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ACTORS IN THE ECONOMIC POLICY-MAKING PROCESS:
PRIVATIZATION CASE IN THE ISLAMIC REPUBLIC OF IRAN

MASTER'S THESIS

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APPROVAL PAGE

This thesis entitled “Actors in the Economic Policy-Making Process: Privatization Case in the Islamic Republic of Iran” prepared by Merve AKIR has been accepted in partial fulfillment of the requirements for the degree of Master of Arts in Economics at Ankara Yıldırım Beyazıt University by unanimous vote.

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PLAGIARISM

I hereby declare that all information in this thesis has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work; otherwise, I accept all legal responsibility.

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DEDICATION



To My Family...

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ÖZET

Ekonomik Karar Alma Süreçlerindeki Aktörler:

İran İslam Cumhuriyeti'nde Özelleştirme Örneği

Bu çalışma, 1979 İslam Devrimi sonucunda İran İslam Cumhuriyeti'nde ortaya çıkan ve ülkede aynı resmi yetkililer gibi kültürden siyasete her alanda karar alma mekanizmalarında söz hakkı bulunan gayri resmi aktörlerin ekonomik karar alma mekanizmalarına dahil olma süreçlerini incelemektedir. Politik ekonomi yaklaşımı kullanılarak oluşturulan bu tez konunun doğası gereği öyküleyici anlatım tekniğiyle yazılmıştır. Çalışmada esas olarak özelleştirme süreçlerinde etkin rol oynayan resmi ve gayri resmi aktörler, bağlantılar, sürece nasıl ve hangi yollardan dahil oldukları ve son olarak da başlıca örnekler üzerinden sonuçlar üzerindeki etkileri araştırılmıştır. Çalışma sonucunda, gayri resmi aktörlerin, resmi aktörlerle iş birliği, gündemi değiştirme, kamuoyu baskısı oluşturma, rakipleri dışlama, hatta askeri müdahale gibi yöntemlerle süreci kendi lehine çevirdikleri; iktisadi karar alma süreçlerinde ana aktör oldukları tespit edilmiştir.

Anahtar Kelimeler: Gayri Resmi Aktörler, Güç, İran İslam Cumhuriyeti, Politik Ekonomi, Özelleştirme

ABSTRACT

Actors in the Economic Policy-Making Process: Privatization Case in the Islamic Republic of Iran

This thesis investigates the participation of the informal actors in the economic policy-making processes. Emerging in the wake of the 1979 Islamic Revolution, these informal actors, similar to the formal actors, have had a big say since then in the decision-making mechanisms in almost every field from politics to culture. Adopting the political economy approach, this thesis was written with a narrative technique due to the nature of the subject. This study examines mainly formal and informal actors who play an active role in the privatization processes, their connections, how and in which ways they are involved in the process, and finally, their effects on the results through some significant examples. The results show that the informal actors turned the privatization processes into their favor through strategies like cooperation with official actors, changing the agenda, creating public pressure, exclusion of competitors, and even military intervention. Besides this, the results indicate the informal actors are the main actors in economic policy-making processes.

Keywords: Informal Actors, Political Economy, Power, Privatization, The Islamic Republic of Iran

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LIST OF ABBREVIATIONS

CBI	: Central Bank of the Islamic Republic of Iran
CIA	: Central Intelligence Agency
EU	: European Union
IMF	: International Monetary Fund
IPO	: Iranian Privatization Organization
IRGC	: Islamic Revolutionary Guards Corps
IRP	: Islamic Republican Party
IRI	: Islamic Republic of Iran
NIOC	: National Iranian Oil Company
SAVAK	: National Organization for Security and Intelligence
SOE	: State-Owned Enterprise
US	: United States of America
WB	: World Bank



1. INTRODUCTION

The policy-making processes have been at the center of several studies that are related to administration, politics, and also economics. With the evolution of the states, the policy-making processes have also transformed, and participants of the process have also displayed significant changes. Depending on the form of government, each state has adopted a different method incongruent with its features, economy, administration capacities, and the interest groups.

The participation of certain informal actors that do not have a legal position within the state structure has not been a new phenomenon for the history of the social sciences. The degree of their participation varies with the structure of the country and the power of the interest groups. In most cases, the interest groups choose the direct involvement in the process, but they use various ways to arrange the issue, change the agenda and the public opinion, and even exclude others. However, mostly in economic policies, agenda and exclusion have been the widely used tools.

The Islamic Republic of Iran exhibits an interesting example with a variety of interest groups and their role in the economy of the country. While, historically speaking, the country did not have many interest groups and thus clashes of interests, with the Islamic Revolution, the country has undergone a great transformation in terms of not only governance but also ideological, social, and cultural structure. This Revolution has brought a unique formation to the country with a variety of formal and informal actors that participated in the administrative process. These informal actors have had significant power over several issues including the economic policies and these actors are mostly ideologically oriented relative to actors operating the informal sphere.

The privatization policy has been one of these economic policies on which these informal actors have also a significant influence. It has been witnessed that a large number of privatization operations in Iran have been carried out by the blessings of these actors. Even in the well-designed privatization cases which were constructed with appropriate legal

and economic logic were executed with ideological and political priorities because these informal actors with significant power were able to block those rational attempts.

This thesis will analyze the role and effects of those informal actors in the privatization process in Iran during the last three decades. That is, the study aims to analyze the roles of interest groups and their intervention in the economic policy processes in the way that how these groups intervene process and affect the outcomes. In line with this aim, in the first chapter of the thesis, the policymaking theories and the concept of the power will be examined with the policy-making process in the IRI and the reasons why it is a unique country. In the second chapter, the history of the country until the Islamic Revolution will be studied to show the transformation the country experienced. In the third chapter, the informal and formal actors, and their participation in the economic sphere will be classified. In the fourth chapter, the privatization issue and some critical privatization practices in the Islamic Republic of Iran will be analyzed, and then the thesis will be concluded.

2. THEORETICAL FRAMEWORK

The ‘power’ and ‘authority’ words visualize the government concept in our minds, as expected. The Merriam-Webster Dictionary (2019) defines the government in two ways: firstly, by focusing on its terminology and secondly by emphasizing the ones who hold power and authority, as follows:

(a) the organization, machinery, or agency through which a political unit exercises authority and performs functions and which is usually classified according to the distribution of power within it

(b) the small group of persons holding the principal political executive offices of a nation or other political unit simultaneously and being ‘responsible for the direction and supervision of public affairs

These concepts “power, authority, and power holders” explain most of the role of governments, although the combination of these concepts may differ according to the form of government. For example, in the constitutional democracy, the governing bodies have all these sources thanks to the elections, but in the constitutional monarchy, the government shares some of its power with the monarch. While there are more than twenty types of government with a different distribution of power, there is a common ground among them about the primary role of government, which is to serve the public interest. The government institutions, agencies, and officials govern the state by protecting the public’s interests and guaranteeing civil rights and freedoms. However, in some cases, some policies do not fit for this duty or purpose. As an example, even though there are sweatshops in poor conditions, the governments fail to intervene for the sake of workers or do not regulate the related contracts. The massive discrepancy between expectations and actions causes questioning of the government decisions. In case of such discrepancies, the question of Eric A. Nordlinger, “How can we best understand and explain the public policies adopted by legislative, executive and administrative officials?” springs to mind (1981, p.viii). The literature is filled with the theories that are trying to answer questions like this one. Almost all of these theories, primarily related to the democracies, aims to explain “the state’s authoritative actions and inactions, the public policies that are and are not adopted” (Nordlinger, 1981, p.2). The same questions are asked by Kingdon (2014) in his book ‘Agendas, Alternatives, and Public Policies’ as “What makes people in and around government attend, at any given time, to

some subjects and not to others?” with a particular emphasis on the process related to the “how they came to be issues in the first place” (pp.1-2) rather than on the decision process. Moreover, the prioritization or neglect of some topics through the policymaking process takes place in the public policy literature with numerous publications. Almost all of these questions indicate some other mechanisms and actors that are different from the standard decision-making bodies and actors. Although the assessment methodologies of authors differ from each other, there is a consensus on the role of ‘others’ in the policymaking process. For example; Birkland (2016) makes a distinction as the official and unofficial actors, Kingdon uses its own terminology for participants as inside and outside of government, while Nordlinger analyses the others under the title of special-interest groups.

The role of pressure groups or special interest groups in the policy process has been instrumental in studying not only on the public policy literature but also on the daily political developments. In assessing the role of pressure/special interest groups in the public policymaking process, there is a need to focus on the essential questions that are “Who?” “Why?” and “How?”. The mainstream theories analyze the answers to these questions by focusing on the structure of power, as their roles lie behind their ability to affect the process or agenda. While analyzing the same problem at his book, one of the sources of inspiration in politics, titled ‘Politics: Who Gets What, When, How’ Lasswell (1951) writes about the influence “the study of politics is the study of influence and the Influential. The influential are those who get the most of what there is to get” (p.295).

Mainly the related theories focus on how power is spread throughout the society as they assumed that a particular group has more potential or, in Lasswell’s word, more influence than others over the decision-making process. There are various theories on this topic under the title of interest groups to answer, ‘who rules?’ question. Thomas (2004) gathers these theories under the roof of ‘General Theories of Interest Group Activity’ that “developed by scholars to explain the overall relationship between interest groups and political systems and to show how groups interact with the policy” process (p.39). Moreover, as their effects base on their power, the outcomes change according to how one defines the power, and also, power answers one of the questions: how.

2.1 General Theories of Public Policy Process

Under the usual conditions, if one wants to find the answer to who rules, one can quickly analyze the types of governments and conclude that according to models, the ruler may be a monarch, oligarch, or the people of the state or their representatives through elections. However, this question includes more than types of governments as it seeks to locate the subject of power that “who hold power, make decisions and govern the country”. Further, it consists of the sub-questions like “How many hold power? A few or a large number? A unified group of families, an institutional elite of top decision-makers, or competing groups?” (Therborn, 2008, p.130). The main answer to these questions points to the interest groups because their activities are essential for the governance activities, as pointed out by Thomas (2004):

“The development of an interest group system, the types of groups and interests that exist, and the way they attempt to influence public policy are determined by historical, geographical, cultural, social, economic, political, governmental structural and other factors. In turn, interest group activities help shape and define the nature of a political system. Consequently, knowledge of the operating environment is crucial for understanding the fundamental influences that shape such specifics as the make-up of the group system, how groups are viewed in the society, how they organize internally for political purposes, and the strategies and tactics that they employ in a particular country, state, or locality” . (p.67).

Therefore, the origins of related theories have roots in the answers of “how groups are viewed in the society, how they organize internally for political purposes, and the strategies and tactics that they employ in a particular country, state, or locality” (Thomas, 2004, p.67). According to Bottomore, Marxism is the cornerstone of these theories as Marx introduced the class theory, and the others shaped their arguments as opposed to Marx’s social classes (Bottomore, 1993, p.15). For example, briefly, while the (instrumental) Marxism sees the capitalist class as the leading interest group, the elitist theory focuses on some specific elites such as power elites, and pluralists stress the interactions between various interest groups. However, the theories about the interest groups who are shaping the decisions of the states are not limited to these three. The classification method used in this part is taken from the book of Clive S. Thomas (2004) as ‘Research Guide to the U.S. and International Interest Groups.’

2.1.1 Elitism

The control of some groups' overall decision-making processes or with Dahl's words, the domination of 'tiny minorities' over the process form the basis of elitist theories. As the fathers of the elitist theory, Vilfredo Pareto, Gaetano Mosca, and Roberto Michels share nearly the same views about elites and ruling practices. Moreover, these three authors represent the Italian school of elitism. Pareto's elite concept differs a little bit from the other two as he defines elites, "those people who possess in marked degree qualities of intelligence, character, capacity, of whatever kind" (p.1421). However, according to Pareto, all elites are not eligible for the decision-making process. Pareto (1935) mainly defines elites on three bases as "the governing elite that consist of the individuals who directly or indirectly play some considerable role in the government, a non-governing elite that consists of rest in the elite stratum and political elite that effectively and particularly, exercise political power." (p.1423). Therefore, although elites are not ordinary citizens, the non-governing elites fail to affect public policy. In accordance with their power, Pareto further divides the political elites as lion and fox elites: the first one can rule by force, and the second one can rule by manipulation.

On the other hand, Mosca (1939) uses the class concept to decide who govern and divides society into two classes: a class that rules and a class that is ruled:

In all societies—from societies that are very underdeveloped and have largely attained the dawning of civilization, down to the most advanced and powerful societies—two classes of people appear—a class that rules and a class that is ruled. The first class, always less numerous, performs all political functions, monopolizes power and enjoys the advantages that power brings, whereas the second, the more numerous class, is directed and controlled by the first (p.50).

Although the ruling class monopolizes and exercises power over the masses and make all decisions, there is a limited dependent relationship between them. As Mosca states, "pressures arising from the discontent of the masses who are governed exert a certain amount of influence on the policies of the ruling class" (p.51). Therefore, the rulers may affect the decision-making process, but their effects are limited in terms of scope and degree. Although Michels (1949) accepts the existence of a class who rules/governs the states, he approaches the elites by analyzing the Pareto's circulation of elites, and he points the "aristocracy" as the elite. All of these authors agree with the control of some groups over the decision-making

process. Moreover, the following authors, contemporary elite theorists, have started to emphasize some specialized elites. Mainly these studies focus on America's elite conjuncture. The concept of power elite was introduced in one of the well-known, influential books, "Community Power Structure" by Floyd Hunter (1953). Hunter calls his city as 'Regional City' and analyses the power structure in this city by claiming the control of relatively few corporate leaders:

A policy-making group in Regional City has been isolated. It has been shown that this group, in specific instances, tends to act on policy matters without regard for various community groups ... The associations are a part of the power structure ... The key to participation in power decisions would appear to be in finding strength through perfecting social organizations along interest lines ... The most powerful organizations with local affiliates are related to political and economic interest groups Inclusion in the upper groups: to become allied with the powerful organization in the areas indicated. There is, perhaps, no other sure road to power participation. (pp.256-267).

Moreover, there are critics of Hunter's approach, but further studies on the mentioned city, Atlanta, by Hunter (1980) and others (Stone, 1976; 1989) reach the same conclusion. Immediately afterward, Mills (1956) also used "the power elite" in his book 'The Power Elite' to cast light on the power structure in America and relates it to the positions:

The power elite is composed of men whose positions enable them to transcend the ordinary environments of ordinary men and women; they are in positions to make decisions having major consequences. They occupy the strategic command posts of the social structure, in which are now centered on the effective means of the power and the wealth and the celebrity which they enjoy." (pp.3-4).

As reported by Mills, the power elites are found in political, economic, or military spheres. and the big three shape the religious, family, and educational institutions to legitimize the power and the decisions of the power elites (p.6). Although the big three are separated, they behave as one unit, and so their structures are interlocked. The ordinary citizens do not have a place in Mills' model, and at some degree, according to Mills (1956), the masses also recognize their situation as:

They lose their will for rationally considered decisions and action because they do not possess the instruments for such decision and action; they lose their sense of political belonging because they do not belong; they lose their political will because they see no way to realize it. (p.324)

William Domhoff (2013[1967]) also takes the same approach to policymaking in America and demonstrates the role of the power elite in this process. In his model, Domhoff defines the power elite as “those people who serve as directors or trustees in profit and non-profit institutions controlled by the corporate community through stock ownership, financial support, involvement on the board of trustees, or some combination of these factors” (p.104). Moreover, the power elites get involved in the process through three leading organizations: foundations, think tanks, and policy-discussion groups as they are the main participants of the period. Through different mechanisms, the power elites dominate the public policies, and there is also no space for public opinion. Although most of the time, the power elites pay no attention to public opinion, in case of economic upheaval, wars, and other forms of social disruption, “they spend hundreds of millions of dollars each year trying to shape public opinion in order to guarantee the success of the policies they favor.” (p.110)

Three critical studies point the same linkages among elites in the US, policy-making process, and masses as Gonzales (2005), Dye and Zeigler (2009), and Gilens and Page (2014). While Gonzales (2005) in his book ‘The Politics of Air Pollution’ talks about the control of local growth coalitions over the U.S. air pollution abatement policies, Dye and Zeiger (2009) in their book ‘The Irony of Democracy’ acknowledges that:

The national policy does not reflect the demands of “the people” but rather the preferences, interests, and values of the few who participate in the policy-making process. Changes or innovations in public policy come about when elites redefine their own interests or modify their own values. Policies decided by elites need not be oppressive or exploitative of the masses. Elites may be very public regarding, and the welfare of the masses may be an important consideration in elite decision making. Yet it is elites who make policy, not the masses (p.74).

They also emphasize “the increasing isolation of the elites from the concerns and troubles of the masses of Americans” and claim “that elections are designed primarily to convince the masses that the government is legitimate; that, in fact, voters have little real impact on the direction of public policy” (p. xxii). Finally, Gilens and Page (2014) present a

statistical analysis and reach the conclusion that “When the preferences of economic elites and the stands of organized interest groups are controlled for, the preferences of the average American appear to have only a minuscule, near-zero, statistically non-significant impact upon public policy” (p.575).

The elite theory, the new version, was born as a reaction to decentralized power of pluralism and economic domination theory of Marxism. However, due to the idea of the dominance of the elites over the policy-making process, the elite theory trivializes the role of masses, governments, officials, and so elections. Therefore, the approach has come under fire for its trivialization.

2.1.2 Pluralism and Its Modifications

“In a political system where nearly, every adult may vote but where knowledge, wealth, social position, access to officials, and other resources are unequally distributed, who governs?” is the central question of Robert Dahl’s influential book, entitled ‘Who Governs?’ (1961, p.1). Moreover, this question is not only the origin of this book but also the root of several theories of pluralism. Initially, the classical pluralist theory approaches the distribution of power as decentralized, Dahl defines his philosophy that “all the active and legitimate groups in the population can make themselves heard at some crucial stage in the process of decision” (1956, p.137).

Moreover, the theory, according to Domhoff (2005), “emphasized that there is no direct relationship between political decision-making and the social origins and occupational careers of policy-makers” (p.2) in contrast with the elitism. According to Dye and Zeigler (2009);

Pluralism asserts that organized interest groups provide the individual with an effective way to participate in the political system. It contends that individuals can make their voices heard through membership in the organized groups that reflect their views on public affairs. Pluralists further believe that competition among organized interests provides a balance of power that protects the individual’s interests. Interest groups divide power among themselves and hence protect the individual from rule by a single oppressive elite (p.214).

According to Dahl, society consists of different groups such as politicians, farmers, trade unions, consumers, voters, and several other groups who have the power to influence the decision-making process significantly. Although at some degree the theory may be reasonable. It explains some daily decisions and the importance of the elections for governments, it has been criticized that to put into words the needs or to be heard is not enough in order to affect the outcomes (Etzioni, 1989, p.5). The classical view was further enlarged as the existence of some elites within the interest groups was recognized. Robert Dahl and Lindblom became the pioneer of this view again. This approach, neo-pluralism or multi elitism, assigned a privileged position to some groups as Dahl approved “the key political, economic and social decisions are made by tiny minorities” at a conference in 1964 (as cited in Arslan, 1999, p.91). Due to their understanding, this approach is also called as the pluralist elitism as they only focus “two elites or groups of leaders, that really count political leaders and business leaders, with the latter having parity with, if not a primacy over, the former” (Etzioni, 1989, pp.7-8). One of the multiple elitists, Olson (1965) criticizes the classical pluralism and he concludes that not all groups but only small ‘privileged’ ones are in a more advantageous position as they “work toward the achievement of collective goods *while* the large group is not likely to develop social pressure that would help it satisfy its interest in a collective good” (p.63). Although the new version accepts ‘the domination of the tiny minorities’ over the process, the classical version claims there is no single unified elite, and the struggle between various interest groups shapes the decision-making process. In addition to the neo-pluralism, there are further modifications of the pluralism as the sub government and the issue networks models. Initially, Douglass Carter (1964) assigns the sub government model “to describe the collection of actors inside and outside government involved in policymaking within a given domain” (Hallacher, 2005, p.13). There are no specific dominant groups in the policy process and the inside groups that are the relevant bodies of government and outside groups that are having a substantial stake in the policy area change according to the policy area. The same methodology is also applied by Baumgartner and Jones (2009 [1993]) as the policy subsystems that consist of interest groups, government officials, and legislative communities for some exceptional cases. Although, according to the authors, the subsystems are not limited to these mentioned cases, this model has been criticized for its exclusivity by others.

Moreover, the subsystems have been considered as a corporate pluralism “because of its place near the midpoint on the corporatist-pluralist continuum” (Hallacher, 2005, p.15).

In some instances, the subsystems model is called as ‘iron triangle’ as all parties work for the same target to maximize their gain. However, in most states, this formation turns into ‘policy issue networks,’ which was proposed by Hugh Heclo (1978). According to Heclo, although the old versions tend to create dominant actors, the ongoing process makes harder to identify dominant actors and while “looking for the few who are powerful we tend to overlook the many whose webs (issue networks) of influence provoke and guide the exercise of power” (1978, p.275). In contrast to subsystems, “issue networks comprise a large number of participants with quite variable degrees on mutual commitment or of dependence on others in their environment,” as nearly all parts of the community can find a place for itself in the networks (Heclo, 1978, p.275). While Heclo claims that subsystems/sub governments lead to the widening of issue networks, Browne (1990) argues that:

Even the multipurpose groups each address only a selective number of issues from among the numerous ones being contested in the domain. While those interests, as a set of unique organizations, bring pluralist styles of representation to the domain, they nonetheless occupy restrictive but far broader issue niches as they go about the business of cost containment, externality conflicts, and ideology (p.503).

Browne’s modifications include reasonable suppositions, but it turns again to the pluralist-elitist model. Although different modifications of pluralism integrate different people and interest groups into the model, in the policy-making process, not all groups have the potential to change outcomes, due to the unequal distribution of power within society.

2.1.3 Corporatism and Neo-Corporatist Theory

At the beginning of the 1900s, the corporatism was linked to fascism, and further infamized due to the twentieth-century dictatorships in Portugal, Spain, and Italy (Pinto, 2017, pp.3-32). However, the general opinion about the failure of pluralism to procure necessary tools to solve the newly arisen problems brought about the revival of the corporatist explanations as a tool “to handle the changes in the relationship between the state and interest groups based on the division of labor in society: the process by which such groups were transformed from representative lobbies into governing institutions”, according to Grant (1985, p.1). While the pluralism assigns an ineffective role to state and unions, the corporatism brings back the powerful nations. At the beginnings, the Roman Catholic

Church promoted the (social) corporatism as an alternative ideology and a form of organized interest representation with a greater emphasis on the trade unions; however, the resurrection of the (political) corporatism coincided in the mid-70s (Wiarda, 1997, p.37). Although various authors presented different definitions of the corporatism, descriptions of Philippe Schmitter and Gerhard Lehmbruch gained importance in the literature as neo-corporatism. Schmitter (1974) describes the corporatism as a system of interest representation in that:

The constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support (pp.93-94).

The second definition was given by Gerhard Lehmbruch (1977) as a critic of Schmitter. Lehmbruch criticizes Schmitter as his description did not cover the exact role of the state in corporatism and further introduce his definition as:

Corporatism is more than a peculiar pattern of articulation of interests. Rather it is an institutionalized pattern of policy-formation in which large interest organizations cooperate with each other and with public authorities not only in the articulation (or even “intermediation”) of interests, but-in its developed forms-in the “authoritative allocation of values” and in the implementation of such policies (p.94).

