Dollar

(3): Proceeds of privatization in Iran (2001 up to 21.06.2019)



Source: Iran Privatization Organization

**Corruptions in the Privatization Process**

Corruptions in the sale of state-owned enterprises came to the attention of the public when several parliament representatives criticized their implementation process. The representatives wrote a letter to the judiciary in which they indicated there had been significant violations during the sale of several enterprises. They stated some enterprises were sold for "peanuts" to individuals who did not have the required qualifications.<sup>57</sup> Among the enterprises subjected to corruption were Al- Mahdi Aluminum of Houmozgan, Machine Sazi-e Tabriz (Tabriz Machine Manufacturing), Tabriz Molding complex, Iran Airtour, Arak Aluminum Company, Moghan Agro-Industry & Livestock Company, Kermanshah Petrochemical company, and Haft-Tapeh Sugar Cane industrial complex.<sup>58</sup> According to Ahmad Alirezabegi, a parliament representative, many

<sup>57</sup> Kayhan, news code 16993.

<sup>58</sup> ۱۳۹۷ دی ۲۱، ابعاد فساد درخصوصی سازی، Corruption in Privatization, <https://www.tasnimnews.com/fa/news/1397/10/21/1916829/%D8%A7%D8%A8%D8%B9%D8%A7%D8%AF-%D8%AC%D8%AF%DB%8C%D8%AF-%D9%81%D8%B3%D8%A7%D8%AF-%D8%AF%D8%B1-%D8%AE%D8%B5%D9%88%D8%B5%DB%8C-%D8%B3%D8%A7%D8%B2%DB%8C->

violations had happened under the leadership of Mir Ali Ashraf Abdollah Pouri-Hosseini, the head of the privatization Organization.<sup>59</sup> Pouri-Hosseini was appointed by President Khatami as the head of IPO. Later, he was dismissed by President Ahmadinejad and again reinstated by President Rouhani.

For example, the Haft Tapeh Sugarcane complex was the largest agro-industrial sugar factory in the Middle East and was state-owned until 2015. In January 2016, two young men, Mehrdad Rostami and Omid Asadbeigi, both under 30 years of age, “bought” the Sugarcane complex in an auction for 218 billion tomans or about one-tenth of its actual price.<sup>60</sup> They had no prior experience other than their connections with the top government officials.<sup>61</sup> The new owners did not pay the workers’ wages on time. Later, the deterioration of work conditions led to strikes and protests of the Haft Tapeh workers, which continued for many months, and gained support from labor activists and unions across the world.<sup>62</sup> <sup>63</sup> Other factories that were sold for a fraction of their fair value included HEPCO (Heavy Equipment Production Company), Iran’s largest manufacturer of industrial machinery and heavy equipment; Khuzestan Steel industry workers, Tabriz Machine manufacturing factory, Esfahan Electric power plant, the Copper industry of Iran, and Foad of Mobarek-e. The sale of these large enterprises for such low prices was a waste of public assets.

Alirezabeigi claimed a typical scheme for selling these companies was to make them unprofitable to bring their value down and then sell them at very low prices to persons who were not qualified to manage them. In some cases, the purchasers set the price, and the enterprises were sold to themselves or their family members, and/or someone from their behalf. For example, Pouri-Hosseini had indirectly sold the Ardebil Meat Complex to himself at a very low price through the Privatization Organization. The sales of some enterprises were done secretly without public announcement and were sold for negligible prices. In some cases,

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<http://www.amic-co.com/AboutUS.aspx> شرکت مجتمع صنعتی گوشت اردبیل

<sup>59</sup> <http://www.amic-co.com/AboutUS.aspx> شرکت مجتمع صنعتی گوشت اردبیل

<sup>60</sup> Adena Nima, “Wanted” sugarcane factory CEO responds to protesting workers, , November 29, 2018 in Articles <https://irannewswire.org/wanted-sugarcane-factory-ceo-responds-to-protesting-workers/>

<sup>61</sup> <https://www.marxist.com/iranian-working-class-begins-to-move-again.htm>

<sup>62</sup> Shima Silavi, 23 November 2018 Broken promises: The bitter story of sugar production in Iran, <http://english.alarabiya.net/en/features/2018/11/23/Broken-promises-The-bitter-story-of-sugar-production-in-Iran-.html>

<sup>63</sup> Iran used to be self-sufficient in sugar. But beginning in 2002, the sugar industry has been gradually privatized, going 26 percent private in 2003, and 100 percent by 2008. Meanwhile, sugar tariffs have been lowered from 100 percent in 2002, to 4 percent in 2008. The main benefactor of this trade is said to be the multi-millionaire, Grand Ayatollah Makarem Shirazi who dominate the industry.

the private owners obtained subsidized foreign exchange supposedly to revive the enterprise; however, they instead used the money to import lucrative marketable goods, without reviving the company, and/or to deal with the factories' workers. As a result, many such companies failed to pay their workers' salaries, which led to major labor unrest in various places. For example, the person who bought the Tabriz Machine tool Factory obtained dollars from the Central Bank at the official price and sold the dollars in the free market for huge profits. In another case, 138 firms belong to Sazman Tamin Ejtemaei were sold to just one person, Babak Zanjani, an Iranian Billionaire, who was later convicted of corruption and has been sentenced to death. For similar reasons, many of the privatized enterprises have been on the verge of bankruptcy and incapable of paying their employees.

There has been much opposition to privatization from grassroots and labor organizations who fear that more privatizations would increase unemployment and eliminate many of the labor amenities such as daily free lunch and free transportation service from home to work and vice versa. Tara Povey contends that privatizations and other liberalization plans have curtailed many of the post-revolution public programs such as welfare, subsidies, employment by the government, and access to health care and education. She indicates the neoliberal policies have encountered popular resistance from grass-root organizations. For the case of Iran and Egypt, Povey argues neoliberal policies have not been helpful; firstly, they have increased hardship for the poor and have increased repression to contain protests and oppositions. Secondly, they have not reduced the size of the government and Islamic organizations that purchased the privatized enterprises. Thirdly, they have created a new class empowered by relations to the top clerics and their cronies.<sup>64</sup> Moreover, the neoliberal policies have expanded fraud and corruption in the foreign exchange market and privatization of state enterprises. As this study shows, these problems have continued to this date in Iran.

## **Conclusion**

This paper is focused on the economic liberalization reforms in Iran that have been implemented in the past few decades. These reforms included: unification of exchange rates, privatization of state-owned enterprises, and promoting free market to set basic goods prices such as oil products. The paper discusses the problems that have been encountered in implementing these reforms under successive presidents. These problems have been the egalitarian objectives of the Islamic revolution, constitutional restrictions, corruption, and the opposition by some political factions and labor organizations. As indicated, some neoliberal policies have serious conflicts with Islamic egalitarian traditions. The "top-down" privatization in which state assets have been transferred to private owners have run into widespread corruption and have further enriched the affluent class. The neoliberal policies have led to a

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<sup>64</sup> Tara Povey, Reformism, Economic Liberalization and Popular Mobilization in Iran, *Middle East Critique*, Volume 28, 2019 - Issue 4, PP. 365-380,  
<https://www.tandfonline.com/doi/full/10.1080/19436149.2019.1664757?scroll=top&needAccess=true>

rent-seeking economy and unfair distribution of income, which are contrary to the Islamic egalitarian goals. Because of the egalitarian goal of revolution, Iran's pursuit of neoliberal reform has not been successful. Therefore, either the Islamic system of government should change, or the Islamic regimes must do away with neoliberal reforms.

**\*\*End\*\***