After a limited time, Lehmbruch and Schmitter (1982) published a well-documented book, entitled, ‘Patterns of Corporatist Policy-Making’ that Lehmbruch introduced a more inclusive definition as follows:

We might define a fully ‘corporatized’ polity by the following characteristics. **(1a)** Interest organizations are strongly co-opted into governmental decision-making (as measured by representation in the advisory committee). **(1b)** Large interest organizations are strongly linked to political parties and take part in policy formation in a sort of functional division of labour. **(2a)** Most interest organizations are hierarchically structured, and membership tends to be compulsory. **(2b)** Occupational categories are represented by non-competitive

organizations enjoying a monopoly. **(3)** Industrial relations are characterized by strong concertation of labor unions and employers' organizations with the government. (pp.5-6)

Briefly, corporatism aims to develop and implement policies, especially the economic ones, with a cooperative relationship among parties. Like its focus on the economic policies, corporatism incorporates a powerful state with the right institutional and organizational capacities and licensed, monopolized, and influential business and labor unions. In addition to these dominant parties, the cooperation between parties is considered as the necessary condition for the success of policies. However, despite some good examples, "the neo-corporatism was weakened by the crisis of Atlantic Fordism and the opening of national economies" (Jessop, 2001, p.243). While the literature on corporatism has continued to enlarge, the authors mainly concentrate on a system of representation, rather than policy formation and policy implementation.

2.1.4 Marxist Theories

The mainstream studies about the state and policymaking put the Marxism in the center and claim that the other theories emerged as the alternatives of the Marxist approach. Although, with the increasing problems and even deficiencies, different schools of Marxism arose, they continued to "follow Marx's basic tenet that political struggles are reflections of socioeconomic forces, that political power is an offshoot of economic power and that political power holders (or the state apparatus) serve basically the interests of economic power holders (or the ruling class)" according to Etzioni (1989, p.9). These schools can be studied under three main titles as 'Plain Marxism, Neo-Marxism and Post-Marxism.' The 'Plain Marxist' is explained by Wright Mills (1962) as "someone who works in Marx's tradition, whether in agreement or disagreement with him" (Barrow, 2007, p.419). Plain Marxism is analyzed as the instrumentalist approach because it considers the state as an instrument to maintain the capitalist system. According to Sweezy (1970):

When the interests of the capitalist class are concerned, there is a strong predisposition to use state power freely. And, the state may be used to make concessions to the working class provided that the consequences of not doing so are sufficiently dangerous to the stability and functioning of the system as a whole" (p.249).

There is a nested relation between capitalists and state, and according to Miliband (1969), “dominant class exercises as the *decisive* degree of political power” as the capitalists colonize the top command positions of administration and government thanks to their dominant role in the decision-making (pp.48-52). On the other hand, the instrumentalist approach was also criticized by many other Marxists, and it also led to the Miliband-Poulantzas debate that occurred between the pioneers of the two Marxist approach. While the instrumentalist approach claims the state is an instrument, the structuralist approach that is known as neo-Marxism focus on the function of the state in the reproduction of capitalism. As they focus on the function of the state, they also entitled functionalists. According to functionalists, the country is not under the control of capitalists, and the state is, in some respects, autonomous from the capitalist class. Then, as the capitalists do not dominate, the country in the decision-making process through some decisions “hurt some sectors of the capitalist class in the interest of maintaining long-term stability” (Thomas, 2004, p.62). However, the struggle is not eliminated, and according to Poulantzas (2001[1978]), “the current policy of the state is the result of ‘intra-state’ contradictions between and within, the various state branches and apparatuses” (p.134).

Moreover, this approach did not include the capitalists and the case of domination in the decision-making process. However, the various crises that destabilized the politics of the advanced capitalist societies led to the questioning of the state in terms of maintaining the capitalist structure and post-Marxists tried “to develop a theory of the capitalist state that can identify the limits of its policy-making capacities” (Barrow, 1993, p.96). On the one hand, the first wave of the post-Marxism approach divides the capitalist system into three subsystems: the economic, political, and socialization system and claims that these systems together produce consequences through their institutions. This approach did not mention such a direct relationship between the economic and political subsystems over the decision-making process, but as in structuralism, it analyses the state policies concerning their functions. Although the plans are the outcomes of the political system, because the subsystems are interrelated, their wills and interactions between them shape these policies.

On the other hand, the second wave, the organizational realist approach, focuses on “not only decision-making organizations but also autonomous organizational actors” (Barrow, 1993, p.125). The effects of the institutional approaches are gradually perceived in this model. Theda Skocpol (1979), the leading author of this model, refuses “the notion that states were nothing, but instruments manipulated consciously and directly by leaders and

interest groups representing the dominant class” as in such a case to develop a theory of state will be meaningless (p.27). According to Skocpol, in contrast to various Marxist approaches, “state organizations necessarily compete to some extent with the dominant class(es) in appropriating resources from the economy and society” and at some degree state uses the dominant class(es) in accordance with “the state's own interests in controlling the population and collecting taxes and military recruit” (p.30). On the one hand, control of the state over the dominant class depends on its powerfulness/weakness, but there are mutual interests. As the state needs the dominant class for its own benefits and further development, the capitalists also require the state to secure and potentiate their wealth. Gianfranco Poggi (1990) explains this relation with ‘convergence of interests’ and claims that states “must to some extent, preserve and foster the requirements of continuing capital accumulation” (pp.96-97).

2.1.5 Political Economy Approaches

The development of welfare economics and macroeconomics during the 1950s led to the debates among economists concerning the governments’ decisions and their effects on the economic variables; however, the main contributions arose in the 1960s and 1970s, as other similar theories. During these years, the “neglected field of research that became widely known as public choice” attracted more and more economists’ attention thanks to Gordon Tullock and James M. Buchanan and their inspiring works (Winden, 1988, p.10). Buchanan is the cofounder of ‘public choice theory’ and was awarded the 1986 Nobel Prize in economics “for his contributions to the theory of political decision-making and public economics.” (Nobel Prize, 1986). The public choice theory tries to explain how public decisions are made by various interest groups who are participating in the process through economic tools like game theory, decision theory, or utility maximization. The public choice theory follows two insights in the study of collective choice processes. Firstly, the approach applies the rational actor model to politics and concentrates on **rational individuals** who are guided by their benefits. The second insight is **the distinction between public and private choice processes**. While individuals are making decisions based on the benefits and costs of his/her own choice, there are no compulsory purchase and bargaining. On the other hand, public choice processes do not guarantee overall wellbeing as the costs and benefits will be shared. Moreover, there may be a process of coercion either because of being a minority or insufficient bargaining power.

While the existence of voters, politicians, political parties, bureaucrats are the main components of the politics, Buchanan and Tullock (1999) explain the very existence of pressure groups behind “their ability to promote and to further, through the political-choice process, the particular functional interests represented” (p.282). Although all concepts are deeply and separately analyzed by the political economy approach, due to their explained ‘intensive and active participation,’ the pressure group occupies an essential place in the theory. Moreover, according to Thomas (2004), “most economists have placed interest groups at the center of their interpretations of government and politics” (p.56). Buchanan and Tullock (1999 [1962]) analyze the reason that lies behind this placement as follows:

The activities and the importance of special-interest groups in the political process are not independent of either the over-all size or the composition of the governmental budget... Interest-group activity, measured in terms of organizational costs, is a direct function of the "profits" expected from the political process by functional groups... This relationship is not, however, one-sided. While the profitability of investment in an organization is a direct function of the size of the total public sector and an inverse function of the "generality" of the government budget, both the size and the composition of the budget depend, in turn, on the amount of investment in political organization. The organized pressure group thus arises because differential advantages are expected to be secured through the political process, and, in turn, differential advantages for particular groups are produced because of the existence of organized activity. (p.285-286)

Mainly the studies related to the voters and voting behavior are more behavioral studies than the rest. On the other hand, interactions between states and others such as politicians, bureaucrats, and interest groups are analyzed from the viewpoint of the social benefits and costs analysis. Moreover, in most cases, these interactions are codified through interest relations. Most of the studies conclude that, through various procedures, politicians and bureaucrats act according to their interests, although the expected behavior is to pursue the public interest. George Stigler (1971) clarifies this situation through ‘capture theory’ by emphasizing that the regulatory process can be captured by economic groups (such as industries and occupations). According to Stigler (1971), “regulation is acquired by the industry and is designed and operated primarily for its benefits” and, the industry provides resources to political party through “campaign contributions, contributed services (the

businessman heads a fund-raising committee), and more indirect methods such as the employment of party workers” in return for regulations (pp.3-12). This reciprocal relationship between pressure groups and government bodies forms the basis of numerous studies in the political economy approach, such as rent-seeking. Although Anne Kruger coined the 'rent-seeking,' the initial concept was used by Tullock in 1967 in his article ‘The Welfare Costs of Tariffs, Monopolies, and Theft.’ According to Tullock (1967), the governments are lobbied or pressured over protective tariffs either by the owners of the monopoly that capture the income transfers or by others trying to prevent governments from imposing tariffs (p.228). Krueger (1974), in analogy to Tullock, focuses on the welfare costs originated from rent-seeking activities, especially from import licenses under a quantitative restriction of imports.

Although the parts of government bodies like politicians, bureaucrats, or political parties may differ according to their purposes, the interest groups and their involvement in the policy-making process constitute the unchanging part.

2.1.6 The New Institutional Approach

The institutionalism is not a new concept for economics; however, it mainly dealt with the main ideas of neoclassical economics, and according to Williamson (1985), “it wasted itself on methodological criticism of neoclassical economics.” The deficiencies and critiques led to the development of new-institutionalism, and the importance of institutions has been highlighted in various studies by different social scientists after the 1970s, with the main focus on the institutions as the leading factor that shapes all economic, political and social outcomes. The institutional approach has mainly focused on economic issues such as growth and sustainability. Moreover, the political and social issues like policies and revolutions have been analyzed by institutionalists. From a political perspective, Thelen (1991) explains the new institutionalism that is “concerned with illuminating how institutional arrangements shape political outcomes by structuring the relationships among contending societal groups” (Thelen, 1991, p.22). Although the approach attaches utmost importance to the institutions, there are two leading views about how institutions affect the policies. On the one hand, most of the institutionalists explain the policies, and the substantial institutions, as of the outcomes of institutions, however, interest groups or the ones who hold power are the real actors behind these policies. Per their opportunity costs and bargaining power, groups reach

different bargain results for or against their interest (North, 1990, p.49). According to Acemoglu et al. (2004), as a result of the conflict of interest, the wealthier and more powerful groups decide the management of resources and implement policies (p.9). On the other hand, the others “argue that institutional features of the environment shape goals and means of participants in the policymaking process” (Thomas, 2004, p.65). Thelen and Steinmo (1992) define the role of institutions as “shaping not just actors' strategies, but their goals as well, and by mediating their relations of cooperation and conflict, institutions structure political situations and leave their own imprint on political outcomes” (p.9). Immergut (1998) adds that “the structure of political opportunities will shape the strategies of organized interests and their beliefs regarding the efficacy of different types of political action” as in some cases “the logics of the political systems made different political strategies more likely to achieve success” (p.21). The effects of the institutions, in mentioned both ways, have been broadly accepted by social scientists and combined by various theorists. These are interactive, and complementary approaches as Immergut (1992) summarizes:

Interest group activities are embedded within these political institutions, and the scope of interest group influence depends upon the logic of these political institutions. Political decisions taken in representative institutions set boundaries and create opportunities for the more hidden policy processes that occur within administrative agencies and interest-group associations (p.5).

The new institutionalism approach is mostly interested in institutional changes rather than public policies. Although to change the institutions needs more time than to change the policies, for the long-term interests, to improve the policies according to the fluctuations in the balance of power is more manageable and reversible. Therefore, instead of the state's position in the decision-making on behalf of some groups, the new institutionalism approach focuses on “(1) the conditions under which the institutional environment has an effect and (2) institutional change and institutionalization” (Thomas, 2004, p.64).

There are numerous studies related to the form of governments about the effects of interest groups and their influence over the policies, although the structure of the governments whether it is democratic or monarchic, etc., has not changed their role in the plans to be applied. However, public perception related to the interest groups may affect their status. For example, according to Kochanek (2004) “interest groups have tended to be seen by South Asian elites as illegitimate and most intellectuals have been more preoccupied

with social class than interest as a basic motivating force of group action” and moreover “decision making is highly centralized, and interest groups have a minimal impact” (p.327). On the other hand, Thornton (2004) emphasizes the proliferation of the interest groups in Taiwan since 1990 and mentions various interest groups such as “agricultural and industrial interests, consumer protection groups, local and provincial interests, and environmental conservation organizations” that are lobbying the state individually, without conflict (p.331). Lane (1997) analyses the Russia example and reaches that “based on original interview research with members of the political elites, it is shown that the elite structure is unstable and divided and political outcomes are likely to be authoritarian” (p.856).

Furthermore, Arslan (1999) claims that “the major social-political decisions are taken by the military, business, media, and political elites as the key elite groups” and “political decisions are controlled directly or indirectly by the economic elites” in Turkey (p.23). A similar example from Europe, Beer (1956) argues that “at the present time pressure groups are more powerful in Britain than in the United States” and adds “one finds hardly a field of domestic policy in which the effects of organized pressure are not profoundly marked” (p.3). Suleiman (1974) presents a detailed study of France and describes the pressure of interest groups as “a constant and never-ending process” and continues “they are engaged, not in a fight to secure a once-and-for-all gain, but in a continuing attempt to affect the allocation of resources in their favor” (p.331). Coleman and Jacek (1983) highlights the importance of business interest associations and even if they are associations their activities “will take the form of lobbying as it has been described in the interest group literature in the sense that associations will use tactics appropriate for a group that is more or less outside the locus of decision-making and is seeking to influence those decisions” (p.268). The examples are inexhaustible; however, the result does not change.

Therefore, independently of the countries, schools, and theories, “the general trend toward growth in organized interest groups and the role they play in policy decisions” are widely accepted by many social scientists and scholars (Immergut, 1992, p.5). However, like these mentioned theories, there are various explanations centered upon the ‘power’ about in what ways interest groups participate process and affect the policies.

2.2 The Concept of Power

“Power is the control of a resource or resources which are essential to the functioning or survival of an individual or an organization.”

John Wax, 1971, p.274

The source of power, its distribution, and to hold the reins of power may be considered as the driving force of the decision-making process. The importance of power as the answer to how question plays a substantial role in public policies. While there are different approaches and methods concerning exercising power, according to the structure of power, the outcomes will change, and this also changes the fact-driven findings.

The concept of power has been a challenging topic as it links most of the social sciences to each other alike sociology and economics, politics, or international relations. As Russell (1918) explains:

The fundamental concept in social science is Power, in the same sense in which Energy is the fundamental concept in physics. Like energy, power has many forms, such as wealth, armaments, civil authority, influence on opinion. No one of these can be regarded as subordinate to any other, and there is no form from which the others are derivable (10-11).

The modern thinking about power, while, originates in the writings of Niccolo Machiavelli (1532) and Thomas Hobbes (1651), the interest in power has increased after the Second World War with the works of Max Weber. Mainly, before Weber, in contravention of the governance theories, there was a limited number of publications that were concentrated on the power, directly. As one of these limited publications, “Power: A New Social Analysis,” was written by Bertrand Russell in 1918. Russell analyses the power regarding different aspects through his definition of power as "the production of intended effects, roughly, that A has more power than B if A achieves many intended effects and B only a few" (p.35). Although his work was a pioneer and impressive piece, it did not intervene in the policy phase, and so its usage remained limited.

Max Weber's definition of power may be considered as the milestone in the power literature as it became one of the commonly used and oft-quoted definition. Although there are a significant number of quotations of Weber's definition by prominent commentators, there are variations between quotes, due to different translations. However, Wallimann et al. (1977) solve the translation problem with an article. According to their report, "within a social relationship, power means any chance (no matter where on this chance is based) to carry through one's (individual or collective) own will even against resistance" (p.234). Weber's definition concentrates on two more features of power in addition to Russell's concept. The first one is the source of power that is not classified directly. There also should be bases that create power, but according to Weber, it could be anything. The second feature is related to resistance. According to the definition, while there is no need for resistance, if one achieves his will despite the resistance, s/he has power. Weber's concepts have shaped the future of the debates related to power. In just the same way as other theories, the theory of power has been built on the combination of the responses and improvements. The view of power and related concepts in the thought of Weber achieved a significant influence among political scientists in the 1960s, through the works of sociologists and political scientists (Lukes, 2005). For example, as a political scientist, Hunter (1953) defines power as "a word that will be used to describe the acts of men going about the business of moving other men to act in relation to themselves or relation to organic or inorganic things" (pp.2-3).

Furthermore, Dahl (1957) explains power as "the ability to make somebody do something that otherwise he or she would not have done" (p.204). However, his definition arouses a feeling of extortion as such in his example of a professor, threatening his students with academic failure. Moreover, Dahl's view, considered as the one-dimensional by Stephen Lukes, has been incapable of explaining the agenda issue. While Dahl's concept may analyze the visible decision-making process, it does not explain the neglect of some problems. Therefore, as a response to Dahl, Peter Bachrach and Morton Baratz (1962) develops another model which they called the *two faces of power* and explains by:

Power is exercised when A participates in the making of decisions that affect B. But power is also exercised when A devotes his energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A. To the extent that A succeeds in doing this,

B is prevented, for all practical purposes, from bringing to the fore any issues that might in their resolution be seriously detrimental to A's set of preferences (p.948).

Sadan (2004) summarizes the two dimensions as the overt face of power –the way decisions made– and the other, covert face of power, which is the ability to prevent decision making (p. 36). Although their concept plays a crucial role in two aspects of power as in the making decisions and setting the agenda, they do not evaluate the lobbying activities over the public policies. Stephen Lukes further pointed to these shortages over assigning the power in the seventies at his well-known book “Power: A Radical View.” By defining the shortages of one- and two-dimensional views, Lukes (1974) develops his three-dimensional view, and builds his theory of power like bricks. Lukes defines power as “A exercise power over B when A affects B in a manner contrary to B's interests “(p.37). Different from or in addition to other theories, as Lukes approves Dahl and Bachrach-Baratz, he highlights another social reality as a version of the conflict. While Dahl stresses the struggle over which decision will make and Bachrach-Baratz emphasize which topics will be included in the agenda, Lukes focuses on the "*The latent conflict* which consists in a contradiction between the interests of those exercising power and the real interests of those they exclude" (p.28). The three-dimensional view may be considered more inclusive and realistic as it deals with three critical features of power as: an issue, agenda and manipulation, and types of conflict that may occur all levels of decision processes. Although Gaventa builds his three-dimensional view of power and powerless over the Lukes' theory to explain procedures of power and powerlessness in situations of social equality, he criticizes the latent conflict concept (Sadan, 2004, p. 44). According to his theory, those who are politically advantaged lead the nonparticipation and control others based on their wills. Gaventa argues that power could not be entirely explained as confrontation among groups because some groups are never allowed in the arena (Dykema, 1985, p.444). Therefore, Gaventa's approach adds another dimension of power as the exclusion (from the decision-making process).

By combining all of these definitions and views, one can deduce there are different ways to affect the decision-making process relying on the power of groups. Briefly, there are, as mentioned in this part, five ways to influence the public policy process. According to Dahl's approach, power enables one to extort/force someone to realize his/her own will. Bachrach-Baratz gives the other two ways as an issue and agenda. Thanks to the power, one can determine the outcomes by participating in the process and by setting the agenda in

which one shapes the topics that are beneficial to his/her or his/her supporters' interests. Furthermore, Lukes evinces the lousy side of power as manipulation. Through some experimental methods, one can change the general opinion about some topics in favor of himself/herself. The final way is the exclusion of some groups from the decision-making process. Although to force others is not reasonable and suitable in the current conditions as more people involve in the decision-making process and to push each one is not possible, the other ways to interference processes can be quickly seen by analyzing the current states and decision-making process. The process could be exemplified as follows. The first stage may start with the agenda as the decision of topics is the first part of the decision. For example, power-holders may intervene in the agenda-setting process through different methods. In case of failure, they choose to participate in the decision-making process directly. At this stage, they may exclude the others from the process in which their interest conflicts to eliminate their participation and opposition. The last part, at the same time, the first part, is the manipulation or lobbying activities. One/they may create an illusion that the outcome will be beneficial for public interest even if it only serves their interests. There is no need for order and timing, and each of the ways may be used together as well as separately.

2.3 The Decision-Making Process in the Islamic Republic of Iran (IRI)

The Islamic Republic of Iran (IRI) has unique and complicated policy mechanisms due to the combination of different regimes. Although the country's name has 'republic' term, it "combines a semi-theocratic mode of rule based on the velayat-e faqih system (the Governance of the Jurist), institutionalized according to the constitution of 1979, with a constitutionally based rule of the people based on the constitution of 1906" (Rakel, 2008, pp.28-29). This combination makes it hard to clarify the decision stages due to broad participation in the process. Different parties take part in the decision-making process. Although the Shah sustained his central authority in all spheres for long periods, after the revolution, "Iranian power is not held by a single individual, group, or institution" such a decentralized power structure (Buchta, 2000, p.6). While the being republic guarantees the existence and power of the constitution and majlis, the theocratic mode with the velayat-e faqih system builds the ultimate decision-makers above the majlis. Moreover, the interest groups that actively take part in both the pre-revolutionary period and post-revolution also become another power center. Furthermore, the informal institutions that are related to the

religious groups and foundations also have power over the decision-making process. Briefly, two parties are active in the process as formal and informal power centers, according to previous studies (see Zonis, 1976 and Buchta, 2000). The Rand Report (2010) summarizes the current condition of the policy-making process:

Although the constitution of the Islamic Republic does set forth the roles and responsibilities of the various formal institutions of the government—and these bodies certainly have importance—the institutions serve primarily as a backdrop or playing field for informal give and take among the individuals, networks, and factions. Thus, the framework or lens through which outside analysts must view the Iranian system does not begin with the formal institutions but rather with the influence, experiences, and worldviews of and relationships among *khodi* (*one of us*) individuals, their networks, and key power centers (p.116).

While the Rand Report provides an essential framework, it underestimates the importance of the formal institutions. There are essential institutions that are either elected or appointed, and they maintain the functioning of the system. For example, while the parliament confirms the Council of Ministers, the Guardian Council, as a designated religious authority, “charged with vetting parliamentary laws that are deemed in violation of Islamic law and with assessing the qualifications of individuals running for political office” (Mohseni, 2016, p.40). However, despite the role of the Guardian Council in elections, the voter turnout rates show how important the elections have been for the public due to the decentralized power structure and the potential of power balance to alter. According to Statista (2019), “the share of eligible voters that turned out for the presidential elections in the Islamic Republic of Iran from 1980 to 2017” has been higher than 50% for each election. However, at some stages, there is no place for the public as “the decentralized power structure takes the form of loose coalitions among like-minded individuals or groups and is characterized by personal patronage links. Upper-level posts are assigned exclusively to immediate relatives and friends of the individual in power, who in turn place their relatives and friends in sensitive and influential positions” (Buchta, 2000, p.7). This logic has also formed the basis of most of the research related to Iran’s power structure by classifying these individuals as elites. Moreover, these studies mainly concentrate on the power struggle among intra-majlis factions. “As there are no legal parties in Iran, it is the political factions that represent the different ideas on economic, socio-cultural, and foreign policy,” and these factions represent the ideological features of the country (Rakel, 2008, p.51). At the end of

the 1980s, “factional formations have largely taken shape according to the two most salient dimensions of Iranian politics: the theocratic-republican regime divide and the left-right economic scale” with a formation of regime divide that unique to IRI (Mohseni, 2016, p.42). However, as time went by, support for the republican regime has decreased, and three factions have emerged: Conservative, Pragmatist, and Reformist factions. Although in most cases, the policies, especially the foreign policies, have been formed according to rivalries between factions, the economic policies are more influenced by other factors than factional rivalries due to their scopes. When one examines the economic policies of the IRI, one can see that there have always been other forces as there are more interest groups. In addition to the number of interest groups, there are some unique features of the Iran economy.

2.4 The Unique Features of the IRI Economy

The political, economic, and social spheres in Iran have transformed with the revolution, and this transformation has brought numerous unique features to the country. Firstly, as mentioned before, the combination of a semi-theocratic mode of rule with a constitutionally based law of the people creates a high degree of checks and balances. According to Mohseni (2016):

Its structure is characterized by many parallel institutions that accommodate multiple overlapping power centers— both institutional and factional—within the regime. It is composed, more precisely, of the three executive, legislative, and judicial branches of government rooted in Western constitutional design as well as unique political bodies including the Guardian Council, the Expediency Discernment Council of the System (Expediency Council for short), the Council of Experts, and the position of the Supreme Leader. Iran’s institutional architecture contains many decision-making centers that share the responsibility of state policy formulation directly or indirectly (p.40).

Although in most countries, the existence of the high degree of checks and balances prevents the states from monopolization of power, the Iranian model has increased the number of veto players. Moreover, in most cases, the veto players are affected by the interest groups, and this makes the decision-making process harder and slower than in the other countries. Despite overwhelming odds against the policies by the factions, some economic

policies are approved by the Majlis. However, they have been blocked or eliminated by the other veto players that represent the various interest groups.

The economic policies involve more participants than the other policies. As regular economies, the government bodies that participate in the policy process are transparent in terms of their scope and role; however, as in the case of veto players, the number of interest groups is affected by the economic policies. Various formal and informal institutions, like the Supreme Leader, derive their power from the economy. The constitution ensures the role of the Supreme Leader in Iran's economic policies as the ultimate decision-maker. Moreover, despite his position, there are numerous financial institutions that not only function under the Supreme Leader's authority but also are governmental organizations. The other formal institutions like the IRGC, and informal institutions like the wealthy merchants, the Bazaaris, and the foundations, Bonyads, depend on the economy for their survival. Moreover, as the Leader, these interest groups also have veto power directly and indirectly, and this also complicates the process. While the government dominates the oil-sector, "the bonyads are dominating actors in the non-oil economy" and "represent a clear link between political and economic interest groups" that dynamizes them over the decision-making process, especially the economic ones (Bjorvatn and Selvik, 2007, p.13).

The third feature of the Iranian economy is its dependence on oil income that has been analyzed within the rentier state model literature. The oil income for the Iranian economy is a crucial element that constitutes the locomotive of the economy. Moreover, it is not only the primary source of income but also the primary source of power in the country. This dependency has made IRI commemorated among the rentier states. According to Beblawi (1987), there are four criteria to classify a state as a rentier state:

A rentier economy should be defined as one where rent situations predominate... Second, and this is very important, a rentier economy is an economy that relies on substantial *external rent*... Third, in a rentier state - as a special case of a rentier economy - only a few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilization of it... Fourth, a corollary of the role of the few, in a rentier state, the government is the principal recipient of the external rent in the economy. (pp.51-52)

These all listed features are found in the Iranian economy thanks to oil, and so due to the "only a few are engaged in the generation of this wealth" there are some interest groups

that also reap the fruits of this wealth. For example, in the nationalization case, while the foreign shareholders were criticized as they exploited the nation's resources; after nationalization, the oil industry in the IRI become a monopoly under the control of the National Iranian Oil Company (NIOC) and only the state and its extents have benefited from this wealth. This case may be summarized by Beblawi's (1987) words, as follows:

The state or the government, being the principal rentier in the economy, plays the crucial role of the prime mover of the economic activity... Special social and economic interests are organized in such a manner as to capture a good slice of government rent... The whole economy is arranged as a hierarchy of layers of rentiers with the state or the government at the top of the pyramid, acting as the ultimate support of all other rentiers in the economy. (p.53)

This intensive government control is not unique to the oil sector, and in the economy, the government institutions can be seen in almost all industries. Therefore, as government control is a critical feature of the economy, the interest groups have engaged with politicians and decision-makers to protect their benefits. Moreover, as the supporter, the government and its mechanisms take decisions on behalf of these groups.

The life-disrupting events due to the economic policies of the government have been one of the unique problems that directly affect the decision-making process. During the Pahlavi Dynasty, as the Shah had close links with foreign states, the foreign powers converted Iran into an investment area, and further, these links ended up with further coups and occupations. These experiences have created a fear of iteration that led to the preconceptions about the foreign investors among the public. Therefore, to make a decision related to the foreign investors has the potential to mobilize the masses, and in some cases, most of the decision-makers have avoided such steps.

Finally, economic sanctions have been a substantial factor that affects the decision-making process. The sanction history of the country has been filled with various coalitions and punitive measures that block the country from its economic sources and tools. The first sanction that was imposed by the US dated back to the 1979 hostage crisis and resulted in "the seizing Iranian property in the US and further prohibiting trade, including import of all goods from Iran" (Belfer, 2015, p.5). The further events have increased the scope of sanctions and then accompanied by the EU, the US clamped the Iran economy, since the Nuclear Agreement. Due to the sanctions, the governments had difficulties in finding

elbowroom for their policies. In some cases, the foreign investors were not welcomed by the public; in other cases, they did not engage in the Iranian economy due to sanctions, and these prohibitions turned the administration of the economy to the statism.

While the mentioned decision-making theories are adopted in various countries to clarify the process, the IRI's unique features have made this elucidating difficult. Moreover, in multiple studies, the decision-making processes in the IRI are analyzed through the factionalism and the elitism; however, the economic decisions include more than factions and elites and so they will not be useful and also to use these theories will make no contribution to the literature. However, the IRI has distinct interest groups that enable it to make a distinction regarding the political economy approach. In the following part of the study, the history of Iran till the revolution will be summarized as the revolution created most of the unique features and also the basis of the interest groups, and then the power centers that represent the main interest groups will be scrutinized.

3 THE HISTORY of IRAN

The history of Iran spills over with the power struggles, like other nations, both within and without the borders of the country; however, within the borders, due to numerous small tribes and competing for small kingdoms to assign who holds power has not been possible all the time. For some periods, some leaders achieved to unify the country under their leadership; but their controls were limited in the whole region (Kamrava, 1992). However, with the establishment of the Qajar Dynasty in 1785, this situation changed, and Iran entered upon a new phase in her power scheme that the country unified and under the Qajar Dynasty, and the institutional structure of the country was built.

3.1 The Qajar Era

Most of the authors start the history of modern Iran with the control of the territory by the Qajar Dynasty as the contemporary features of Iran as the government, institutions were established during the Qajar era. Kamrava (1992) states this period as the “the overall transformation of Iran from a largely tribal territory into a unified nation-state ruled by a central monarch” (p.6). Although the period starts with the conformation of old concepts, with the centralization of power, after a half-century from the establishment, the skeleton of a central government with state institutions was constructed (Abrahamian, 2008, p.9).

Under the first leader of the Dynasty, Agha Muhammed Khan (1785-1797), the new dynasty was regarded as the continuation of the Safavid Dynasty as it continued with the existing concepts; however, Agha Muhammed chooses the Khan as his title instead of Shah. Independently the title, same as before, the shah concept was adapted by Qajar state; however, the reality is different from the theory of the idea. Thanks to monarchy, the Shah should have and exercise absolute power; however, in the beginning, Khan failed to control all-region. Khan’s power is limited, and he was depended on the others. Khan gave decisions in consultation with the elders of tribes, while Abrahamian (2008) bases this behavior on the lack of bureaucracy and a standing military (p.9); Kamrava indicates the fear of intrigue (p.10). However, in one way or another, the central authority had problems in the governance of the region. While the center was chaired with ministers, courtiers, princes, accountants, and nobles, the Khan had little control over the rest of the country, and so the governance was provided by notables, landlords, wealthy merchants, and religious leaders. From a

different point, the Khan recognizes their present power. The domain and the extent of Khan's power based on the power and influence of the powerholders (Moazami, 2013, p.21). Albeit the Khan had ministries, only war, finance, justice, and foreign affairs, these institutions did not operate as it should be. Sheikholaslemi (1997) defines the situation as "few government institutions worthy of the name," and Khan has to "depend on local notables" (pp.191-192). In addition to this, Khan had only three high-ranking administrators: a state accountant, a military accountant, and a royal minister. These administrators comprised Khan's Divan (Ashraf, 2019, p.46). However, they were not effective in the first era of the dynasty. Moreover, the dispersed power structure and inefficient authority of the Khan created other problems as the power of others increased. Powerholders started to challenge the Khan position and refused to perform their essential obligations as taxes and troops. This situation further hindered the centralization of power and triggered the power struggles soon.

Fath Ali Shah (1797-1834), the second ruler of the Qajars, adapted the title of Shah-an-Shah, experienced clashes with the other tribal chiefs and Qajar notables. However, after overcoming these challenges, he started to focus on the administration of the country. Moreover, in addition to the administration, Shah succeeded in the consolidation of his power in central provinces by weakening the power of the different tribes through political moves (Kamrava, 1992, pp.12-13). With the conquest of new places, Ali Shah expanded the territory of nations up to former Safavid domains. These conquests increase not only the territory but also the power of the Shah through the government of the provinces, which are vested by the shah's sons, grandsons, cousins, and sons-in-law like Abbas Mirza, the crown prince, to the governorship of Azerbaijan. Moreover, in addition to the prince-governors, the number and organizations of offices (ministers, secretaries, and scribes) further increased. Therefore, the Shah ensured both the collection of taxes and the loyalty of the governors to the central government (Ashraf, 2019, p.47). By dint of new governors and their officers, the royal household and the bureaucracy also expanded with the increasing of new ministries. Moreover, the number of individuals who held offices in the divan also increased from three to sixteen. The role of the divan members in the power structure was also crucial as they were assigned with political and economic tasks of the government, which were not located in the formal definition of their offices (Ashraf, 2019, p.56). In addition to this, Shah's gained the support of ulema, and they all increased their power. Although the power of the Shah was more than the Khan's, the international relations with world powers and

wars led the internal disturbances. Moreover, due to lack of an active standing army, Qajars lost some crucial parts of its territories and also faced with difficulties in collecting taxes at the state was assumed the weak (Nezam-Mafi, 2012, p.326).

Before 1934, Fath Ali Shah recognized Mohammed Mirza as crown prince as the father of Mohammed; as Abbas Mirza died while they were trying to conquer on the rebellious states, Herat, refuse to pay taxes. However, Fath Ali Shah left a powerless government that was dependent on the foreigner to maintain its power. The era of Mohammed Mirza, who ruled from 1834-1848, started with the challenges to the Shah by other Qajar contenders and continued with civil wars to preserve the Shah's power through intensive foreign influence and aids. At the beginnings, due to the fear of intrigue, Shah imprisoned several Qajar princes and after four years, relegated most of his responsibilities to the prime minister Hajji Mirza Aghasi due to his health problems (Kamrava, 1992, p.14). Therefore, this era was the era of Hajji Mirza Aghasi. During this era, Aghasi attempted to strengthen and centralize the state with military reforms and closer control of provincial governors. Moreover, to restrict the prerogatives of the ulema, enhanced at the Fath Ali Shah era, Aghasi allotted tribal groups in the district of Qum by attaining one of the ulema to each tribe and extended the scope of 'urfī jurisdiction (Algar, 1980, p.120).

After the dead Mohammed Shah, his teenage son, Naser al-Din Shah, succeeded to the crown in 1848 and reigned for nearly a half-century. Due to his age, Shah governed the country with the assistance and guidance of Mirza Taqi Khan Farahani. His military title, Amir Nezam, better knew Farahani and, briefly, as Amir Kabir. There was a bond of friendship between Shah and Amir Kabir. With the beginning of the Naser al-Din's resign, Amir Kabir was appointed for three offices at the same time: chief minister, chief of the army, and guardian that created a monopoly of power (Amanat, 2017, p.347). In other words, Amir Kabir undertook the Shah role for four years till his assassination in 1852. Amir Kabir focused on the military reforms as he attributed the reorganization of government to the military. Following this purpose, Amir Kabir concentrated on the fiscal policy and creation of supporting institutions to equip a modern army, Dar-al Fonun. However, the fiscal reforms of Amir Kabir encountered resistance from the government accountants as reforms limited their power and threatened their offices (Amanat, 2017, p.354). Moreover, his anti-corruption measure and contractionary fiscal policy created more enemies. The fiscal reforms of Amir Kabir led other corruptions and increased the power of the Shah family and notables. On the other hand, he had the Aghasi's attitude towards the ulema and tried to limit

their power further by strengthening the scope of the 'urfi jurisdiction despite their anger. Finally, at the end of the shah's suspicions about his power and some rumors, Shah called for Amir Kabir's resignation when he was at the peak of his power (Moazami, 2013, p.20). One year after his resignation, with the order of Shah, Amir Kabir was assassinated. After the assassination, Mirza Agha Khan Nuri Etemad al-Saltanah became the new chief minister as a powerful figure. Although Nuri did not follow Amir Kabir, he established control over the region, similar to Shah. However, during Nuri's era, there was no structural change, even an attempt to change the structure of the government. There was no change in the power structure, but the power sources of notables with Nuri's wealth increased by enormous amounts. By 1858, after seven years of serving, the Shah dismissed Nuri from his position and decided to run the country without a prime minister for about twenty years (Kamrava, 1992, p.16). In the same year, Shah established a six-man cabinet consist of ministers and then the administrative council with eleven members, six ministers, and five leading officials, and the advisory council with twenty-six members. According to Nezam-Mafi (2012), "they were, in fact, consultative bodies, but none was very effective, because of incompetence and rivalries" (p.331). Shah applied other different methods instead of a prime minister; however, due to the effectiveness and useless of these measures, in 1870, Shah had to again appoint a new prime minister, Mirza Hosein Khan Sepahsalar, the ambassador to the Ottoman Empire. Mirza Hosein followed in Amir Kabir's wake in the augmenting of the powers of the monarch and centralizing government administration. Mirza Hosein realized crucial reforms such as cabinet system, reforming the military, establishing a unified code of law; nonetheless, his efforts to limit the power of ulema, the royal princes, provincial governors were become unsuccessful and led hostility between Mirza Hosein and others (Algar, 1980, p.172). Ten years after his appointment, with the words of Moazami (2013) "Mirza Hosein was forced out of office either by Naser al-Din Shah or by those who had interest in preserving the status quo and saw his centralizing reforms as a threat to their power and influence" (p.20). In 1883, the last prime minister of the Naser era, Mirza Ali Asghar Khan, known as Amin al-Soltan, devoted to his sovereign without interesting in reforms, and after a time, monopolized the power by eliminating rivals and the shah. The Amin al-Soltan era was filled with the monopolistic concessions to foreigners, with a well-known example, The Tobacco Concession. During the rest of the Naser era, there were no reform attempts as both the shah lost his eagerness for reforms, and the prime minister concentrated on his power and wealth. After the assassination of Naser in 1896 by a Babi, Naser was succeeded by Muzaffar al-Din Shah with reform promises. The oppression

created by Naser was eliminated, and Shah adapted a policy of liberalism (Abrahamian, 1982, p.76). However, the economic condition of the government did not let Muzaffar and his prime minister Amin al-Dowleh realize other reforms as the national budget was already bankrupt (Algar, 1980, p.222). This situation allowed foreign indebtment from Russia with the resistance within the country. Moreover, the Minister's aim to reform the royal court was also encountered resistance. Although the Shah was powerful, decision making processes were affected by notables and mostly by the ulema. Amin al-Dowleh criticized the role of ulema in appointment and dismissal of provincial governors-other officials and tried to eliminate their interventions to the affairs of the state (Algar, 1980, p.223). In addition to these, the education moves resulted in the mounting pressure, and these resentments concluded his term office as a minister in 1898, and Amin al-Sultan returned to his old office. Although Amin al-Sultan regained his position with the support of ulema, he also faced with high criticism from ulema due to borrowing from Russia and Naus, the Belgian custom director who acted in effect as the minister of finance (Daniel,2000, p.112). This appointment turned a loop, and Amin al-Dowleh returned his old position in 1903. However, the Shah's health problems hindered the reforms as most of the borrowings used in financing Shah's trips. With the changes in the financial situation of the state, its power was also limited. The resistance of notables blocked the reforms and their power maintained. Due to huge borrowings, the control of the economy was transferred to Russia, and Naus controlled customs and finance. All of these problems created social disturbances. Moreover, the increase in the food prices and tariffs added insult to injury, and shortly before the Shah's trip to Europe, the protest wave started. The mounting protests lasted nearly one year, and finally, the first Majlis was opened by the Shah in 1906. Before his death, the Shah also signed the Constitution prepared by the Majlis. The notion of Majlis sounds as if it gives the right to stand for election to all citizens; it was limited only the five classes of people: the Qajar princes, ulema, aristocrats, merchants, and landowners. However, Majlis aimed to limit the sovereign's power through the division of powers (Amanat, 2017, p.452). Shah's son, Mohammad Ali Shah, succeeded his father after his death in 1907. Although Mohammed Ali displayed a serious resistance to the Supplementary Fundamental Laws, as the mass demonstrations and general strikes were all over the shop, he had to ratify the laws. However, through coups, Shah wanted to overthrow the Majlis in 1907 and 1908, the second one was successful, but Shah faced huge resistance, the civil war. In the end, in July 1909, Shah took refuge in the Russian Embassy and was succeeded by his twelve-year-old son,

Ahmad Shah. After that, the second Majlis was opened officially in November 1909 (Kamrava, 1992, p.40).

This ratification eliminated the traditional power structure as a fundamental change. Despite the civil war and other problems, the constitution and Majlis reached their aim to limit the power of the shah (Abrahamian, 1982, p.85). The government of Iran became a constitutional monarchy. However, the power of these five classes gained a legal foundation as the Majlis became the center of decision making. Furthermore, the leaders of forces who fight against the Shah's army participated in the Majlis as the ministers. This participation also affected the future of the power structure of Iran as the control was in the hands of the Bakhtiari tribe (Moazami, 2013, p.29).

The Ahmed Shah era analyzed as the process of disintegration. Although the Shah did not intervene in the governing process, in the second Majlis, two broad political tendencies arose, each with its agenda for reforms. Differences among plans led political assassinations and factional clashes within and without the political trends (Abrahamian, 1982, pp.104-130). The financial difficulties also affected the operation of Majlis and had to choose to borrow. On the one hand, the government had to reject the joint loans offered by Russia and Britain due to political reasons; on the other hand, borrowing from private international sources blocked by British interventions. The government again made deals with Russia and Britain, but these loans handed over the governing of the state to foreigners. The occupations and disturbances resulted in chaos, but Shah continued his trips to Europe. These troubles concluded the era of the Qajar Dynasty with the hands of Cossack forces, Sardar Sepah, now called Reza Shah Pahlavi (Nezam-Mafi, 2012, p.345).

3.2 The Pahlavi Era

During the last period of the Qajar Dynasty, the First World War, the conflicts in the Majlis and the provinces, foreign debts, and occupations shaped and translated the power structure of the country unexpectedly. These factors resulted in the rise of Reza Khan, his power, and the establishment of the Pahlavi Dynasty. In this section, the Pahlavi era will be divided into chapters, according to critical events and dates: the rise of Reza Khan (1921-1925), the reign of Reza Shah (1925-1941), the reign of Mohammed Reza Shah (1941-1979) that divided into two as the nationalization and royal dictatorship.

3.2.1 The Rise of Reza Khan, 1921-1925

Although any strong national party was absent, the nationalist played an essential role before and after the Ahmed shah Era. Increasing dissatisfaction of nationalists about the government eventuated in a coup in the leadership of Sayyed Zia ad-Din accompanied by the support Cossack Brigade commander with his troops, Reza Khan (Keddie, 2006, p.80). Finally, Sayyed Zia ad-Din became prime minister, Reza Khan appeared in the new cabinet as Army Commander in February 1921. However, due to his enormous and increasing power, the prime minister appointed Khan as the minister of war in April 1921, and one month later, Sayyid Zia was forced by Khan to leave his position (Kamrava, 1992, p.49). As the prime minister was ousted, in the leadership of Qavam as-Saltaneh, the new cabinet was formed, but real power was in the hands of Reza Khan. In the next nine months, he strengthened his power and also the power of the military by transferring gendarmeries and setting up his cadre in public offices with his colleagues (Abrahamian, 1982, p.76). Reza Khan created an environment that made possible the reforms in line with the demands of the middle classes and some nationalists. According to both their desires and his own will, Khan made reforms in line with the formation of a unified army and centralization of the state. While Reza Khan behaved as nationalists concentrated on Iran's independence, he protected British interest in Iranian oil, and the British also promoted Khan's reforms (Matin-Asgari, 2012, p.348). The new government had the control of power; however, most of it was in the hands of Reza Khan, thanks to his mighty army. With this power, Reza Khan not only suppressed the rebellious movements but also rebuffed the tribal forces and faced down their resistance to the reforms. In addition to his military power and international support, Reza Khan gained the supports of the secular and progressive parties while the conservatives objected to his changes. Meanwhile, Khan created an image of the savior with a shrewd maneuver. While Reza Khan increased his power, he resigned from the war ministry. However, this resignation was not welcomed by his army, caused the disturbances, and the Majlis had to invite him back (Amanat, 2017, p.550). In October 1923, Shah appointed Reza Khan as the prime minister, and with this move, Khan extended his power and started to exercise a personal autocracy. To increase the financial base, Arthur Millspaugh was invited by the Shah to create an effective tax-collecting system, and Millspaugh performed his duty successfully in five years. Therefore, Millspaugh attributed his success to the power of the Shah and the central government (Abrahamian, 2008, p.67). Moreover, he also got support

from the public thanks to his nationalist view and efforts to solve the country's problems (Kamrava, 1992, p.49).

Initially, the recent developments in borders, Turkey, led Reza Khan to think about the republic; however, his efforts for a republic sparked aggressive demonstrations among clerical and other conservatives, Reza Khan put his plan into effect to soften the resistance. Firstly, Reza Khan took the name of Pahlavi, reclaimed the Khuzestan, and made a pilgrimage to Qum. In 1925 a bill was introduced to the fifth Majlis to overthrow the Qajars and transfer power to a government in the leadership of Reza Pahlavi. Although Muhammed Mosaddeq criticized the proposal as it may create a threat against the treasured constitutional, the bill passed (Abrahamian, 1982, p.135). Moreover, regarding several articles of the 1906 Constitution, the Majlis terminated itself on behalf of the constituent assembly that shapes the country's political future. In line with termination, ten days later, the Pahlavi Dynasty was established by a constituent assembly in which only 3 of the 260 deputies avoided voting in favor, and Reza Khan became the new shah. (Nezam-Mafi, 2012, p.350).

By the year of 1925, the rule of the Qajar Dynasty lasted 150 years, was ended. Although the state experienced significant evolutions and transformations, in reality, the power structure did not change so much. There was again the Shah, his foreign supporters, ulama, and the notables; Shah monopolized the power and future of the reforms, but others had little impacts on the outcomes. Moazami (2013) defines the Reza Khan's state as "buffer state with a new twentieth-century configuration: a strong military state constructed in close alliance with a central power (first Britain, and later the United States) seeking to protect the front lines of its zones of interest" (p.42). This terminology also explains the future of the Pahlavi Dynasty.

Although the Constitutional Revolution had the potential to change the power structure, the irrepressible desire of Reza Shah for power eliminated the development achieved with the revolution, and "Shah once again resumed Iran's age-old tradition of monarchical absolutism" (Kamrava, 1992, p.51).

3.2.2 The Reign of Reza Shah, 1926-1942

Thanks to the support of all segments of the society, Reza Shah had immeasurable power, despite the Majlis. Although the latest developments brought the ulema such a dominant position alike during Qajar Dynasty, after the establishment of his dynasty, Reza Shah no longer needed the ulema and started to reduce their power sources consecutively (Kamrava, 1992, p.51). The first five years of Reza Shah was linked with the growing dictatorship and autocracy, though there was still some consultation and participation with limited support from the modern middle class. Although initially there was a constitutional dictatorship, it turned into autocracy, and Shah became an autocratic ruler (Katouzian, 2013, p.13). While the efforts of Shah were considered the steps toward modernization, according to Abrahamian (2008) “Shah’s main aim in establishing new institutions was to expand his control by expanding his state’s power into all sectors of the country – into its polity, economy, society, and ideology” (p.72). In line with this claim, in a short while, the government started to modernize all features of the state as the judicial, economic, and educational systems. These reforms enabled Shah to remove his opponents from the power struggle. Moazami (2013) lists these opponents under the four groups: constitutionalists, divanis, tribal leaders, and new civil bureaucrats and summarizes the process of the consolidation of power, as follows:

Constitutionalist leaders were both Reza Shah’s inspiration and his main threat. He forced many of them from the political scene—or worse—while persuading others to accept his statist vision. Reza Shah gradually eliminated many high ranking divanis and elites produced by the Constitutional period from the political scene, despite their earlier cooperation with him... Reza Shah first returned to the old Qajar practice of exploiting tensions among tribes or segments within tribes... The annihilation of these tribal leaders and a policy of forced settlement ended the tribes’ power as a military force. If his first group of victims embodied the death of a democratic reading of the Constitutional Revolution, the fate of divani and tribal leaders pronounced the demise of a coalition-based central power. Reza Shah’s fourth group of victims was civil bureaucrats, who came from divani/aristocratic or middle-class backgrounds. They were talented modern bureaucrats, distinct from traditional divanis or constitutionalist bureaucrats, particularly in their acceptance of Reza Shah’s hegemony and their role in consolidating his power (p.43).

Reza Shah, like his predecessor, faced the risk of losing his absolute power, and this situation led him to become more oppressive. Shah murdered the closest politicians and bureaucrats like Abdol-Hosein Taimurtash and Ali-Akbar Davar, although, they served the Shah for long periods and created the new regime's political and legal structure.

Shah, however, eliminated his opponents and controlled the power on his own, the economic structure and social hierarchies did not change dramatically. Shah's attempts were achieved to eliminate political rivals and dissidents; however, they did not lose their economic power. Moreover, "the economically dominant classes, mainly landlords and a small bourgeoisie," maintained their investments, financial status, and privileges. As a member of this landlord class, Shah safeguarded their interests, and they supported his autocracy (Matin-Asgari, 2012, p.350). Furthermore, thanks to his popularity between notables and army support, Shah controlled most of the members of Majlis through elections. Although, there were elections, the control to decide who will be in the parliament was in the hands of the Shah (Abrahamian, 2008, p.73). Moreover, the Shah's military power enabled him to control the election results in favor of himself. With this full support, Shah realized significant social transformations, forcefully like dress code, educational reforms, banning Islamic calendar. According to Katouzian (1992):

Reza Shah's religious persecutions had two real aims, and none other: to destroy Iranian Shi'ism, and its practices, as shameful evidence for the backwardness of his great Aryan Country; and, to remove any *independent* social institution and all autonomous channels of public association and communication. (p.128)

Although these changes sparked reactions, they were not powerful to eliminate these changes. By a large sector of the female population, Reza Shah's reforms were welcomed with cheers; however, these reforms were also prepared for the resistance movements against the Shah regime. The ulema had to accept these reforms, but hostility between Shah and Ulema increased significantly (Amanat, 2017, p.619).

The economic development was run together with the modernization process by pursuing the etatisme; however, the foreign influence and dominance in most of the projects remained the same. The British and Russian investments rapidly expanded, particularly in oil fields and transportation. Although the leading economic partner of Iran was Great Britain, the problems related to the APOC oil concession and nationalists' British hostility created another partner, Germany. The mechanization period of Iran continued with the

German products, most of the machinery and contractors in Iran's industrial, mining, and building program (Keddie, 2006, p.101). On the one hand, the cooperation with Germany brought Iran the desires of Reza Shah; on the other hand, it brought the end of the Reza Shah era. The German influence was perceived intensively with the increasing number of German technical advisers for various projects. However, this situation was criticized by not only nationalists (again) but also old partners, Russia, and Great Britain. At the end of the 1930s, the aggressive policies of Germany and its frontal attacks to Russia increased the pressure on Iran. Although Iran announced its policy of neutrality, the old partners wanted Iran to deport all German citizens, while Iran again highlighted its neutrality without thinking about deportation. While Russia and Britain were interesting in German linkages, they were also speculating the methods of the Shah (Abrahamian, 1982, p.164). The complaints of old partners and Shah's procrastination ended the power of Shah through the Anglo-Soviet invasion of the country in August 1941. Although the military force of the country was powerful, the speculations against the Shah, his despotism, and general mobilization order, the Iran army could not make a stand against the Allied forces (Katouzian, 1992, p.135).

Although the Allied forces brought the changes in the government in power, the resistance against the government and the citywide economic and social problems accelerated the process. The emergence of World War II worsened the economic conditions to the detriment of Iran in terms of relative prices. Moreover, the reign of Reza Shah, 1928-1941, accommodated to the shortage of foreign exchange, as Shah seized and transferred earnings of Iran to his bank accounts in various European countries (Majd, 2001, p.364). The oppressive policies implemented by the Shah toward tribes created problems in the agriculture and stockbreeding, as there was no development plan for these areas. Shah wanted to avoid foreign debts at the expense of the heavy duties, but he laid the burden on ordinary citizens, not on the wealthy (Keddie, 2006, p.102). There were some other incidents that severed relations between the public and government, like 'Fifty-three' "that police detained fifty-three men and accused them of forming a secret ishtiraki (socialism-communism) organization, publishing a May Day manifesto, organizing strikes and translating such "atheistic tracts" as Marx's *Das Kapital* and the *Communist Manifesto*" (Abrahamian, 1982, p.155). Taken together, according to Corneille Embrechts, a representative of a New York-based company, "it was no longer a question of if turmoil and revolution are on the way, it is only a question of when" (Majd, 2001, p.369). The Shah's last statement to his cabinet answers the question of who holds power:

Gentlemen! I am leaving the country soon and must say something that you should know. No one has ever had any appreciation from me for his services, and no one was ever thanked or rewarded by me, although some excellent services were rendered. Do you know why? The reason is because this country has no opposition. My decisions were all made and carried out without you . . . With regard to my plans and ideas, the secret of my success was that I never consulted anyone. I studied the problems quietly, and without showing why I was interested. But last year for the first time in my life I tried to change this way, and consulted the Higher War Council . . . If I had not done so, I would not now find myself in this situation (Ansari, 2007, pp. 86-87).

The Russian and British officials recommended different politicians as prime minister, but they refused, and finally, one month later, Shah was forced to abdicate on behalf of his son, Muhammed Reza Shah, and Muhammed Reza Shah became the new monarch, at the age of twenty-two.

3.2.3 The Muhammed Reza Shah Era, 1941-1979

The foreign intervention, with the rising reactions from the public, changed the future of Iran. In addition to the existing problems, the new social and economic challenges brought the country to the verge of instability and chaos. With the change of the Shah, Russia, Iran, and Great Britain, in January 1942, signed an alliance that guarantees to protect the Iran economy from the adverse effects of war and within a given period to remove their troops (Keddie, 2006, p.105). Moreover, the Allies, with the participation of the United States, let the Shah control the regular army. This agreement changed the direction of Shah's interest in the military. According to Abrahamian (2008):

The invasion thus inaugurated an interregnum that lasted a full 1941 thirteen years. It put an end to the era when the monarch had ruled supreme through his undisputed control of the army, bureaucracy, and court patronage. It began a period when the new monarch continued to hang on too much of the armed forces, but lost control over the bureaucracy and the patronage system (p.99).

Therefore, during these thirteen years, Shah was in office but no longer in power. The one who has the power was Mohammad Mosaddeq, and this era was codified with the clash

between Shah and Mosaddeq for the control of the state (Moazami, 2013, p.46). During the premiership of notables, the country enjoyed the freedom, and the power structure of the country changed. The power concentrated in the royal place, the cabinet, the foreign embassies, the Majlis, and the urban masses with constant struggles. The continuation of the Majlis with a powerless monarch gave the deputies the authority to change governments and created a new conjuncture to uproot the despotic regime (Katouzian, 1992, p.144). So, the power of the Majlis to elect prime ministers as well as other ministers enhanced its importance and not only affected the direction of the power struggle but also affected the state bureaucracies. The power and the dominance of notables that eliminated under the reign of Reza Shah reverted to the Qajar era. In addition to their role in Majlis, their relations with top civilian and military provincial officials they had the potential to affect the election results. Although the majority of the Majlis was mainly stable as before, most of them were notables, army officers, wealthy businessmen; propensity for political parties increased as “once elected, the deputies regrouped along party lines or common socio-political background and outlook and worked through caucuses called *fraktion*” (Bayandor, 2010, p.11). This situation shaped the political movements and also the period until the Shah took control. However, the power of the Majlis created a period of uncertainty; 11 politicians formed 16 governments within ten years. On average, the reign of the cabinets was limited with five months, while the premiers lasted eight months. Moreover, the cabinet changes were affected by social conflicts (Abrahamian, 1982, p.170). Two leading ideologies were popular among masses and shaped the preceding thirteen years of the new shah: sociologist and nationalist movements. The release of the political prisoners, especially the ‘Fifty-three,’ gathered the masses under the ‘Tudeh Party’ in the light of the anti-despotism and liberty while they had different backgrounds and ideologies (Katouzian, 1992, pp.144-145). Despite the measure support from the masses, initially, ideological differences created a multivocality, but after they led to internal party conflicts, that peaked with the Azerbaijan crisis. Soviet demand for an oil concession and the Kurdish and Azerbaijan movements, supported by the Soviets, divided the Tudeh into leftists and nationalists. These internal affairs and political instability maintained the decentralization of power with one exception. Mainly the Shah was no control over the decision-making process; however, these events resulted in the developments in the military with the sponsorship of the United States, and with the military intervention in Azerbaijan testified its growth (Matin-Asgari, 2012, p.355). This intervention was also strengthened the Shah’s hand in the power struggle over the control of the state.

The next step of the Shah was to eliminate the Tudeh from the political arena with the help of others who were affected by the Tudeh growth and propaganda. While the support of the Soviets posed a danger to the interest of Great Britain over the oil concessions, the agitprop methods that they used were targeting the landlords and notables (Ansari, 2007, p.100). The Tudeh Party was beset by the Shah and his partners from various aspects. Furthermore, the Shah declared a state of siege in Tehran and eliminated all organizations linked to Tudeh, under the ruse of national interests. Finally, the failed assassination attempts on Shah's life in 1949 made Tudeh as an outlaw party. However, the Tudeh Party was not the only aim of the Shah. Shah targeted all opposition figures like Qavam as-Saltaneh, other critics, and some religious leaders (Bayandor, 2019, p.8). The powerful military force again transformed the power structure on behalf of the Shah. Moreover, thanks to the semisoft political environment, Shah wanted to extend his control over the nation by forcing the Majlis "to convoke the Senate, which was stipulated by the Constitution but had never been elected, and to amend Article 48 of the Constitution to give him the power to dissolve the Majlis" (Afkhami, 2009, p.117). Within the five months following, Shah achieved his objectives and immediately used his power to appoint General Ali Razmara as the prime minister of the sixteenth Majlis with half the members of the Senate.

3.2.3.1 The Nationalization Era

The era of the sixteenth Majlis was a controversial period due to the debate of the British oil concession. The existence of problems related to the oil concession was already on the agenda of the government. Although its expiration date was extended for another sixty years in 1933, the rejection of the Irano-Soviet Oil Company proposed by Qavam's government, provided a basis for the renegotiation of the British oil concession and further cancellation. Although the idea of nationalization was also put into words since 1946 by Tudeh Primarily, in 1949, the parties reached a consensus known as the Supplemental Oil Agreement or, at that time, the Gass—Gulshayan Agreement and submitted to the Majlis for ratification (Hambly, 1991, p.252), due to the related legislation that block the government's negotiations of oil concession without the approval of the Majlis. However, the process did not realize as expected; the Majlis rejected the agreement in the leadership of the nationalists. At these years, with the fall of the Tudeh Party, the popularity of the nationalists further increased not only in the Majlis but also among the masses as the National Front led by Mohammad Mosaddeq. The National Front was constituted by the remaining parties, Tehran

Bazaar and also ulema. However, for the nationalization of oil, the Tudeh Party, though it was illegal, supported the National Front through strikes, petitions, and street demonstrations. That considerable support for the nationalization enabled Mosaddeq to pressure Majlis to pass the bill (Abrahamian, 2008, p.116). While the debates about the agreement were deepening, another assassin accelerated the process. While the final decision about the settlement was unannounced, prime minister Razmara was assassinated by a member of the Fadaïyan Islam, due to his political stance. Two weeks after the assassination, the oil nationalization of the oil industry was ratified by the Special Oil Committee and became law (Afkhami, 2009, p.123)., Mohammed Mosaddeq, the chairman of the Oil Committee, became the prime minister in April 1951 with the oil nationalization agenda. Although Mosaddeq achieved the nationalization and establishment of the National Iranian Oil Company (NIOC) that took over the control of the British company, the effects of the nationalization did not materialize as expected. Although the necessary steps were taken, the Iranians failed to run the industry. The oil nationalization turned into an international crisis that eventuated in an economic depression (Amanat, 2017, p.669). The overall country was in favor of the nationalization except for the foreigners. However, the financial problems due to nationalization led to criticism, mainly by the Shah as the government faced with payment difficulties. However, the public did not welcome to criticize the nationalization, and the Shah refused to explain his criticism. Although the situation of the country did not bear more problems, the friction between the Shah and Mosaddeq was heightened as Mosaddeq wanted to nominate the Minister of War (Kinzer, 2003, pp.119-132). The Shah wanted to replace Mosaddeq with someone else who may be supported by foreign powers and solve the economic problems. However, before early replacement, by putting forward the repudiation, the minister submitted his resignation in July 1952. While the Shah appointed Qavam as the prime minister, during the next five days, the country turned into the confusion by way of demonstrations, rioting, and strikes. Finally, the Shah was obliged to recall Mosaddeq. While some argue that the Shah did not find the economic support from foreigners to appoint someone else, this situation increased the premier's power (Bayandor, 2010, p.54). Mosaddeq's efforts, visits, and speeches offered no solution to the economic problems, and these problems triggered the social conflicts both in the Majlis and the streets. In addition to this, the British maritime embargo and the United States' support them tightened the noose. Although the majority of the Majlis voted for Mosaddeq, there were critics within the National Front. Moreover, some factions of the National Front collaborated with Anglo-American forces to overthrow Mosaddeq (Matin-Asgari,2012, p.355). In the

end, the hidden cooperation among the opponents sounded the death knell for the Mosaddeq era, and with a CIA-backed coup, he was discharged on 19 August 1953. According to Katouzian (1992), “thus -through the combined onslaught of the conservative, despotic and totalitarian anti- forces, direct foreign intervention, and errors of judgment by the movement's leaders- ended a historic movement for sovereignty and democracy” (p.179).

3.2.3.2 The Royal Dictatorship

The removal of Mosaddeq through a military coup with the help of the United States affected the power structure of the country, as expected. Although the transformation to the autocracy did not realize immediately, it was the inevitable consequence of the current cooperation. Hambly (1991) highlights these interactions by taking the Shah as the center:

For the time being, he was a partner of those who had made possible his return, or who were committed to the political scenario implicit in his restoration: the military leaders who had engineered the *coup*; those landlords, entrepreneurs and clerics who had come to fear Mosaddeq's potentially disruptive policies, and who had also feared a Tudeh Party takeover; and the fickle Tehran mob headed by brutish hooligans. This partnership was led by the suave and ambitious General Zahidi. Behind these indigenous elements were foreigners. The Americans had made it all possible by co-ordinating and financing the conspirators, having come to appreciate the strategic significance of Iran for the Cold War, while the British had been the prime movers in the whole affair due to their hostility to Mosaddeq and their anxiety for future access to Iranian oil. (264).

These various and powerful groups had different roles in shaping the new power structure. While, the leading foreign partner, the US continued to dominate the military with the legal advice and support, it increased its control over the oil industry with a considerable share in oil consortium and public and private investment projects. However, this intensified domination affected the prestige of the Shah from two different aspects: domestically and internationally (Keddie, 2006, p.132). While the Shah was considered under the control of the foreigners, internationally, The American Press presented the Shah as the modernizer and reformist ruler, despite an autocrat. These close relations not only helped the Shah in terms of international image but also provided economic support through financial aids and

oil revenues (Ansari, 2007, p.164). The old partner, Britain, regained the oil monopoly with the mentioned consortium. While the foreign support made the public think that the Shah may enhance the democratic aspects, the Shah's tendency to autocracy and the Western support to the centralized government that guarantee their interests dashed the public's hope (Keddie, 2006, p.133). Although the Tudeh Party knew the planned coup and informed Mosaddeq, as Mosaddeq failed to satisfy their requests, they did not take action. The unresponsiveness of the party served the purpose of the putschists; however, after the coup, the party faced with oppression, arrests, and further executions (Katouzian, 1992, p.191). The rest of the pillars, the religious establishment, and ordinary Iranians had their reasons to support the coup as the monarchy considered the warrant of the Shiism. The changes in the Islamic World were approved as the risk for the religious while the monarchy titled "the Sovereign protector of Shiites" (Bayandor, 2010, p.147).

The Shah, initially, took control of the Majlis to eliminate the opposites. While the Shah let the election to the Eighteenth Majlis, he chose the candidates with his reliable army commanders. Therefore, this move eliminated the opposites, and, according to Katouzian (1992), "the Majlis itself was dominated by influential landlords and other conservatives, primarily seeking their own personal and class interests" (p.193). Before the coup, the Shah has already appointed Zahidi; however, he was an influential figure who wanted to run the government on his own, as Mosaddeq. Two years after the coup, the skeptical Shah finished the Zahidi era by dismissing and exiling him to Geneva as an ambassador. Moreover, the Zahidi's son had a similar fate with his father, exile as an ambassador to Great Britain, due to his increasing influence and power (Kinzer, 2003, p.198). After Zahidi's forced choice, Shah appointed Husain Ala as a prime minister for the second time in 1955, but he was also replaced in 1957. The underlying reason for these limited incumbencies lied behind the Shah's objectives, according to Hambly (1991):

The Shah was searching for a suitable way of implementing his two prime objectives; the concentration of all executive authority in his own person, and modernization, with the latter serving as a means by which to achieve acquiescence in the former. Thus, from the late 1950s, direct and attentive control and surveillance by the monarch over virtually every significant aspect of government became normative, and this continued until the end of the reign. The Shah found his instrument in the person of Dr. Manuchehr Iqbal, who unashamedly described himself to the nineteenth Majlis as merely his master's

voice. The first in a series of courtier-politicians who, apart from Amini's brief incumbency of the premiership, headed successive governments during the last two decades of Pahlavi rule, Iqbal held office for over three years, April 1957 to August 1960. (p.267)

As the Shah appointed courtier-politicians as prime minister, he gradually consolidated his power. Same as before, the gendarmerie and town police are used by provincial governors to supervise the elections. Moreover, the prime ministers shaped the Majlis at Shah's pleasure, and by changing the necessary and sufficient conditions made harder the future oppositions and increased the Shah's power over the Majlis. Due to pressures for more democracy, with the words of Abrahamian (1982), "They divided Majlis into two royalist parties that were known as the "yes" and "yes sir" parties" (p.420). As time went by, Shah was appointing some people to some offices and after was forcing them to resignations. For example, Abolhasan Ebtehaj, Governor of the National Bank, was nominated head of the Plan Organization in September 1954 and forcefully resigned in 1959, as the disputes between the ministries and organization about the management of the projects continued and "Ebtehaj disagreed with economically irrational royal interference with the seven-year plan" (Keddie, 2006, p.138). Before the resignation, the prime minister introduced a bill that delegating all duties and responsibilities of the chairman of the organization to the prime minister, and the bill was passed following the Shah's will (Afkhani, 2009, p.211). Although the country was full of the various forms of the managing bodies, the only one who has the power was the Mohammed Reza Shah.

The elimination of all forms of opposition was mainly succeeded not only by the Majlis but also by the SAVAK. This internal security service, known by its Persian acronym SAVAK, was established in 1957 with the help of the CIA and Mossad and headed by the close friend of the Shah, General Nasiri (Keddie, 2006, p.134). However, the Shah worried about these security services and maintained others to check one another. SAVAK, on the one hand, oppressed the opponents by using every means possible and created trade unions to scrutinize the entire working class (Abrahamian, 1982, p.420). On the other hand, it designed an environment that, in order to avoid trouble, one should not be attention-grabbing by SAVAK, as its activities were unknown as well as the fate of its victims (Abrahamian, 2008, p.126). Shah built an empire of fear to maintain his power; however, in some instances, he realized some projects supposed by the foreign powers to eliminate his dictator image reflected by the activities of SAVAK. Aforementioned, Shah ensured the

continuation of the elections and supported the multi-party system; even if he controlled the deputies and results, he succumbed to the pressure for structural reforms by the foreign powers. In addition to international pressure, there were strikes and demonstrations for comprehensive reforms. To realize these reforms, Shah approached the National Front, mainly ones had Tudeh affiliations, with some leniency (Ansar, 2007, p.175). Although the National Front questioned this manner of approaching, they collaborated with the Shah. By going a step further, Shah permitted independent candidates and National Front members; however, this created a heated contest, and elections got stopped by the Shah. To control the domestic disturbance and to obtain financial aid were not maintained under the rule of the appointed prime minister, Sharif Emami (Abrahamian, 1982, p.422). The Shah faced further pressure to appoint the reformist Ali Amini as prime minister by the Kennedy administration and accepted this appointment. (Bayandor, 2019, p.12). Ali Amini made critical reforms in the majlis and governing bodies by dissolving the newly elected Majlis with the order of the Shah and after by assigning middle-class reformers to critical ministries. However, there were disputes within the Majlis as the expected land reform to the detriment of the landlords and landlords were encouraging the offices to interrupt the legislation procedure, according to government spokesman Arsanjani (Hambly, 1991, p.274). The pressure from the foreigners was higher than the landlords', due to their aid and loans. Therefore, to be financially dependent on the foreign state, Shah was obliged to implement their will, such a version of the division of power between Shah and foreigners. The land reform was at the top of the government agenda and was under the control of the Arsanjani by order of the Shah. The first step was taken with the 1962 Land Reform Act, as titled the first one of the three stages of the reform. According to Abrahamian (1982):

First, landowners had to sell to the state all agricultural property in excess of one whole village or of six *dangs* (parts) in different villages. Exemptions were given to orchards, tea plantations, groves, and mechanized fields. Second, the compensation offered to the landlords was to be based on previous tax assessments and was to be given in the course of the next ten years. Third, land bought by the state was to be promptly sold to the sharecroppers working on the same land (p.423).

As it always has been, the Shah did not want the appointed prime minister as he may be more potent than the Shah. In line with this, Shah carefully used various strategies for different groups to throw of Amini. However, the Shah further noticed that he should act

unobtrusively in order not to lose American support, and so he let the officials implement the land reforms. In January 1962, Shah ensured the creation of the state of chaos through the SAVAK; however, the resignation of the prime minister, in July 1962, originated from the conflict between the Shah and prime minister over the power of the military (Katouzian, 1992, pp.223-224). While the Shah appointed his friend Asadullah Alam as the new prime minister, the Minister of Agriculture, Arsanjani, was kept in his position for the next year. Although the land reform was watered-down by the new prime minister, the second stage was implemented without eliminating the power of the landlords and religious foundations (Abrahamian, 1982, p.424). However, the continuation of the risk born out the land reform frightened the Shah and resulted in the rapprochement with the Soviet Union with the 'revolution agenda' at home military (Katouzian, 1992, p.225). As the only powerful one on the governing scheme, the Shah was driving the reform car after his own heart. The White Revolution, used by Amini for the first time, was based on a massive transformation of the country's critical foundations (Afkhami, 2009, p.227). The White Revolution that ratified by referendum in January 1963, although the ulema of all strains rejected, was based on the six fields: (1) land reform; (2) sale of government-owned factories to finance land reform; (3) a new election law including woman suffrage; (4) the nationalization of forests; (5) a national literacy corps, mainly for rural teaching; and (6) a plan to give workers a share of industrial profits (Keddie, 2006, p.146). As mentioned, land reform met with resistance by the ulema and landlords as "the landowning system was the social base upholding both divani tradition and elite politics was attacked" (p.51), according to Moazami (2013). Moreover, the issue of women constituted the breaking point of the Shah and ulema relations, while the last topic confronted the Shah with entrepreneurs. While the National Front boycotted the referendum as the Shah decided these reforms on his own, the clergy, mainly Khomeini and radical clerics, boycotted not only the referendum but also the reforms as they thought some of these reforms targeted the Islam (Afkhami, 2009, p.234). While the opponents cannot block the reforms legally, their social base could create a risk of an uprising. Shah, initially, divided his opponents into two: black reaction and red treason, respectively the clerics and leftist opponents, Shah (as cited in Afkhami, 2009) thought that:

We have deprived the red traitors of their destructive paraphernalia. They have lost their bearings and become speechless and dumbfounded.... the black reaction was losing as the people were increasingly educated, and ignorance

yielded to knowledge, and therefore soon the clerics would no longer have a mount to ride (p.234).

However, both of these opponents were in existence, and they are preparing to mobilize against the Shah with their supporters, but their power was not sufficient to block the reforms. Different from Shah's division, there were more than the clerics and leftists: the bazaar, big landowners, tribal khans, and the masses. The arrest of Khomeini while speaking out against the Shah's reforms ignited the wick. One day after the arrest, massive uprisings erupted throughout the country. Although the arrests were related to the clerics, "thousands of shopkeepers, clergymen, office employees, teachers, students, wage earners, and unemployed workers poured into the streets to denounce the shah" under the leadership of "the guild leaders, the bazaar merchants, the National Front, and, most significant of all, a new figure in the opposition-Ayatollah Ruhollah Khomeini" (Abrahamian, 1982, p.424). Within three days, the riots were quelled by the 'shoot to kill' order of the Shah and costed countless life. The elimination of the opposites also accompanied this process. During the following months, the arrests, incarcerations, and suspensions of the activities of opponent parties (Matin-Asgari, 2012, p.359). With the suppression of demonstrations, depoliticizing of opponents, and house arrest of Khomeini, the Shah thought that he succeeded. Thank this illusion of victory, Shah let Khomeini resume teachings in Qum, but this created another opposition as Khomeini was denouncing the Shah's reforms as anti-Islamic. Finally, he was exiled; after a short stay in Turkey, Khomeini went to Najaf (Hoveyda, 2003, pp.23-24).

Although the society was not effective in changing the government policies, the Massacre of June 1963 changed the social order and the distribution of both de facto power and further de jure power. Katouzian (1992) clearly explains the reasons and the direction of the change, as follows:

This was neither a purely religious, nor a purely conservative, nor a purely radical and democratic, uprising; it was an insurrection of *the people* against *the state*, and it included *all* of those tendencies among its participants. It was led by religious leaders, particularly Khomeini, and it was manned by the *bazaar* community, small traders, shopkeepers and artisans, students, workers, the unemployed, and political activists. Religion was its overall cloak, and anti-despotism its common denominator. The leadership was passed on to the religious community because of the traditional role and significance of Shi'ism

and its leaders as a powerful autonomous social force; because of the clarity of mind of religious leaders and the faithful regarding the nature of the events- a clarity that was in total contrast to the confusion of the National Front leaders (and the Tudeh Party leadership); and the historical, moral and physical courage of leading religious figures, most notably Ayatollah Khomeini's (p.228).

The change in social leadership and power distribution also affected further social events but mainly the 1979 Revolution. While the ulema, big landlords and entrepreneurs and lately the chattering classes sustained their power evenly for long periods, the bazaar and the clerics increased their power with a massacre. For a limited period, there was no ostensible opposition against the Shah; however, the underground activities of all parties were increasing, and opponents are organizing his masses. While Khomeini was in communication in his followers, exiled leftists to Europe helped the Iranian students and leagued together against the Shah with the participation of Muslim students as Khomeini ordered this (Hoveyda, 2003, p.27). Despite these events, the Shah was determined to reform and modernization of the country. Initially, the economic conditions of the country germinated with the oil revenues, and foreign capital flowed in the country thanks to the international image of modernization. These reforms were successful with increasing female labor force participation rate, easy access to public education, health, and social services by the urban population. However, there was a limited group of people that benefited from the reforms (Matin-Asgari, 2012, p.359). This social injustice reached its peak in the 1973 with the oil boom. While the economic indicators of the country rose threefold, there was no change in the situation of the public, although the people were waiting for the fruits of the oil boom (Katouzian, 1992, p.257). As the Shah potentiated his power, he started to eliminate political rights. In the mid-1970s, Shah dissolved the existing two parties and announced the changeover to a one-party state with the establishment of the Resurgence Party. Shah wanted to control the masses where they were working in public or private and explained the accession to the party as compulsory (as cited in Afkhami, 2009):

Two alternatives are open to those who do not join this organization or do not believe in these principles I have already mentioned. Such individuals either belong to an illegal organization, Tudeh Party members Alternatively, they could be given passports tomorrow with the greatest of pleasure and without charging them any exit dues, so that they can go, if they so wish, to any country they choose. This is because they cannot be regarded as Iranians; they have no

home country, and their activity is illegal – the penalty for their activity having been already determined by law. On the other hand, those who may not be Tudeh Party supporters such individuals are free provided they officially and openly declare that they are not against the homeland. But backing both sides and wanting their cake and eat it is no longer acceptable. Everyone must clarify their position in this country like a man . . . So, my point is that, from now, from tomorrow, everyone of voting age should establish their national position (pp. 233-324).

It was one of the final steps increasing the hostility toward the Shah by the middle class and mainly by the bazaar. With the words of Abrahamian (1982), “The government had rushed into a territory in which previous regimes had feared to tread” (p.443). Moreover, Shah continued to target his opponents with the newly established party. With some anti-Islamic regulations, “the party caused a sharp reaction among the ulama,” the reactions were followed with demonstrations and arrests (p.445). Moreover, the international democratic image of the Shah was also damaged by the Amnesty International's 1975 report related to the political prisoners and in March 1975, an article in *The Sunday Times* of London (as cited in Hambly, 1991) reported that "no country in the world has a worse record in human rights than Iran" (p.286). The loss of foreign support increased after the Shah's visits to America, and the ordinary Iranians also noticed this. While “Khomeini called the Iranian government illegal and illegitimate” after Carter's visit to Tehran, the Shah did not consider the clergy as a threat, yet (Afkhami, 2009, p.452). According to Hoveyda (2003),

He sincerely thought that he had muzzled the mullahs once and for all. Thus, in 1976, he contended in an interview that the mullahs did not represent a threat as they “had lost the monopoly on the education they enjoyed in the past.” “I have some enemies: the communists, the Islamic Marxists, and the like. This illusion of the Shah served the purposes of Khomeini as the mullahs enjoyed relative freedom of action: the secret police concentrated its attention on the Mujahid dins (Islamic Marxists), the National Front, and the liberal elements of the intelligentsia (p.22).

After the declaration of martial law on September 1978, on December 11, during Ashura, nearly two million opponents were “calling for the establishment of an Islamic Republic, the return of Khomeini, the expulsion of the imperial powers, and the

implementation of social justice for the deprived masses” (Abrahamian, 2008, p.161). As of February 1979, Iran entered a new phase in terms of not the only form of government but also the control of the power, sources, reforms, and masses.

3.3 Brief Summary

In Iran history, the power belonged to a small segment of society under the leadership of Khan or Shah. Mainly, the royal ones, tribes, or ruling royal families had the control of the military, assembly, and thanks to both of theses the financial power. Even if the leading tribes or people changed, the royal elites maintained their status in the governing body as the advisors, deputies, and governors. After the collapse of the Qajar Dynasty, the same staff maintained their status with some alterations and additions from the Pahlavi's and military. Even the constitutional revolution could not change the executive team. According to the CIA Report (1972):

In Iran, about 300 persons hold or have held in the immediate past significant political power; most of these come from the top families or have close connections with them. The extent to which political power has become concentrated in a few hands is illustrated by the fact that from the Constitutional Revolution in 1906 to the present, there have been 120 different cabinets but only 39 prime ministers. Two men each were appointed prime minister 11 different times. Cabinet posts were similarly concentrated. In one decade, some 400 cabinet posts were filled by only 144 persons. In the last 20 years, nine men have served as prime minister, all these born or married into one of the top 40 families (pp.17-18).

Therefore, different processes, different forms of governments (autocracy, a limited democracy, or what else) were managed by the same staff. In case of dissensus and appointments under coercion, the Shahs chose to eliminate these actors. Moreover, the majlis was also under the control of these elites for long periods. If one was a member of the principal families, there was always a seat for him. The tyranny of the significant families was summarized by the same CIA Report (1972) as follows:

The 40 major families have always been represented in parliament. From 1906 to 1967, 400 out of some 3,000 seats in the Majlis were held by members of

these families. Many of the other seats were held by other members of elite families, mostly provincially based, or by their hangers-on. In the Senate, the nationally prominent families were even more heavily represented (19).

While the decision process was under the control of the Shah, these royal members had the power to manipulate these decisions, even the elections. Moreover, as analyzed in the previous chapter, the foreign states had also control over the region due to their financial and military power. Finally, the ulema, the clergy, experienced an excellent power for some periods; however, they were not as powerful as much as the elites. When the interests of the shah and clergy conflicted, their power started to diminish. Although this was common for all groups, the power of the elites, to some degree, prohibited them from losing. Shah sometimes was waiting for its time, or even sometimes, he was halting his projects. However, these elites ensured their interests even in case of adaptation of the damaging projects. Therefore, the missing part of the society was the voiceless ordinary citizens. Although, to some degree, the rest collaborated against the ruling elites to change their decisions or to implement their wants, they did not have enough power as the others. While some of them harshly reacted to some events, if they did not collaborate, the reactions were wiped off the streets with military interventions, arrests, and even executions. Therefore, shortly, they were ineffective if they did not serve the same purpose. In addition to their inability, they weighed down by the economic conditions. While the country passed a problematic period of industrialization with hefty burden tax on lower and middle-income groups, late in the Pahlavi Dynasty, their economic conditions became again worse. However, the country was experiencing considerable growth rates, and the public was only a witness to the government expenses, celebrations, and elites' life that was driven by vanity. The words of Keyder (1987) summarizes the situation of Iran; "the cost of the industrialization effort had been borne by the masses while its fruits were enjoyed by the elite" (p.120). In addition to the economic problems, the Shah created an environment that was filled with political and social oppression. There were demands by the public, but the Shah was insensible to these demands. Therefore, his alienation from the rest and insensitivity towards the demands led the left and right collaboration against him, and their power came to light with this coalition. Therefore, the biennial events during 1978-79 were the result of this collaboration and succeeded in terms of its objective. Moreover, this coalition was also the result of prolonged pressure and alienation (Abrahamian, 2008, p.155). The ongoing rulership of the Pahlavi Dynasty was overthrown at its zenith of oppression by

the powerless ones. Although the transition period did not realize as expected, it completed with the rise of the ulema.

3.4 The Transition Period

Before February 1979, there were different groups acted in unison under the Islamists' leadership, with Ayatollah Khomeini as its unquestioned leader, while after the revolution, each of them was trying to take advantage of it, even the foreign powers (Behrooz, 1999, pp.95-96). Although before the revolution, the power struggle was apparent, but they reached their objective, to a great extent. For example, Khomeini's call to action on January 19 was turned down by the National Front, while factory workers were demanding the right to establish unions to support the Khomeini's call. On the other hand, the Tudeh Party came out in favor of Khomeini for the unity, Marxist newspapers are warning him "not to try to monopolize the revolution, saying that the people would resist any attempt to use Islam as a pretext for imposing a single-party system" (Fischer, 2003, p.211). At the same time, Talaqani, the symbol of the revolution before Khomeini's arrival, was proposing the groups to free from ideologies in order to prevent masses from division (McDaniel, 2014, p.221). However, these comments were ineffective.

The country switched from such a complicated spot to a more complicated spot after February 1979. Khomeini's arrival in Tehran changed the future of the country. The crowds were pleased with this arrival, and even the middle-class, educated persons were considering Khomeini as the *marja' taqlid* (source of emulation) and supporting his rulership. However, others started to be afraid of Khomeini's explanations (Fischer, 2003, p.212).

Two months after, a referendum was held on whether Iran should be the Islamic Republic, the minimum voting age was sixteen. Although some parties boycotted the referendum, the percentage of the aye vote was nearly 99%. McDaniel (2014) explains the underlying reason for this result, as follows:

Traditional social groups, particularly the bazaaris and miscellaneous sectors of the *petit bourgeoisie*, remained vital in modern Iranian economic and social life. The ties between the religious leadership and these groups were strengthened by the regime's attacks upon both of them. And the cultural traditions they shared found increasing acceptance in the country at large, even in unexpected quarters,

in the face of the onslaughts of Western influence (p.203). Thus, despite the elitist and totalistic character of activist Shi'ism, there existed a significant potential mass base for *the model* of change based partly on shared cultural assumptions.... diverse connections brought much of the new urban Iran under the influence of one form or another of subversive religious ideas. The traditional base of the clergy in the bazaar and old urban quarters remained intact (pp.215-216). ... Islamic activists, extending their influence throughout networks of traditional urban ties, took advantage of these possibilities and won the sympathy of huge numbers of future adherents to their revolutions (p.203).

While the form of government decided as the Islamic Republic, there was disagreement about the constitution. There was a need for a new constitution, but there was no consensus on its formation. As the leading and decision-maker group, "the new Islamist elite had two different interpretations of the meaning of the Islamic state" (Behrooz, 1999, p.101). While the Islamic liberals wanted the more Western-type institutions with a limited role for clergy, the fundamentalists wanted to govern the state own his own with a dominant role for clergy.

The Islamic liberals took control of the state apparatus of the old regime, the fundamentalists moved to create their state institutions and legal entities in society, and soon gained control of the revolutionary council, the revolutionary committee, and the Islamic Revolutionary Guards Corps. These parallel institutions, with increasingly more power than the old institutions, helped them to overcome the Islamic liberals (Behrooz, 1999, p.102).

Therefore, there was an institutionalization process as swiftly as possible. While the opponents, including Islamic liberals, were divided into various ideologies, fundamentalist gathered under the same roof of the Islamic Republican Party (IRP), that was created on 17 February 1979, with the aim of Islamization of the society (Bakhtiari, 1996, p.55). Therefore, except for the opponents of the Islamic Republic, there was a secret consensus on the pathway to absolute victory. In the next month, fundamentalists organized their loyal force, Revolutionary Guards Corps, the Pasdaran, as they mistrusted the leftists' militias and regular army due to its flyblown reputation related to coups. In addition to corps, the courts were also established. According to Amanat (2017):

Independent of Bazargan's provisional government, the mission of the revolutionary courts was to eliminate the "enemy" imprison, confiscate,

intimidate, and quash the “anti-revolution” which meant any voice or force deemed to be against the regime’s hegemony. (p.944)

After the referendum, the transition from Dynasty to the Islamic Republic gained acceleration with the debates of the constitution. Although there was a draft prepared by the provisional government, it did not reflect the fundamentalists’ expectations. Moreover, it was built on the 1906 Constitution that was critiqued by Khomeini, according to him, one of the aims of the constitution was to “take the laws of Islam out of force and operation by introducing Western law” (1970, p.26), and for others, due to linkage of constitution and the monarchy, it should be abolished. During the revolution, the Islamists increased their de facto power as they could solve collective action problems; the next step was to have the de jure power. Therefore, the election of a constituent assembly was decided by common consent. However, the Islamists again defeated the others and decided “for elections to a 73-man constituent body with the newly coined name of Majles-e Khebrgan (Assembly of Experts), a term with religious connotations.” (Abrahamian, 2008, p.162). After a while, the elections were held in August for the delegates who were vetted by the fundamentalist organizations. According to the results, “fifty-five out of seventy-three seats were taken by the pro-IRP clerics” (Bakhtiari, 1996, p.56). By fulfilling the conditions, the assembly entered the process of preparation of the constitution. The IRI Constitution was written in the summer of 1979 and was put to the vote in December. The new regime, new institutions, new military force, new constitution, and finally, the new state all of them were prepared in record time.

Before the revolution, although some power centers have the potential to influence the political, social, and economic outcomes, the leading figure was the Shah. In most cases, for example, in the Land Reform process, while the landlords had an extensive power thanks to their economic resources, they did not block the Shah from realizing reforms. However, with the establishment of a new state thanks to the revolution, the decision-making process and power centers faced with a great challenge that re-shape their structure.

4 THE ACTORS in the IRI ECONOMY

The main power centers that have role in the decision-making process have been analyzed according to their position with the state in the literature. While some distinctions about the policy-related people have made as official and unofficial (Birkland, 2010), inside or outside of government (Kingdon, 2013) and formal and informal (Buchta, 2000) etc., the most appropriate selection for this study may be the formal and informal power centers as to make distinction between officials may be impossible due to the IRI system has a nested political sphere and to use the formal and informal centers will facilitate the understanding the distinction done by Buchta for the IRI. However, there will be two changes in line with the economic policymaking process, firstly, instead of the power centers, the formal and informal actors who participate the decision-making process will be evaluated and secondly, some actors will be neglected or omitted, and some others will be added according to their scope and role, different from the Buchta's classification. Therefore, after each participant who take part in the economic decision-making process will be defined, "(1) the importance of each participant, (2) the ways each is important (e.g., whether each uses agendas, alternatives, or other power mechanisms)," and (3) the reasons behind each participant's action will be discussed (Kingdon, 2013, p.21).

4.1 The Formal Actors

The IRI regime has been considered as a 'constitutional theocracy' by some authors and journalists as it combines elections with religion as defined by Mahmood Mamdani at a conversation:

Until Ayatollah Khomeini created a state-wide clerical authority in Iran, there was no such institutionalized religious hierarchy in Islam, and it still does not exist elsewhere. Without the existence of an institutionalized religious hierarchy parallel to a state hierarchy, the question of the proper relation between two domains of power, that of the organized church and the organized state, a central question in Western secularism, has been a non-question in Islam - at least until Ayatollah Khomeini created a constitutional theocracy in Iran as *velayat-e faqih* (n.d, p.9).

Therefore, the formal power centers are more than the classical republics' due to the mentioned parallelism. The primary source of the IRI policy-making process is the constitution that acts as a formal framework for defining the economic and financial affairs alike a guideline and also for distribution authorities and responsibilities to relevant bodies. Moreover, as expected, according to the Constitution of IRI (2014), "the governing powers in the Islamic Republic of Iran consist of the legislative, the executive, and the judiciary powers. They operate under the supervision of the absolute authority of the command (velayat-i amr) and religious leadership (imamat) of the community of believers" as the Supreme Leader (Article 57). These three governmental branches will be examined under the title of 'the republican institutions' as presented by Rakel (2008). In addition to the Supreme Leader and three branches, there are "the religious supervisory bodies and the religious foundations," according to Rakel (2008, p.52). However, despite their direct links with the Supreme Leader, foundations have no legal status that enables them to participate in the decision-making process directly, and therefore, to add them into the informal part will be more reasonable. Moreover, due to their status, the IRGC plays an active role in the process, and so, they are also included in the formal centers.

4.1.1 The Constitution

The 1979 referendum adopted the constitution of the IRI, and the constitution further amended in 1989 with a referendum alongside presidential elections. The constitution defines the authorities, responsibilities and also economic principles that should be persuaded. The constitution (2014) lays emphasis on (a) "the complete rejection of colonialism and the prevention of foreign influence; and (b) the eradication of all kinds of tyranny, autocracy, and monopolization of power" as mentioned by Principle 2 and the main arguments are analyzed under the chapter 4: Economy and Financial Affairs with Principle 43 to 55. The economic system of the country is defined as a combination of state, cooperative, and private sector while their scopes are classified in detail. According to Principle 44 (Constitution, 1980):

The state sector includes all the national industries, foreign trade, major mines, banking, insurance, energy sources, dams, and large water irrigation networks, radio and television, post, telegraph and telephone, aviation, navigation, roads, railroads, and others which are publicly owned and under the state's control.

The cooperative sector will include corporations and cooperative institutions of production and distribution that are established in accordance with Islamic criteria in cities and villages.

The private sector is comprised of that sector of agriculture, animal husbandry, industry, trade, and services that complement the state and cooperative economic activities.

Although “banning the monopoly” has been repeatedly mentioned in the constitution, the state monopolizes the almost whole economy and leaves others a limited space. Moreover, ‘the prevention of foreign influence’ is strictly strengthened with other articles. At Principle 81 “It is absolutely forbidden to give foreigners the right to establish companies or institutions in commercial, industrial, and agricultural fields, as well as in mines and in the service sector” and moreover with Principle 153 “any form of agreement that would result in foreign domination over the natural and economic resources, foreign domination over culture, the army, and other affairs of the country, is forbidden”. In line with these articles, independent from the ideological background, the IRI community has been cautious and reluctant to the foreigners, whether they are investors or not. Moreover, foreign investments are hardly opposed, although the country needs them.

4.1.2 The Supreme Leader

After the revolution, with the implementation of the velayat-e faqih ideology by the Khomeini’s followers, the authorities and responsibilities of the Supreme Leader have been guaranteed in the 1907 Constitution through the Principle 110 that gives the Leader such an insuperable power. According to article, “supervising the proper implementation of the general policies of the system, coordinating the relationship among the three branches of the government and resolving any conflict among them, and issuing appointments, dismissals, and accepting the resignation of some top officials, including the president” are some of the Leader’s responsibilities and authorities. Moreover, the Supreme Leader is the final decision-maker and also the final veto players who shape the overall policies. The Leader's power and position have also ensured while assigning the other’s authorities. For example, the president has no control of the armed forces, thanks to bad experiences, while the Supreme Leader commands the armed forces and declares war, peace, and mobilizing forces according to the Principle 110. In addition to the constitution, there are other elements as

both the sources and the methods that the Supreme Leader maintains his power over the country. The first tool of the Leader is “the Office of the Supreme Leader that not only arranges the meetings, appearances, and visits, and keeps him up to date on political developments in Iran but also employs special advisers upon whom the Supreme Leader can call in fields such as culture, economics, military affairs, and the media” (Buchta, 2000, pp. 46-47). Furthermore, together with the advisers, the Supreme Leader has the representatives who are more powerful than even the ministers and have the right to interference with all cases. Not only in the ministries, but also in the military and security services, revolutionary and religious organizations, foundations, cultural centers in foreign countries and the provinces, the Supreme Leader appoints representatives. In state institutions Leader controls the operational processes, the representatives appointed by Leader try to create a public opinion that favors his ideas. The association of Friday Prayer Leaders facilitates the spread of the Leader’s view across the country. Although the Special Court for the Clergy is one of the power instruments, it ensures the ideological unity of the clergy that is not directly related to the decision-making process. Briefly, the Supreme Leader not only directly to dominate the process by issues and agendas but also through various offices that affect the public opinion in his favor.

4.1.3 The Religious Supervisory Bodies

The religious supervisory bodies consist of three decision-making and advisory institutions as (1) the Guardian Council, (2) the Assembly of Experts, and (3) The Expediency Council. Firstly, the Guardian Council is the utmost controller in the system that “is established in order to protect the commands of Islam, and the constitution from discord with the proceedings of the Islamic Consultative Assembly (Majlis)” according to Constitution. The Guardian Council that consists of six Islamic jurists and six legal scholars specialized in different fields of law must ratify all the articles that are financial, penal, administrative, economic, political, etc. regulations and other laws. The Assembly of Experts is responsible for designating the Leader and has no other responsibilities as the other institutions. The final institution is the Expediency Council is an advisory body that “was established in 1988 to act as a mediator between the Majlis and the Guardian Council, and to advise the supreme leader” (Rakel, 2008, p.54).

4.1.4 The Republican Institutions

The republican institutions, as in the republic, consisting of three main governmental branches as the judiciary, the executive, and the majlis (parliament). The most active branch in the policy process is the Majlis that “drafts legislation, ratifies treaties, approves states of emergency, approves loans and the annual budget” (Rakel, 2008, p.55). While there was a distinction between the president and the executive body, with a regulation, the prime minister office was abolished and then “the executive power is exercised by the President of the Republic and the ministers, except in affairs that are directly delegated to the leadership by this law” according to Article 60. This regulation has given more power to the president and, as mentioned in the relevant article, Article 113, “After the leadership, the President of the Republic is the highest official of the country. He is responsible for executing the constitution and heading the executive power, except in instances that are directly related to the leadership”. Moreover, as the president has the power to appoint the head of the Budget and Planning Organization with the head of the Central Bank of Iran (CBI), the executive branch is in charge of economic policies. There are no legal parties in the IRI, and so the ideological stances have been represented by the factions. Although they are not legal formations, their power is originated from the constitutions as they are elected to the parliament. The factions have been classified with different approaches according to their ideological bases; however, the authors have generally used three terms as conservatives, reformists, and moderates. While their stances are considered equal to their ideologies, Akhavi-Pour and Azodanloo (1998) claim that “the decisions of Islamic political groups and government factions are based on economic and political policies that are expected to maximize their economic gains” (p.69). The primary duty of these factions is to protect their followers’ interests in the policy-making process whether economic or not. Therefore, they also play an active role in the process. The last branch is the judiciary that is controlled by and also answerable to the Supreme Leader. There are both public courts and revolutionary courts with different realms of authorities; however, the judiciary does not involve the decision-making process, especially the economic ones.

4.1.5 The Islamic Revolutionary Guards Corps (IRGC)

The Islamic Revolutionary Guards Corps (IRGC) is the parallel institution of the Regular Army and constitutes the Revolutionary military together with its Basij militia and

Law Enforcement Forces (Rakel, 2008, p.56). With the decree issued by Khomeini, the Leader of the Revolution, the IRGC was recognized as a revolutionary institution with the aim of “protecting the Revolution and its achievements” (Article 150). The statute of the IRGC was “provided the earliest legal framework for the organization’s operations” and ratified three days after its legal establishment (Alfoneh, 2013, p.17). Initially, the IRGC defined as a combination of army and police through the statute, the further statute passed in 1982, made an important distinction between individual members and the institutions that “the statute prohibited individual Guardsmen from political activity and made “non-membership in political parties, groupings, and institutions...[a] condition of being a member of the Revolutionary Guards”¹² but enabled ample avenues for the Guards to intervene as a whole” (Alfoneh, 2013, p.18). Moreover, the roles of protecting the revolutions and safeguarding the theocratic system “has facilitated the IRGC’s rise as a pillar of the Islamic Republic,” and IRGC has become “a multifaced organization ... [that] is a security service, an intelligence organization, a social and cultural force, and a complex industrial and economic conglomerate” (Ostovar, 2016, p.5). After the Iran-Iraq War, the involvement of the IRGC into the economic realm became an issue “when Supreme Leader Khamenei instituted a formal ranking system into what had been a flat IRGC organization” and further “became even more pronounced in 1992–1993 period, when business-savvy President Rafsanjani initiated the idea of involving government organizations in business transactions as a way to generate independent income” (Wehrey et al., 2009, p.56). As the Rafsanjani government provided oil income and right to access to the hard currency with subsidized exchange rates, the IRGC enjoyed these privileges that made the guards monopoly. As the control of the IRGC over the economic activities, its participation in the decision-making process has become more transparent, and through the councils, the commanders had the right to participate in the process. Moreover, the IRGC monopolizes the economic sectors from a to izzard not only by the role of protector but also through foundations as the religious foundations which are under the control of the Supreme Leader.

4.2 The Informal Actors

The existence of informal actors that take part in the political arena is not a new phenomenon for the Iranians as most of them were inherited from the Pahlavi Dynasty. While some of them have remained the same, some of them were affected by the new structure and changed according to last developments. Three critical actors can intervene in

the policy-making process as the Bazaaris, the clerics, and the foundations that are directly related to either the Supreme Leader or the IRGC. While the Bazaaris and the clerics, as the ulema, had the same power before the revolution, the newly formulated para-governmental organizations, as the bonyads, experienced some changes, and they became religious foundations.

4.2.1 The Bonyads

The bonyads are analyzed as the para-governmental organizations that “owned or controlled wholly or partly by the government” according to dictionary-definition; however, Buchta (2000), classifies the bonyads in Iran “into three categories: public, private, and charitable-Islamic” (p.73). While the Basij Cooperative Foundation and the Mostazafan Foundation are considered the financial wings of the IRGC, the Imam Reza Shrine Foundation is a charitable foundation that is located in the Mashad. However, regardless of their categories, each of them has had power over the country’s economy, even if they are just charitable ones. Thus “the Imam Reza Shrine Foundation amassed a fortune worth an estimated \$15 billion through ventures in automobile manufacturing, agriculture, and real estate and is believed to own 90 percent of the fertile land in Khorasan province” (Wehrey et al., 2009, pp.57-58). After the revolution and further the Iran-Iraq war, “these para-governmental organizations claim to provide a collection of measures and activities relating to social work, advisory and other social and rehabilitation services rendered for satisfying the needs of low-income groups, improvements in the conditions of families of martyrs, former prisoners of war, needy rural dwellers, guardian-less households, the disabled, and the handicapped” (Saeidi, 2004, p.488). With these targets, the newly foundations started to be established alike the Mostazafan Foundation and the Martyrs’ Foundation, which was established a month after the revolution. Moreover, all assets of the Pahlavi Foundation and Shah’s relatives, friends, and elites “were taken over by the newly created Mostazafan Foundation” (Wehrey et al., 2009, p.57). While the foundations continued to realize the mentioned duties, they started to participate in the economic sectors thanks to their privileges.

The foundations “are tasked with the state’s mission of redistribution,” the IRI provided ample opportunities to them (Sune, 2019, p.48). Although the foundations assume as the non-profit organizations, “these figures enjoyed ideal positions for direct access to

rents via exclusive importing licenses, tax exemptions, subsidized hard currency, and control over procurement boards and industrial establishments” (Keshavarzian, 2007, p.102). Moreover, as most of the foundations are not questioned by any authority, except the Supreme Leader, “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” (Saeidi, 2004, 485). For this reason, to clarify the exact volume of their economic activities have become harder and even impossible. However, some of their activities have been detailly analyzed by various authors despite the smattering of information.

The number of bonyads reaches the hundreds without explicit information about their scopes, ties, and economic resources. However, some of the most essential and most substantial bonyads that are operating under either the Supreme Leader or the IRGC provide some information as they are active in nearly all spheres of the economy. Among these bonyads, Foundation for the Disabled and Oppressed (Mostazafan), Martyrs' Foundation, Imam Reza Foundation, Fifteenth of Khordad Foundation, Housing Foundation, Basij Cooperative Foundation, and Imam Khomeini Relief Foundation are known with their active participation into the broad range of economic activities. In order to understand how significant these bonyads are, to illustrate, some of them will be beneficial.

As mentioned before, the Basij Cooperative Foundation and Mostazafan Foundation are the main bonyads of the IRGC that operate in the economic sector. Firstly, the Basij Cooperative Foundation “was established in 1992 to provide welfare support” for the Basijis with the special request of the Supreme Leader Khamenei (Golkar, 2012, p.628). After a time, they were motivated not only by the political figures but also by IRGC Commanders to participate in the economic activities, and then the majlis expanded the scope of the bonyad as the medicine, housing, and some other institutions were included. As of 2010, there were nearly 30 companies and investment institutions related to the foundation (Corrigan, 2011, p.56). Moreover, the privatization process has been facilitated for the Basijis as “Ayatollah Khamenei insisted that Basijis and war veterans should have priority in buying stock in newly privatized companies” (Golkar, 2012, p.629). Therefore, the bonyad is mainly active in the number of branches as banking, finance, real estate, construction, health, tourism, security, industry, and transportation. While, initially the economic sources of the bonyads were the contributions from the Supreme Leader and the holdings of the old bonyads, further, the profits of the bonyads’ economic activities added

to the resources of these ‘non-profit’ organizations. The same activities with a more complex structure have also been realized by the other IRGC’s extension as the Mostazafan Foundation. As the foundation is “the principal holder of assets seized from the royal family, is the largest of these foundations and is sometimes referred to as the government within the government” (Keshavarzian, 2007, p.167). Similar to the government, the bonyad owns hospitals, factories, retail stores; constructs railroads, highways, and buildings; and manages various enterprises as insurance and airlines that make the bonyad the large economic enterprise in the Middle East, according to its former president Rafiqdoost (Akhavi-Pour and Azodanloo, 1998, p.80). According to UNSC Report (2015), these two IRGC foundations “control 43 companies through public trading on the Tehran Stock Exchange, and 218 small and medium-sized companies with 1,073 managers with IRGC affiliation” (pp.26-27). In addition to the IRGC wings, the other foundations have undergone the same transformations related to their income resources. According to their website, Imam Reza Network, the foundation with its hundreds of subsidies operates nearly all spheres of the economy with “an annual budget of about \$2 billion, mostly from the alms given by pilgrims” at the 1990s (Saeidi, 2004, p.483). At most cases, these foundations are essential for the economy more than the formal institutions, as exemplified by Boroujerdi and Rahimkhani (2016):

Based on the Budget Law of 2011, the combined budget of four prestigious formal institutions (Headquarters of the Armed Forces’ General Command, Expediency Council, Guardian Council, and the Islamic Republic of Iran Broadcasting) is less than half of the budget of one single social welfare organization, the Imam Khomeini Relief Committee (p.146).

4.2.2 The Bazaaris

The concept of the bazaar in Iran history means more than a classical market, and the bazaar has played central roles in the history of the country, not only during the revolution but also before and after the revolution. According to Mottahedeh (2014, p.34), as one of the lungs of public life in Iran:

The bazaar was more than a market- place; it was the granary, the workshop, the bank, and the religious center of the whole society. It was there that landowners sold their crops, craftsmen manufactured their wares, traders marketed their

goods, those in need of money raised loans, and it was there that businessmen built and financed mosques and schools (Abrahamian, 1968, p.192).

Before the revolution, According to Skocpol (1982), “the socioeconomic world of the bazaar was the center of urban life, and there were strong links between the merchants and artisans of the bazaar and the agricultural producers in the countryside” (p.271). However, by the time of progress, as the country experienced a different economic integration process than the countries in the region, “bazaar had emerged as a more powerful, autonomous constituency than merchants in other parts of the region” (Maloney, 2015, p.30). And then, the bazaar turned into a powerful actor in the domestic and economic affairs of the country as the numbers of interactions between bazaaris and different groups during various social movements such as Tobacco Movement, Oil Nationalization increased. Although the Shah adapted the policies to eliminate their power, “the Iranian public overwhelmingly supported the bazaar and an anti-Shah movement,” and in turn, the bazaar supported the public (Mazaheri, 2006, p.414).

The bazaaris played an active role in the revolution, and then they became more critical than before, thanks to their cooperation with the ulema. Moreover, the power of the bazaaris is not solely originated from their ability to solve the collective action problems; “the size, resources, and physical layout of the bazaars were significant factors enabling bazaaris to assume a critical position in Iran’s political conflicts” according to Parsa (2000, p.201). Even the 1970s, “despite the modernization of the economy, the bazaar still controls over two-thirds of domestic wholesale trade and accounts for at least 30 per cent of all imports” and “has access to foreign exchange which has not been channeled through the official system” as mentioned by Graham (1979, p.224). While the bazaaris maintained their role and importance for an extended period, after the domination of the economy by the IRGC, their effectiveness has decreased but not ended. Despite their diminished economic power, the basis of the bazaar enables it to protect its position in the decision-making process.

4.2.3 The Clerics

The role of the ulema in the revolution reached its peak in their history, and this made them the essential participants of the system. While most of them are entrusted with the task of protecting revolution through the religious supervisory bodies, some of them are appointed as the head of the bonyads. Although the Friday Prayers are important actors, they

are under the control of the Supreme Leader, so they vocalize the policies of the Supreme Leader. The studies that focus on the power structure of Iran provide an elite structure as an actor of the informal side and claim the dominance of these elites over the governing of the country. However, although there is a dominance of the high positions by the elite who share a similar background in terms of education, family and lifestyle, and similar ideologies and further inherit their positions, their effects over the economic policies are not realized as expected.

In most cases, their role in the process originates from their positions. Most of the high position officials, as the member of the Guardian Council, or the heads of the bonyads may be assumed a member of the Iran elites; however, when they replace or leave their position, they may have no control over the economic decisions. Briefly, their power originates in their positions, so when they leave, their power also leaves them.

5 PRIVATIZATION and PRIVATIZATION PRACTICES in the IRI

The dualism in the Islamic Republic of Iran leads a unique but problematic decision-making process nearly for all affairs. While the foreign policies are shaped according to the national security and national interest, the economic decision-making process has been shaped according to the battles between interest groups, and the results depend on their power. As the policies are under the control of various bodies, the economic policies turn into the touch-and-go subjects. While the president and council of ministers prepare their programs, plans, and budgets in line with their ideology, most of these programs did not put into effect, or their implementations were either blocked or decelerated by other actors as these programs conflict with their interests. Therefore, in this part, some unimplemented or altered economic privatization policies and the underlying reasons behind their suspensions will be examined with the role of the special actors over these processes after the examination of the privatization topic.

5.1 Privatization

The ownership of the means of production has been among the most popular economic issues in the history of economics. Mainly the means of the production has been analyzed under two titles private and state, and different ownership models for different sectors have been adapted. While in the ancient Near East, “trade was usually either directly or indirectly under the control of the state or various religious institutions (the rulers and priesthoods) ... private citizens often pooled their resources and formed partnerships to conduct trade”, in the Roman Republic “the republican Senate left virtually all economic activities to private individuals and companies, known collectively as the *publicani*” (Sobel, 1999, pp.2-20). Moreover, in the Ch’in Dynasty of China, the state also had a monopoly over some industries, while nowadays, in the People’s Republic of China in most sectors, private companies have control of the market (Zhong, 2006). Therefore, depending on the state policies and market mechanisms, the share of state and private sectors in the economy has varied from region to region, and even from year to year throughout history.

The governments have applied various policies and measures to attain different degrees of ownership of the means of production for different actors. While, in some cases, governments have undertaken the management of the whole economy with nationalization

policies and pushed the private sector out of the economy, in other cases, they have delegated some degree of the responsibility (all or limited) to the private sectors with privatization policies. Namely, the dominant economic and political ideologies related to the role and power of states have determined who has control over the means of production, while no country has followed a single pattern. Moreover, some countries have adopted both of these policies during different periods as ‘privatization - nationalization cycles’ (Chang, Hevia & Loayza, 2010). Even these policies have turned into dominant global economic trends that affected almost all states for the same periods. For example, while before and during the decades following World War II intensive nationalization programs implemented, after the construction period the debates over “how governments should be involved in regulating the national economy and which industrial sectors should be reserved exclusively for state ownership” in Western Europe emerged (Megginson & Netter, 2001 p.2).

In the 1960s, although the debates were shaped by the overwhelming opponents of state ownership and nationalization, the new developments changed the situation as some privatization programs started to implement. The process was introduced by one of the Western Europe countries, Germany, which had a high degree of state ownership. According to Megginson and Netter (2001), “in 1961, the German government sold a majority stake in Volkswagen in a public share offering heavily-weighted in favor of small investors, *and* four years later, the government launched an even larger offering for shares in VEBA” (p.323). However, the new privatization programs were further interrupted until 1979. The Thatcher government launched an extensive privatization program during the 1980s, and “led by Great Britain, scores of nations began - or considered - selling publicly owned enterprises to private corporations or shareholders” (Feigenbaum et al., 1998, p.1). Although the implementation of privatization as a public policy took a long time, its implementation has gained acceleration in a short while. Moreover, “for several decades, both developed and developing countries have engaged in ambitious privatization programs” in a growing number (Sheshinski & López-Calva, 2003, p.429). Therefore, privatization became a global trend that has affected almost all countries independently of their integration into the world economy.

5.1.1 Definition and Ways of Privatization

Privatization has been defined as ‘to make private’ or ‘to transfer the ownership’ as the main aim is to change the ownership of public entities; however, there have been numerous definitions of privatization thanks to the authors, analysts, and policy wonks. While some authors define privatization in a simple way, others have emphasized the importance of power and resources. On the one hand, Megginson and Netter (2001) define privatization as “the deliberate sale by a government of state-owned enterprises (SOEs) or assets to private economic agents” (p.321). On the other hand, Gabel (1987) and Donaldson and Wagle (1995) provide a comprehensive definition by adding power and authority. Gabel (1987) divides the definition of privation into two meanings as “the first is a financial transaction - the sale of a publicly owned asset to the private sector. The second is the transfer of the authority to make resource allocation decisions from the government to the marketplace” (p.2).

Donaldson and Wagle (1995) approach the privatization differently. Although they also present a simple definition as “any transfer of ownership or control from public to the private sector,” they also include the motion “that the transfer should be enough to give the private operators or owners substantive independent power” into the definition (p.14). Moyo and Njenga (1998, p.6) emphasize the market in privatization by defining it as “the entire process of expanding the sphere of the market through a host of regulations that create an enabling environment for free enterprise to operate as a strategy for sustainable economic development.” Although there are various attitudes toward privatization, they nearly underline the increasing role of the private sector in the economy, accompanied by the low degrees of state intervention.

The variation among definitions, in most cases, have been arisen from the various modes of privatization of state-owned entities as each level of administration has implemented privatization programs for different purposes. Moreover, national strategies, economic plans, goals, and expectations and other constraints of countries differentiate and diversify privatization methods. Basically, “transfer techniques can include trade sales to a strategic investor, public offer, closed subscription joint venture, liquidation, concessions, auctions, voucher or certificate-based transfers, employee or management buyouts or most combinations of all of these” (Donaldson and Wagle, 1995, p.13). According to their economic structure, capitalist, socialist, or transition economies, states have applied different

techniques. Several Central and Eastern countries such as Bulgaria, Estonia, Hungary, etc. introduced restitution laws and decrees that aim to return state assets to their former owners, at the beginning of the 1990s (Fisher and Jaffe, 2000, pp.240-245). Moreover, some of these transition economies as the former Yugoslav Republic of Macedonia, Poland, Romania, the Slovak Republic, Slovenia, and Russia also applied management-employee buyouts which “shares of an enterprise are sold or given to some combination of managers and other employees” due to lack of necessary skills to perform a market-oriented economy (Havrylyshyn & McGettigan, 1999). The United Kingdom and Chile privatized some of their entities through direct sales and equity offerings, alike most Western countries. Moreover, in some countries, equal-access voucher or mass privatization has been another popular technique. In mass privatization programs, countries have adapted some limitations to eliminate outside ownership or worker ownership. Furthermore, in some countries, different combinations of privatization techniques have adapted, while the same combinations have resulted in different outcomes. Asset’s sale technique, divided into two as direct sale and share issue privatization, has also been one of the popular techniques used by many countries. While the direct sale creates lower revenue than the Share issue privatization, the selection depends on the size of the state-owned enterprises (Ahmad, 2011, p.24). In some sectors, especially in the developing countries, “the medium of management contracts, where the private sector takes over responsibility for the operation and maintenance of some existing facility which has previously been operated by the public sector,” is commonly preferred (Smith, 1999, p.68). With the management contracts, the leasing model or build, lease, transfer (BLT), and pre-financing techniques help governments to upgrade or renovate its facilities in case of insufficient funds. The leasing model may be confused with ‘build, operate, transfer (BOT)’ model. While the BLT model enables the state to lease the facility for a concerted period and with a concerted rent, the BOT model enables the concession company to maintain the facility for the period of the concession (Smith, 1999, pp.69-72).

The examples can be expanded; however, to assign a specific model or technique for similar countries or sectors is not possible as the privatization models have become unique for countries and even for different sectors. However, the objectives of privatization have been similar for almost all states.

5.1.2 Reasons for Privatization

The economic theories have grounded on productivity and efficiency as the underlying reasons behind the rapid spread of privatization. However, in addition to the dissatisfaction with the performance of nationalized and or public-owned industries, the economic problems that are related to the government budget and capacity insufficiency have also directed the governments' attention to the privatization programs. These reasons have also shaped the objectives. Vickers and Yarrow (1988) list the objectives of privatization as follows:

- (i) improving efficiency;
- (ii) reducing the public sector borrowing requirement (PSBR);
- (iii) reducing government involvement in enterprise decision making;
- (iv) easing problems of public sector pay determination;
- (v) widening share ownership;
- (vi) encouraging employee share ownership;
- (vii) gaining a political advantage (p.157)

While the listed objectives can be analyzed under the title of economic objectives, the last one 'gaining a political advantage' originates in the ideological and political objectives. Moreover, to ensure social justice plays a crucial role in the privatization programs. Therefore, these and some other objectives can be categorized under three main titles as political and ideological, economic, and social objectives (Ganmet, 2006, p.40).

5.1.2.1 Economic Objectives

The economic objectives of privatization can be listed as (a) promote efficiency and productivity, (b) reduce the government interference, (c) ensure and/or the free-market economy, (d) strengthen financial markets, (e) enhance the labor market, and lastly (f) reduce the public debt and borrowing. Although these objectives are listed separately, they behave as the table's legs that promote and need each other for a well-functioning economy.

The productivity and efficiency have been two essential concepts of the production process and also the leading factors that shape the future of the industries; however, without competition, these concepts remain just like a theory. While these concepts constitute the basis of the Research and Development (R&D) Centers in private companies, the incentive problems of state-owned firms reduce or even hamper efficiency and productivity. Firstly,

in the state-owned firms, there is no risk of bankruptcy and takeover threat. As the budget subsidizes these firms, the managers behave as civil servants, and they do not pursue the goal of use resources without any concern and any profit motive, different from the private sector. Also, there are no dissatisfied shareholders who may sell his/her shares (Vickers & Yarrow, 1988, pp.10-16). Moreover, there is no possibility to close the firms due to their vital role in public employment and public goods. Secondly, the company structure of the state-owned firms has complicated the monitoring process. As these firms have less monitored by the owners, the managers have not been encouraged and controlled adequately. Finally, the political involvement and the satisfaction of political interests lead to inefficiencies due to excess employment and production decisions. Shleifer and Vishny (1994) claim that “Most public enterprises are encouraged by politicians seeking votes to employ too many people ... Public enterprises, in many cases, produce goods desired by politicians rather than by consumers” (pp. 995-996). Moreover, a substantial body of empirical study has evidenced that private companies perform more efficiently and more profitably than comparable public companies (see D’Souza & Megginson, 1999; Megginson, Nash, & Van Randenborgh, 1994; Boycko, Shleifer, & Vishny, 1996; Megginson & Netter, 2001). Therefore, lack of competition accompanied by these incentive problems have been surpassed by the privatization as it enables “the efficient allocation of scarce resources in a market economy by providing incentives for the implementation of an efficient organization of the production of goods and services as well as product and process innovation” (Böheim, 2011, p.187).

Privatization has also affected the fiscal situations of the governments as they “tend to be financially better off after privatization than before *and also* the fiscal situation tends to improve over time, as receipts of privatization are saved rather than spent” (Kikeri & Nellis, 2002, p.13). Firstly, the privatization reduces the public debts and borrowings as it becomes a source of revenue for the state budget not only through proceeds from privatization but also through tax revenues from privatized firms. Moreover, as the inefficient entities are transferred to private owners, governments get rid of the excessive employment, misguided investments, and the subsidy burden. According to Davis et al. (2000), “for several case study countries, gross budgetary transfers to the public enterprise sector have tended to decline with privatization ... particularly significant in countries such as Argentina, Czech Republic, Mexico, Mozambique, and the Philippines” (p.19). Also, governments eliminate the sustained deficits originated in the dissatisfied firms, after privatization. Finally,

governments find an opportunity to carry out massive projects with privatization, even in case of insufficient funds and protect itself from borrowings.

The last economic objective of privatization can be related to the labor market as it profoundly affects the status and earnings of workers. As the assigned managers eliminate excessive employment after privatization, the overall employment rate decreases according to the characteristics of the industries. Therefore, after privatization ‘the introduction of competition increases the pressure on cost-reducing activities in industries characterized by a high labour/output ratio *and* to respond to competition and to maximize shareholders’ value, management responds by pressuring their workforce either through wage concessions or by modifying labour status” (Debande, 1999, p.292). However, Brown et al. (2006) refused the findings of some studies by criticizing them due to “small sample sizes, short time series, and difficulties in defining a comparison group of firms” and claim that “privatization to foreign investors produces consistently positive effects on the wage bill in all selected countries” (pp.1-26). However, the overall effect of the privatization over the firm’s wage bill, employment, and wage rate has been ambiguous due to specific characteristics of the sectors, firms, and states. However, there is a point that should be mentioned, which is emphasized by Shleifer and Vishny (1994). The excessive public employment due to political interference has been one of the crucial reasons of privatization and to lower this rate is a necessity for the operation of the firms, as at some states, governments agencies “employ 20 to 30 percent more people for a given output level than do private contractors” (p.995). However, some studies also show that the usage of workplace practices has increased with the privatization, such as unpaid leaves, extended maternity leaves, and wage arrears (Evans-Klock & Samorodov, 1998, p.iii).

5.1.2.2 Political and Ideological Objectives

The privatization has been considered as an economic issue; however, it has another dimension as the political and ideological and so “it often takes the form of a strategy to realign institutions and decision-making processes so as to privilege the goals of some groups over the competing aspirations of other groups” (Feigenbaum & Henig, 1994, p.191). Although each government implements privatization policies, the main differences between them are the ideology as, according to Appel (2000), “ideology determines how privatization programs are drafted” (p.528). Even the governments need such programs, they shape the

process according to their ideologies and at some states, as “the policymakers and technocrats could design the mass privatization program in ways that held different distributional consequences for society, such that some groups would benefit more than others” mentioned by Appel (2000, p.520). From this perspective, the main objective of the privatization becomes ‘the redistribution of power and control on behalf of some groups/classes,’ and it uses as a ‘weapon.’ Feigenbaum & Henig (1994) defines these types of privatizations as tactical and systemic privatizations. While the tactical privatizations are intended not only for short-term political benefits as the re-election but also to reward political supporters or to appeal to specific groups of voters; systemic privatizations aim to change the long-term balance of power as to “lower expectations of government, reduce government capacity and transform political stakes” (p.203).

There could be another political objective to receive some funds and facility of payment in return for privatization. As the leading two institutes, the World Bank (WB) and the International Monetary Fund (IMF) supported the Third World Countries through loans and subsidies with some conditionalities and some authors claim that “IMF conditionality (which is generally considered to be more constraining than that imposed by the World Bank) could have forced recipient governments to privatize more state-owned assets (in terms of volume)” (Brune et al., 2004, p.197). In addition to the loans and grants, they also attach conditionalities to debt relief and debt cancellation programs. For example, the November 1991 SAL conditions of WB for Egypt include privatization as a second-tranche condition and also “the IMF requires an indication from the World Bank that its conditions are met regarding privatization and price decontrol” (Abdel-Khalek & Korayem, 1995, p.280).

Therefore, in order to receive loans and grants and also to cancel/delay their engagements, governments pursue privatization programs, and also, when they tried to cancel, they faced threats from the WB and the IMF (Mutazu, 2007).

5.1.2.3 Social Objectives

The social objectives of privatization programs have not been considered as necessary as the economic objectives for quite a while, but there is a growing interest related to the social objectives (Ganesh, 1998, p.83). The social objectives can be analyzed under two titles to increase the welfare and fair distribution of benefits. Firstly, with the proceeds of

privatizations, governments may want to eliminate budget problems and to raise welfare with new investments. Governments can also increase the social benefits by allocating not only the proceeds but also the tax revenues that will be collected from these firms to the underprivileged classes. Secondly, by designing the privatization programs in a manner that “no special privileges for any particular groups in society *and* once the state transforms medium-size and large firms into corporations, any adult citizen can obtain from the government vouchers that can be exchanged for shares in the newly created corporations” (Appel, 2000, p.521). To assign some limitations in the privatization programs for the private companies and leave the rest to the employees or citizens can also be another measure to distribute the benefits. Appel (2000) mentions Russia, Bulgaria, Lithuania, and Ukraine examples as follows:

Although the Russian program started out distributing vouchers equally to all citizens, the program later added enormous privileges for employees. In fact, in 72.5 percent of Russian enterprises privatized through the program, 51 percent of shares were reserved for the employees of that enterprise. In Bulgaria, 20 percent of shares were offered at a 50 percent discount; in Lithuania, 50 percent of shares were available to managers and workers at a discount, and in Ukraine, a leasing program essentially transferred for free large blocs of shares to worker cooperatives (p.521).

5.1.3 Privatization Procedure

The objectives of the privatization programs have been one of the leading factors that shape the ways of privatization as which method should use. Although countries implement different ways, a strategic road map that emphasizes the points to consider while preparing the program includes some standard articles:

a. Clear Strategy for Privatization

The privatization processes take (a lot of) time as it needs a clearly defined framework. The first step is to define the general, and specific objectives of privatization with a cross-check of the economic and social objectives. If the objectives have not been clarified sufficiently, to designate the program becomes more complicated. After the decisions have made, the qualifications that the candidates should have, the timeframe of the privatization

process, and how it will continue should be confirmed in order to avoid confusion and cancellations through all processes and also after the transactions occurred and privatization is realized.

b. Choosing the Appropriate Model

The objectives of the privatization determine the ways of privatization. Although the economic objectives can be managed in all ways, the social objectives need more attention. If the governments want to use privatization as a social vehicle, the privatization models become limited such as the vouchers. Moreover, the status of the industry or the firm that needs privatization should be investigated carefully to identify the actual necessities as the reconstruction or enhancement. Therefore, according to social objectives and the necessities of the relevant firms, the appropriate model should be chosen, and then the rest of the program should be organized according to these objectives and necessities.

c. Transparency and Fairness of the Privatization

Governments or, more specifically, the responsible authority should ensure that transparency is maintained in every transaction. Therefore, the whole process from start to sale should be conducted openly and transparently, which eliminates any perception of unfair conduct. In order to ensure the transparency and fairness, authorities should establish all documents as the offering memorandum, tender documents, ranking criteria, transaction details including the name(s) of the purchaser(s), the price paid, and the terms and conditions of sale and finally the details of the assets. Moreover, all these documents should be accessible and placed in the public domain.

d. Supporting Legal Environment

The privatization process needs a well-defined legal framework that defines all obligations and undertakings of both parties for the whole period. Moreover, the relevant legislation as accounting rules, bankruptcy law, contract law, company law, financial law, foreign investment law, intellectual property rights, social security law, and also dispute settlement should be regulated “in order to defuse any legal ‘landmines’ that may cause damage later on in the process” (Shehadi, 2002, p.36).

e. Establish Regulatory Framework

The privatization process interests more people than governments as private firms and citizens/users. Therefore, interests of all parties should be guaranteed and “a regulatory framework has to provide for stable and clear “rules of the game,” credible enforcement of these rules, and reasonable rules, i.e., rules that balance the interests of the private firm and those of the citizen/user” (Shehadi, 2002, p.51). Moreover, there should be a regulatory mechanism that ensures the operation of the privatization process and also the enforcement of the regulations.

5.2 The Privatization Process in the IRI

The Iranian economy has been noted for its vast state-owned enterprises (SOEs), which have controlled almost all spheres of the economy since the Islamic Revolution. Although the first SOEs were established at the beginning of the 1920s and number of SOEs was limited, late in the 1970s, the government was active in almost all spheres of the economy as from “infrastructural industries, manufactures and corporations like telecommunications, metallurgy, railways, airlines, to some sensitive industries like army manufactures and tobacco department” while the number of private factories were so small such as the “Iran National Automobile factory (which had about thirty thousand employees and used to produce about 100,000 cars, minibuses, and buses), Export Bank of Iran, big industrial farms in some agricultural states and areas” (Razmi, 2007, p.2). Although the private sector consisted of the relatives of the Shah, foreigners and a limited number of domestic investors, there was a competitive environment with the participation of the public sector into the economy. However, after the confiscation of assets that belonged to the Pahlavi Dynasty and high-ranking bureaucrats, the number of SOEs and their role in the economy immediately rose. With the Constitution starting from 1979, within a few months, ownership of almost all means of production was transferred to the public sector (Modammadalirezai, 2012, pp.55-56). However, the efficiency problems, excessive public employment, management problems arising from political pressure, the red tape, and miscalculation of profits and losses forced the government to question the extreme public ownership. The government was aware of the mentioned problems; however, it postponed the privatization plans due to the Iran-Iraq War that lasted from 1980 to 1988. Nevertheless,

after the War, the development plans that were prepared for five years periods since 1989, and the government agenda have focused on the privatization issue.

5.2.1 The Legal Framework of the Privatization

The 1979 Revolution has changed the whole structure of the economy. Although there was a desire to privatize problematical SOEs, the Constitution hampered the process due to two articles. The first one is the Principle 44 that define the sectors and their domains, as follows (Constitution, 1980):

Principle 44: The economic system of the Islamic Republic of Iran is based on three sectors: state, cooperative, and private, and will be based on disciplined and correct planning. The State sector includes all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams, and large-scale irrigation networks, radio and television, post, telegraph and telephone, aviation, shipping, roads and railroads and the like; that would be [under] public ownership and [shall be] administrated by the state. The cooperative sector includes cooperative companies and enterprises concerned with production and distribution, in urban and rural areas, established in accordance with Islamic criteria. The private sector consists of those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the State and cooperative sector.

The domain of the private sector was so limited that it prevented the private sector and also the governments from privatization. As the heavy industries and trade was under the control of the state, the number of SOEs had to increase to meet the needs. Moreover, with the following principle, all investment capacities were separated for public use (Constitution, 1980):

Principle 45: The following are under the control of the Islamic government: wastelands and public wealth, abandoned or unclaimed land of deceased owners, mines, seas, lakes, rivers, and other public bodies of water, mountains, valleys, forests, marshlands, natural prairies, unrestricted pastures, inheritance without any heir, wealth without any identified owner, and public wealth that is confiscated from the usurpers. The Islamic government will treat these in

accordance with the public interest. The law shall determine the detail and manner of utilization of each of them.

Although both of these barrier principles have remained the same and the privatization process was managed under the ‘Law of the First Iran Comprehensive Five-year Economic Plan 1990’, in the coming years the Principle 44 was amended with ‘Law of Implementation of General Policies of Principle 44’ or so-called ‘Law of Implementation’, due to the general opinion about the urgency of the privatization (See Appendix A for the full text). This ‘Law of Implementation’ made crucial changes related to the private sector, and its scope was enlarged (Atieh Associates, 2005):

The private sector is authorized to participate in major economic activities including investment, ownership, and management of large industries, mother industry (including large oil and downstream gas industry) and large mines (excluding oil and gas), international trade activities within framework of the country’s trade and foreign currency policies and so long as it does not create a monopoly, banking and insurance, power generation including production for domestic and export consumption, dams and large irrigation networks, all post and telecommunications with the exception of mother telecommunications networks, transfer of frequencies and exchange and distribution of basic mail services, roads and railways; and, aviation and shipping (pp.5-6).

However, the new implementation led to another problem related to the ‘non-state public sector’ that translated as ‘semi-governmental sector’ or ‘quasi-government institutions’ in the legal texts. Although the government appoints the managers and finances these institutions, they are titled ‘non-state.’ While the Public Auditing Law defines the government enterprises and these non-state institutions, the company structure of these institutions is not explicated. According to the 1987 Act on the State Public Auditing (Torabi, 2017):

Article 4- A government enterprise is an organizational unit that is established as a forum according to the law, or nationalized based on law, or confiscated upon a proper court decree, and is known as a government enterprise, and more than 50 percent of its shares must belong to the government. Any commercial enterprise that is established through the investment of government enterprises

shall be deemed a government enterprise, as long as 50 percent of its shares belong to government enterprises.

Article 5- From the view of this law, non-government foundations and institutions are specific organization units that are established in order to conduct duties and public services by the permission of law. (p.78)

As the distinction between government enterprise and non-government foundations did not sufficiently outline, the process became more complicated, and in the long run, the SOEs have transferred to non-government institutions instead of the public sector. However, almost all privatization processes have realized according to legal procedures with a few exceptions.

5.2.2 Executive Process of Privatization

The privatization has been one of the most important economic programs that took place in nearly all development plans, governments' and also the Private sector's agenda; however, the main framework of the process was maintained with the relevant laws of the development plans till the establishment of the Iranian Privatization Organization (IPO) in 2001. After the establishment, the legislative framework that defines the entire process of privatization was prepared by the organization (See Appendix 2).

The executive process of privatization includes all steps that should take into consideration by looking out for all parties' interests.

The first step is the approval of the list of divestible SOEs by the Divestiture Board, including the schedule, methods, and the other conditions' as the social objectives or specific target groups. After the Divestiture Board carries out the necessary evaluation and determines the installment selling method criteria, the other essential elements also determined as the ratio of cash, installment of the transaction price, the period, and intervals of installments. At the same time, the IPO determines the transaction price and then offers it to the Divestiture Board for approval.

The next step is the marketing of the divestible SOEs by the IPO. The IPO may choose different ways as it can directly carry out the process or via investment banks or legal and real persons. Then, the divestiture advertisement is published twice in a paper with a wide circulation. Three simultaneous steps follow this step as presenting the evaluation experts

reports to the applicants, giving the visiting permission of the divestible SOEs to the applicants, and presenting the financial reports to the applicants.

Afterward, The SOE's shares are offered through the Stock Exchange Market or tender, and the winner (purchaser) is assigned. If the winner is a foreigner firm, the Organization for Investment Economic and Technical Assistance of Iran (OIETAI) provides the relevant permissions in order to benefit from the Foreign Investment Promotion & Protection Act Facilities (FIPPA).

The last step is the conclusion of the contract and then monitoring the divested enterprises. If the new owners improve the situation of the divested enterprises, in return, they are encouraged by the government with discounts in the transaction price up to 25%.

Before the authorization, the privatization processes have been managed under the control of various bodies as the parliament, council of ministers, economic council, and some other institutions. Moreover, the process has managed through dozens of laws, decrees, circulars, and similar decisions that are prepared and approved by the parliament. Despite some description problems, the authorities have tried to ensure the transparency and fairness of the process, and also the legal framework has been amended according to needs and challenges. However, the red tape and political pressure supported by the ideological objectives have blocked the transparency and fairness of the process several times with debatable privatization examples.

5.3 History of The Iranian Privatization

The privatization issue has played a critical role in the construction of the new government shaped with a new ideology. Although the initial economic steps were arranged by nationalization through confiscations, the excessive burden originated in the SOEs, and their employees, and also the war-torn economy brought the privatization to the government agenda. However, the country has never experienced transparent and fair privatization due to ideological motivations. Afterward, in this chapter, some crucial privatization processes will be illustrated in chronological order.

5.3.1 Rafsanjani Era

When the war ended, the political structure of the country transformed “with the election of Hashemi Rafsanjani as president in 1989 and the appointment of Ayatollah Khamenei as the Supreme Leader” (Rakel, 2008, p.91). Moreover, other developments affected the country’s economic sphere. On the one hand, the Rafsanjani government presented the First-Five Year Plan with the motion of radical economic reforms accompanied by three main principles the privatization, marketization, and unification of the FX regime. On the other hand, “the IMF Economic Adjustment Program to Iran (1988-1993)” was also suggested “the privatization of large parts of the economy which were, and still are, under control of state or semi-public organizations, particularly the religious foundations especially the Oppressed and the Disabled and the Martyrs’ Foundation” (Rakel, 2008, pp.93-94). The goals of the privatization movement were explained as “(a) to cut back the number of state-owned enterprises (SOEs) that had mushroomed since the 1979 revolution to over a thousand; (b) to get the government out of its ‘non-essential’ functions; and (c) to increase total national-factor productivity” by the government and “albeit in an unplanned, haphazard and chaotic manner, reached total sales of public assets worth 1.7 trillion rials” (Abrahamian, 2014, p.68). However, the privatization program faced with some limitations and then modifications. Amirahmadi (1995) summarizes the process as follows:

The first plan sought to encourage private investment in the productive sectors and popular participation in decision-making regarding educational and cultural issues. The private sector was to assist with some of the hard-economic tasks and thus alleviate the government's burdens. The cooperative sector was to grow considerably. In practice, however, conservative thinking in government circles was against expanding private participation in the economy. Industries and public services were arbitrarily offered for sale to the private sector, banks, and agencies affiliated with the government. While the private sector was not yet prepared for full-scale participation in the economic process, the government offered its factories to buy and manage. As an informed source said, pragmatist President Hashemi Rafsanjani's attempt to sell the nationalized industrial units to their ex-owners and other capitalists was criticized by Ayatollah Khamenei and the conservatives, so the government then decided to offer the industries to religious and loyal elements at better terms. Overall, privatization of

government-owned services and industries did not follow a well-conceived plan, and rather than promoting development, it became an objective in itself. (p.13).

As mentioned by Amirahmadi, the corruption allegations disrupted the process until 1994, and it was further faced with the opposition of the bonyads as it aimed at these institutions. Moreover, there was not only the opposition but also oppression “on the lawmakers to give them a share of the state-owned enterprises the government had earmarked for privatization” (Azad, 2010, pp.65-66). Moreover, finally, in 1994, the majlis made a regulation that limits the selling of the state enterprises that firstly allow to offer them to veterans, the prisoners of war, and further relatives of veterans and martyrs (Behdad, 2000, pp.125-129). Furthermore, the Supreme Leader insisted on the priority of Basijis in the newly privatized companies. However, there was a problem related to the financial situation of the target group, they have no sufficient financial resources. Therefore, the responsibility fell to the related foundations, and “the Martyrs’ Foundation and the Foundation of the Oppressed and Disabled started to buy state enterprises” (Rakel, 2008, p.94). While the process was aimed to decrease the share of the state sector in the economy by 8%, at the end of the period, “the state sector, in fact, grew by 3% in the mentioned period” (Khajehpour, 2000, p.583). The process was defined by the *Tehran Times* as “In the name of privatization, a number of healthy public industries and enterprises were transferred to hand-picked persons at peanuts prices... it was not privatization; it was auctioning off national assets” (1998).

5.3.2 Khatami Era

The next government also tackled the privatization issue under the president of Khatami that started on May 23, 1997. While Khatami presented his ‘Economic Recovery Plan’ one year after the election; the plan was mainly “focus on the promotion of civil society institutions in the economic sector and pledge to break monopolies,” the government submitted its main aims under the Third Five-Year Economic Plan (Khajehpour, 2000, p.587). While most of the economy is under the control of state, as ensured through the Principle 44, “in 1999 Khatami’s government announced an ambitious plan to privatize several major industries, including telecommunications, banking and insurance, power generation, and even the upstream oil and natural gas sector” (Azad, 2012, p.65). Moreover, a committee was appointed to study the process of transparency. According to their

announcement, the number of state companies will be reduced to 128 from 724 with an addition of 1000 semi-public companies, including the companies of the religious foundations and their sub-organizations. Moreover, even the methods of privatization identified through either the stock market or direct negotiations (Khajehpour, 2000, p.590). Further, to clarify the process, the Iranian Privatization Organization (IPO) was established in 2001. However, this process did not end with the expected changes. In addition to the economic sector, as mentioned by Maloney (2015), “Tehran also began experimenting in privatizing the financial sector that was also extended to foreign banks. In 2000, the parliament approved legislation authorizing the establishment of private banks, Over the subsequent five years, four new institutions received licenses and carved out a small but growing segment of the marketplace” (p.331).

Although there were further efforts to facilitate the privatization by eliminating the problems that were related to the constitution. As Principle 44 defines a broad range for the state sector with a limitation for others, to get involved in the same economic sectors was forbidden for the participants. Therefore, the Expediency Council reinterpreted the Principle 44 as “to oblige the government to divest from majority control in heavy industry, downstream oil and gas refineries, mining, power generation, banking, aviation, shipping, insurance, infrastructure, and telecommunication sectors” (Harris, 2013, p.54). This regulation accelerated the process; however, it was interrupted by the elections in 2005. Moreover, the parliament elections changed the structure of the majlis to the detriment of the government as “many former IRGC officials proceeded to enter the political sphere” (Robin, 2011, p.29). There were some critical examples of how the interest groups block some investments made by the private sector. Two of these blocked contracts signed with a Turkish consortium according to the related articles of the Third Five-Year Plan. According to Pesaran (2011);

The first contract, with the Turkish mobile telephone group Turkcell, was to develop a second mobile telephone network in Iran as a private-sector alternative to the state-owned Iran Mobile company, which had proven unable to deal with the Iranian population’s rapidly growing demand for mobile phone communications (Hamshahri 7 Mehr 1383/ September 28, 2004). The second contract, with the Turkish-Austrian group Tepe-Akfen-Vie (TAV), was for the construction and servicing of Tehran’s new Imam Khomeini International Airport (p.151).

In both cases, in various ways, even with a military option, the agreements were suspended. Then with new consortiums led by domestic companies controlled by the foundations signed these agreements.

5.3.2.1 The Telecommunication Sector

After Principle 44 reinterpreted, the government made two critical agreements in infrastructure and telecommunications. While both of these sectors were in the control of the state sector, the revolutionary foundations' affiliated companies controlled, especially the telecommunication sector, the infrastructure, and the transportation sector. As a part of the Third Five-Year Plan, the government let the private sector investment in these sectors. After a tender process, a consortium led by the Turkcell company won the license tender in February 2004, and six months later, the license contract was signed. However, “the IRGC opposed this deal arguing that the government should not allow a foreign company to control a telephone company in Iran. The Pasdaran resented the possible arrival of a new competitor on the market for telecommunication services and electronic products” (Coville, 2017, p.97). The overall media represented the agreement “as a wholly undesirable agreement, leaving Iran’s sensitive communications network vulnerable to outside control and even foreign espionage” (Pesaran, 2011, p.152). Before the payment of the license fee, the newly elected majlis and the Guardian Council took steps to intervene in the agreement. Through the legislation, the majlis made “a change in Iranian's legislation preventing Turkcell to operate the project it had tendered for by requiring that the GSM license had to be run by a company which was majority-owned by a domestic Iranian company” (UNCTAD, 2018). Initially, the share of the Turkcell was 70% in the consortium; however, after legislation it was decreased to 49%, that was not accepted by Turkcell, and therefore, the consortium resolved. Six months later, although there were a new bid and new companies, the result was not realized in favor of domestic companies and so as a solution MTN (South-African Telecom Company), the second ranked company, was chosen as the foreign part of that consortium. While the share of the MTN was 49 % in the joint venture titled as "IRANCELL," the other party was the Iran Electronic Development Company. The company was jointly owned by the Iran Electronics Industries that is a state-owned subsidiary of Iran’s Ministry of Defense and the Mostazafan Foundation (Sutherland, 2015, p.487). Finally, the agreement ended after “an Iranian-led consortium under the ownership of a Guards’ subsidiary received the license for the network” (Hen-Tov and Gonzales, 2011, p.52). However, as “the shortage of

time and lack of enough domestic capabilities in the telecom industry lead Iranian companies to import most of the products from foreign companies that among them, Chinese companies were active players” (Mehrizi and Pakneiat, 2008, p.87). Although the initial agreement was suspended due to the high share of foreigners, the final result did not change with the imported products.

5.3.2.2 The Airport Construction Program

The airport project was one of the ‘Great Projects’ of the Shah; however, it was suspended after the revolution. As the project was taken off in 1982, the Iran-Iraq war and further developments led to another suspension, and in 1990, the name was changed as the ‘Imam Khomeini International Airport’ (Hosseini, 2004). However, as the construction of the airport was not finished, in 2003, the government held an international tender for the project. Finally, a consortium of Austrian and Turkish companies, TAV (Tepe, Akfen, Vie), won the tender, and the operation of the new airport was awarded to the consortium by the Ministry of Road and Transportation. The contract included the construction of two terminals, one is new, with almost all services in the airport (Sinkaya, 2016, p.155). Although the Terminal 1 was built by the Mostazafan Foundation and also foundation was one the 15 bidders, it was failed (Wehrey et al., 2009, p.58). According to transportation minister Ahmad Khorram:

Iranian companies usually make bids for such contracts and there were companies that were under the management of the armed forces... However, the price they were asking was too high and, consequently, they were not chosen... We are not against the Revolutionary Guards winning contracts. Some of their companies already have contracts with us, but first, they have to win the tender (as cited in Maloney, 2015, p.353).

After the contract was signed, the security issues were expressed by various groups and various platforms (Larrabee and Nader, 2013, p.). However, the consortium started to the construction, and the opening day was scheduled for 8 May 2004. In order to convince the majlis to cancel the contract, “the Majlis Research Centre report alleged that one of this consortium’s member groups, Akfen, was headed by Turkish army generals, and was even reputed to have Israeli representatives” but, as it was already signed, the majlis did not suspend it legally (Pesaran, 2011, p.152). However, in the opening ceremony, after the first

plane landed, “the second plane was prevented from landing by an IRGC unit... The IRGC changed the plane’s destination to Isfahan airport.” (Sinkaya, 2016, p.155). Moreover, “the IRGC stormed the control tower and demanded that the IRGC-not foreign companies-run the facility” (Alfoneh, 2013, p.189). Moreover, the IRGC declared that they acted according to the decision of the Supreme Council of Nation Security, and also, the government did not intervene in the IRGC as it was under the control of the Supreme Leader. After a while, the government announced the cancellation (Sinkaya, 2016, p.156). Moreover, after the mentioned press release, the transportation minister was impeached by the majlis as he threatened security and disgraced the state. Further, due to the cancellation of the contract, the country agreed to pay compensation to the TAV company. One year later, the airport reopened under Iranian management, as Alfoneh (2013) defines “new IRGC-friendly management” (p.190).

5.3.3 Ahmedinejad Era

The election of Ahmedinejad turned the privatization process as a tool to strengthen the religious foundations, again. After the reinterpretation of the Council, in May 2005, the Supreme Leader demanded the privatization of state-run enterprises. Later, in August 2006, he “issued another decree ordering privatization of banking, mining, industries, and transport companies, comprising about 80 percent of the state’s economic assets. In his letter, Khamenei also warned that those who are against these policies would lose their interests and influence” (Azad, 2010, p.67). Moreover, the Fourth Five-Year Plan, ratified and published in October 2004, gave priority to the privatization issue. According to Fourth Plan, “the government may only participate in activities either the government holds an exclusive presence in the form of monopoly; or the private sector has no incentive to partake in that activity” (Atieh, 2005, p.1). Moreover, even in the oil and gas sector, controlled by a state monopoly, “NIOC is permitted to conclude contracts with foreign persons or qualified domestic companies for exploration and development of fields” by fulfilling the necessary conditions (Atieh, 2005, p.2). Further, it wanted help from the Supreme Leader to change the privatization law, and the Leader helped him. Therefore, Ahmedinejad had all the support and legal arrangement with a ratified economic plan that he needed for privatization.

Ahmedinejad became a president with populist electoral pledges, and his privatization process was shaped by these pledges mainly by the ‘justice share.’ Although the privatization

process was maintained with tenders and operating rights, the new government introduced a new method that aims the prioritization of paupers through the privatization process by offering the shares of the state-owned companies. While the Supreme Leader announced the privatization of the 80% of the state, then he called for half of the privatization under the justice share program. With this directive, “Ahmadinejad managed to push the New Privatization Act of 2008 through the majlis: a law that promised to cede eighty percent of the share value of particular economic activities to non-State actors by the end of Iran’s fourth five-year development plan in 2009-2010” (Beall, 2016, p.868). The program was an ownership transportation program with highly discounted prices. According to the program, “the lowest two income deciles of the population—about thirteen million people—would be given justice shares, at half the share’s face value, payable over ten years. The third to sixth income deciles would be permitted to purchase justice shares at full price, also payable over ten years” (Harris, 2013, p.55). However, during implementation, the scope of the population was increased with the addition of other status groups and surpassed the 50 million people. Moreover, there were announcements about the addition of other groups such as “carpet weavers, Quranic scholars, young addicts in treatment, construction workers without labor contracts, and bus and taxi drivers” (Harris, 2013, p.56). According to Habibi (2013);

In the first phase of this process, justice shares were distributed to 4.6 million eligible individuals; the value of these shares was assessed at \$2.3 billion. The government tried to sell the remaining 40 percent of the shares of privatized enterprises on the stock market; in many cases, however, these shares were purchased by semi-state agencies and by foundations... Consequently, most shares of privatized firms were purchased either by semi-government enterprises or by investors who had close ties to security forces or government officials (p.3).

These regulations after the elections accelerated the privation process, and according to the Iranian Privatization Organization (IPO), during the first years of Ahmadinejad’s presidency, the privatization revenues reached a record of \$3,69 billion in 2006-2007 period and further \$15,32 billion in 2007-2008; while it was just \$91 million in the previous fiscal year (IPO, 2019). The first period of the Ahmedinejad era ended with large-scale privatization, “with close to one-third of government assets and shares of firms covered by Principle 44 being sold to the “private” sector from 2006 to 2009” (Azadi, 2019, p.25). When the cooperatives were considered private, the on-third claim may be valid; however, the

exact share of the public sector was only limited to 19 percent (Alfoneh, 2010, p.3). Although the expected outcome was the strengthening of the private sector and the elimination of government control over the economy, the public non-state actors were dominant with cooperatives. In 2010, the year as called “the golden year of privatization” by the IPO, the government sold off the assets of the 50 company and “the privatization program came to include such strategic sectors as telecommunications, transportation, electricity, fuel, steel, and banking” (Azad, 2010, p.68). However, the role of the public sector was further reduced as the state-controlled cooperative sector also played a role in both sides of privatization. Initially, the Supreme Leader, Khamenei, ordered the government to increase the role of cooperative sector by transferring the 25 percent of the economy and also “to support expansion of cooperatives with tax rebates and loan guarantees with the aim of encouraging cooperatives to participate in all spheres of the economy, including banking and insurance” (Alfoneh, 2013, p.167). Therefore, while the cooperative sector “took a 12 percent share of privatization by March 2009,” as ordered, “69.7 percent of the total value was ceded as justice shares to the cooperative sector” (Mohseni, 2016, p.58). Although the privatization process realized by way of the justice share program, the process was criticized as it was “cooperativization rather than privatization” (Amuzegar, 2007, p.72).

The process continued in the same direction during the Ahmedinejad era, despite the international sanctions; however, in most cases, privatization did not serve the public interest, and it was neglected. Even if the process was criticized by the head of the Council of Experts, Hashemi Rafsanjani, although the economic policies were not in their scope, the criticism was rebuffed by the Supreme Leader (Mohseni, 2016, p.59). However, seven years later, “Khamenei called these privatization efforts a failure” (Toumaj, 2014, p.9).

5.3.3.1 The Telecommunication Company of Iran

The telecommunication sector was already a critical issue in the privatization process due to the canceled Turkcell contract; however, the privatization of the Telecommunication Company of Iran (TCI) upgraded the debates. The company was established in 1971 “as the main responsible administration for the entire telecommunication affairs with its three main subsidiaries as well as 30 provincial telecom companies” (Nassiri, 2010, p.2). Although the telecommunication sector was not privatized due to security concerns, after the legislation reinterpreted, the privatization process began as of August 2008. Initially, 5 percent of the

shares of TCI was sold on the Tehran Stock Exchange in just 8 minutes. One year later, the announced privatization was realized with public indignation. Although the joint consortium bought the 51 percent share of the company for \$8 billion as “the largest trade in the history of the Tehran Stock Exchange,” the process and the structure of the consortium were the reason behind the indignation (Azad, 2010, p.68). The joint consortium, Mobin Trust Development, comprised of the foundations controlled by the Supreme Leader and the IRGC. The first company, Mobin Iran Electronics Development Company, was owned by “the Headquarters for Implementation of Imam’s Order (HIIO), which was formed in 1989” (Boroujerdi and Rahimkhani, 2016, p.149). There were two other companies, “Tose’eh-ye E’temad Investment Company and Shahriar-e Mahestan Investment Company owned by the IRGC Cooperative Foundation, although they both deny this to obfuscate the extent of IRGC interests in the economy” (Alfoneh, 2010, p.5). The competitor of the consortium was a private sector company, Pishgaman Kavir Yazd Group, before the IRGC disqualified the company due to security issues, only a couple of hours before the trade (Robin, 2011, p.37). Pishgaman Kavir Yazd company “is a cooperative company that was founded in Yazd Province by a group of retired employees from the Ministry of Communication and Information Technology in 1996” (Bazoobandi, 2015, p.30). After disqualification, the company was pushed out, and then the TCI was sold out in 30 minutes, as the CEO of the company explained later, “We did not want to leave, but we were forced to withdraw” (Fararu, 2010). Although it was forbidden to engage in trade on the stock market, the Mehr Finance and Credit Institute helped the consortium by loaning. The privatization of the TCI passed into history as “a nail in the coffin of Principle 44 of the Constitution” (Azad, 2010, p.68).

Due to public indignation and clear violations, a majlis representative, Eliyas Naderan, signaled the majlis demand over the investigation of ‘non-competitive privatization.’ However, after this statement, the executive general of the consortium, Majid Soleymanipour, and his wife died in their home under mysterious circumstances (gas poisoning) that led the suspension majlis demand due to confidentiality of the investigation (Alfoneh, 2010, p.5). Moreover, despite strong and diverse criticisms, the privatization was concluded in November 2010 (Maloney, 2015, p.388).

5.3.3.2 The Angouran Zinc Mine

The privatization of the large-scale sectors after the reinterpretation of Principle 44 also engendered the privatization of the mining sector in the Ahmedinejad era. However, the sale of Angouran Zinc Mine in Zanjan Province was one of the most controversial privatization cases, canceled with the majlis investigation. The Angouran Zinc Mine was the largest mine of the IRI and one of the principal producers (Kirk, 1996, p.2). Although it was the largest producer, due to a lack of investment and technological challenges, in 2006, the mine suffered partial structural collapse (Shahriari and Mashayekhi, 2010, p.6). The mine required privatization to eliminate the underproduction and reveal its potential. However, the privatization was realized neither to boost production or to look out for public interests. The sale of Angouran Zinc Mine took place on 2 August 2009. “Iran Zinc Mines Development Company, a subsidiary of Mehr Eghtesad Iranian Investment Company, purchased the mine for 1.86 trillion rials (\$186 million)” (Alfoneh, 2010, p.4). The participation and purchases of the IRGC was not a new phenomenon; however, after the investigation, another example of ‘non-competitive privatization’ was arisen. Firstly, the real value of the mine was calculated as 10.55 trillion rials or 1 billion U.S. dollars. After the contract sum was shared, the criticisms were emerged even by the representative of the Supreme Leader. Hojjat al-Eslam Mohammad-Taghi Vaezi, the leader of the Friday prayers in Zanjan, shouted: “It would have been better if the government had given the mine away for free!” (Robin, 2011, p.36). Further, the Supreme Audit Court investigated the privatization process and reached scandal details. According to investigation report; “three companies competing for ownership—Zinc Production Company (*Sherkat-e Tahiyeh Va Tolid-e Rouy*), Pasargad Company (*Sherkat-e Pasargad*), and Iran Zinc Mines Development Company—all belonged to the same family,” Iran Zinc Mines Development Company (Alfoneh, 2010, p.186). While the Zinc Production Company was one of the subsidiaries of the Iran Zinc Mines Development Company, the other company was also a subsidiary jointly owned by Iran Zinc Mines Development Company and Mehr Eghtesad Iranian Investment Company, 70 and 30 percent shares respectively. The last information was related to the application forms that “all the application forms for the ownership of the Angouran mine were signed with the same handwriting” (Golkar, 2015, p.172).

Finally, the court declared the sale as null and void; however, there was a limited number of examples that the authorities intervened in the process for the behalf of the public.

The other ones either unannounced or low budget privatization was realized without the public attention and investigations.

5.3.4 The Rouhani Era

The close links between the Ahmedinejad government and the foundations facilitated the privatization process for the various interest groups; however, after Hasan Rouhani won the elections, some signals point to the change in economic situation. Although all the governments after the revolution have persuaded the same policies like the privatization, subsidy reforms, and unification of the XR regime, etc. their practices have been altered. As the main priority of the first period was the nuclear deal, most of the economic policies were postponed; however, the privatization practices of the Ahmedinejad government were targeted by the Rouhani just before his election. As a “regime stalwart,” Rouhani criticized the government “for using privatization as a pretext for transferring government resources from other sectors into the military” (Maloney, 2015, p.395).

After his election, Rouhani’s statement related to the participation of the IRGC in the economic sector demonstrated that his ideas remained the same. Rouhani was defining and limiting the scope of the IRGC by saying “the IRGC is not a rival for the private sector, nor has it ever been a regular contractor and that they should take on important economic projects that the private sector is not capable of managing” (Marchand, 2017, p.8). In line with this statement, to eliminate the IRGC’s broad participation in the oil sector, Rouhani “selected the veteran oil insider Bijan Namdar Zanganeh, who had served as oil minister during the Khatami presidency” (Habibi, 2014, p.4). Actually, this appointment was also a crucial signal to the IRGC as in May 2005, Zanganeh “canceled a contract for development of South Pars phases 15 and 16 which had previously been awarded to a joint venture between Norway’s Aker Kvaerner and the Iranian companies SADRA and Khatam al-Anbia, both affiliated to the IRGC” (Yong, 2013, p.14). Zanganeh also had a good reputation with his efforts to halt the privatization process. As it was expected, after a while, the minister canceled fifteen gas and oil contracts related to the IRGC (Marchand, 2017, p.8). Moreover, in December 2013, the government halt the privatization scheme due to concern over corruption and mispriced assets (Bazoobandi, 2015, p.31). During this process, Rouhani also had the support the Supreme Leader while decreasing the influence of the IRGC in the oil industry “as the Supreme Leader has instructed the IRGC to step aside in some areas of

economic activity” (Habibi, 2014, p.4). The directive and the Rouhani’s promise of offering large-scale construction contracts to the IRGC were useful; Guards announced their willingness to withdraw from oil ministry projects on behalf of the private sector (Habibi, 2015, p.5).

The privatization process was relaunched, and a large number of companies, including heavy industry, power utilities, petrochemical and oil refineries, and mining companies was put up for sale. There was an accelerated but precise period of privatization; according to the head of IPO, Mir Ali Ashrafpour, “in the first six months of the Rouhani administration, the government sold off \$13 billion worth of assets which represents more than double the amount sold in the first half of the 2013-2014 Iranian fiscal year and nearly a third of all assets sold since it launched the privatization program in 2001” (BTI, 2016, p.21). However, the government criticized due to “Revolutionary Guards’ participation in the development of Iran’s economy, in many public projects which have been granted to the Revolutionary Guards” (Alfoneh, 2015, p.93).

Different from other governments, the Rouhani government has resisted the domination of the Iranian economy by the military institutions, foundations, and the special funds; however, “even after Hassan Rouhani assumed office, military contractors were still being utilized to conduct “shovel-ready” projects that remained incomplete under Ahmadinejad’s presidency” (Harris, 2016, p.113). However, in most cases, in different ways, the government has reduced the effects of these parastatal entities, even it has threatened them. In order to show the seriousness of the government, on December 2016, the head of IPO, Mir Ali Ashrafpour “gave legal notice to the Mobin Trust Development Consortium that it had not paid a set of required installments agreed upon when Mobin Trust took control of 50.1 percent of the shares in the Iranian Telecommunications Company” as one of the much-debated privatizations (Harris, 2019, p.363).

Despite the ideological approach of the Rouhani and his government, there was a critical tool to eliminate the parastatal organizations: JCPOA, the nuclear deal. Thanks to the deal, the government could attract foreign investment, and it realized. However, the fate of the nuclear deal did not end as expected with the suspension of the deal and so the contracts, projects, and investments. Despite these adverse outcomes, the government has maintained a successful privatization policy by focusing on the public interest. Nevertheless, the economic situation of the Iranian public sector is not sufficient to complete the projects or

to take part in large-scale investment contracts. Therefore, the economic situation of the country has needed the pre-participation of the parastatal organizations as either the foundations or the funds. Nevertheless, together with the re-participation, the country is also in need of actors who are considering the public interest first.

5.3.5 Overall Assessment for Iranian Privatization

The privatization program has been one of the most popular economic policies for whole world. Although different methods and ways have been implemented, in most states' privatization programs have promoted long and short run economic and social benefits. Well documented executive frameworks and objectives have brought achievements in both legal and financial status of the states. However, the same process in the IRI has not resulted in the expected outcomes and the privatization has not been a success story for the country.

The Iranian economy have some unique features affected the outcomes of the policies like the economic policies. The assessment of the privatization history of the IRI has shown that these features led to failure of the programs. Initially, the presence of large number of strong veto players makes decision-making process very difficult. At most cases, the privatization programs have been interrupted by different formal and informal actors. The airport issue is a good example of the effects of the veto players on the privatization benefits. Secondly, the rent-seeking behavior is very prevalent in almost all dimension of political processes. There are two critical results of the rent seeking behavior. Firstly, in most cases, policy makers tend to increase their own welfare or some related persons and institutions / foundations. On the other case, policy makers prioritizing the maximum social welfare tend to have difficulty in initiating privatization or any reforms that may harm ongoing rent distribution. Therefore, status-quo bias is dominant. Although these features may seem independent of each other, there is a nested relationship which creates a vicious circle for the privatization programs. If the situation continues in the same way, to implement successful privatization programs that enhance both social and economic conditions will be a difficult task for the Iranian economy.

6 CONCLUSION

The policy-making process has been evaluated from different perspectives by various schools in social sciences. According to the ideological background of these theories, the main components of the process are altered without the change in the role of interest groups. The investigation of these groups and their roles in the policy-making process led the outstanding conclusion that, in most cases, these groups are the leading actors. Moreover, these groups do not only affect the results as political outcomes but also shape the outcomes in favor of their interests by using various methods.

The economic policies are the most attractive topic for these interest groups, and they preeminently attend the policy-making process. While the formal actors are unchanging participants of this process, the informal actors who get strength from various sources like their political or business positions, economic resources, networks, etc. change according to the relevance to the policies of their interests, like in the case of the privatization process of the IRI.

The Islamic Republic of Iran has unique features, and so has a different power structure besides other similar country. The duality of the power centers, institutions, and even the combination of two different regimes have increased the number of actors who participated in the policy-making process. On the one hand, the country has the republican institutions as the president, parliament (majlis), courts, and the council of ministers; on the other hand, there are religious bodies as the Supreme Leader, Guardian Council, religious courts and some other advisory mechanisms. Moreover, there are numerous interest (pressure) groups, the informal actors who want to tip the scales in their favor. Although there exists some exceptions, the unique structure of the IRI facilitates the domination of these groups over the economic policies, especially in the privatization.

The privatization history of the IRI has been shaped according to the interest groups and actors that take part in the process, either formal or informal, despite the executive framework. Although some governments have tried to eliminate or lessen their dominance, they have mostly faced resistance from both formal and informal actors. Moreover, in most cases, the public interest has been ignored by those pressure groups as they tried to their sphere of influence, economic resources, and power. Even some illegal practices have been

tried to block; they can be counted on the fingers of one hand in the entire privatization history.

The current situation shows that the elimination of these groups seems impossible due to both the structure of the country and the sanctions imposed on the IRI. However, by increasing the transparency and accountability in all processes and also the strengthen the check and balances in the political system in such a way that eliminate the illegal interruptions despite how these parties are dominant seem the only choice of the country.



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8 APPENDICES

APPENDIX 1: The Law of Implementation (Principle 44)

General policies pertaining to Principle 44 of the Constitution of the Islamic Republic of Iran. In considering the Principle 44 of the Constitution and the content of Principle 43 and in order to

1. Increase the pace of national economic growth.
2. Expand ownership to the general public in order to provide for social justice.
3. Enhance efficiency of economic entities and utilize monetary, human, and technological resources.
4. Increase the share of the private and cooperative sectors in the national economy.
5. Decrease the financial and managerial responsibilities of the government in managing economic activity.
6. Increase the public employment rate.
7. Encourage savings and investment by the public and enhance family income.

The following [addendum] is stipulated:

Article A. The general policies for expansion of non-governmental sectors and preventing the expansion of the governmental sector:

1. The government does not have the right to new economic activity outside [those activities] listed in the beginning of Principle 44. It is required to transfer any kind of activity (including the continuation and profiting from pre-existing [business] activities) that is not covered by Principle 44 to the cooperative, private, or public non-governmental sectors, at the latest by the end of the fourth 5-year development plan (an annual decrease of 20% of activity).

Considering the responsibility of the regime [*nezam*] in the proper management of the country, initiation and continuation of necessary [business] activities by the government, outside of the restrictions stipulated in the beginning of Principle 44, is allowed for a defined period based on recommendations by cabinet ministers and approval of the Parliament.

This law does not cover sensitive and confidential management and manufacture of products for the military, security, and armed forces, and their intelligence units.

2. Investment, ownership, and management in the areas mentioned in the beginning of Principle 44 of the Constitution by public, non-governmental entities and organs, and the cooperative and private sectors is permissible in the following [industries]:

1. Large industries, “mother industries” (including large industries derivative of oil and gas), and large mines (excluding oil and gas).
2. Foreign commercial activities within the framework of national currency and trade policies.
3. Banking by public, non-governmental entities and cooperative, publicly traded companies under limited share ownership (Limited Liability Partnership) of each shareholder as determined by the law.
4. Insurance.
5. Energy supply including production and import of electricity for internal consumption as well as export.
6. All businesses of post and communications excluding the mother communication networks; telecommunications frequency allocation management; the main [postal] networks for exchange, network analysis, and distribution management of basic postal services.
7. Roads and railroads.
8. Airlines (air transportation) and ship lines (sea transportation).
9. Creation and use of large dams and the large water distribution networks while maintaining all the privileges for the those who have the right to water*.

The optimum balance of shares between government and non-governmental sectors in the activities listed in the beginning of Principle 44 will be determined in accordance with the law and in consideration of maintaining the authority of the government [in enforcing the rules related to the privatization process], the independence of the country, social justice, and economic growth and expansion.

Article B. General Policies for the Cooperative Sector:

1. Increasing the share of the cooperative sector in the country’s economy to 25% by the end of the fifth 5-year program.
2. Determined effort by the government in creating cooperatives for the unemployed for the purpose of job creation.

3. Government support for the creation and growth of cooperatives by policies such as tax exemptions, providing supportive credit facilities via all financial institutions in the country, and not collecting any extra fees from the cooperatives relative to the private sector.
4. Removing any limitations on active cooperatives in all economic sectors including banking and insurance
5. Establishing the “Cooperative Development Bank” with investment from the government aimed at enhancing the share of the cooperative sector in the national economy.
6. Government support for the cooperatives’ ability to have access to markets and providing fair and comprehensive information to this sector.
7. Enacting the legal enforcement role of the government in implementing the ratified laws within the framework of providing policy and supervision. Avoiding interference in executive and management affairs of the cooperatives.
8. Expansion of technical and professional training and other necessary support to increase efficiency and strength of the cooperatives.
9. Flexibility and diversity in methods of increasing investment and distributing shares in the cooperative sector.

Establishing proper measures so that new cooperatives (in addition to the already existing ones) may be established in the framework of a Limited Liability Partnership (LLP) with a limitation set on the number of shares of each owner as determined by the law.

10. Government support of each cooperative in proportion to the number of members.
11. Establishing cooperatives across the nation to provide security for the bottom 30% of society in order to eliminate poverty.

Article C. General Policies for Expansion of Non-Government Sectors by Transferring Government Activities and Businesses:

Considering the necessity of increasing the speed of the nation’s economic growth and expansion; while implementing the fundamentals of social justice and poverty reduction within the framework of the national 20-year perspective; Article C is decreed in order to:

1. Change the role of the government from direct ownership and management of businesses to a policymaking, supervisory, and advisory role.
2. Strengthen the private and cooperative sectors and support them to be competitive in international markets.
3. Prepare domestic businesses for a rational interaction with the rules of international commerce in a gradual and targeted process.
4. Increase human capital in basic and expert knowledge.
5. Expand and upgrade national standards and conform quality control systems with international standards.
6. Direct privatization in the framework of increasing productivity and competition and expansion of public ownership in accordance with the recommendation of the Expediency Council.

Article C of the general policies of Principle 44 of the Constitution of the I.R.I. is decreed** in accordance with article 1 of Principle 110:

Transfer of 80% of shares of government businesses listed in the beginning of Principle 44 to the private sector, cooperative LLP's, and public, non-governmental businesses is permissible in the following [industries]:

1. Government businesses that are active in the areas of large mines, large industries, and mother industries (including large industries downstream of oil and gas), excluding the National Iranian Oil Company and companies involved in the extraction and production of petroleum and gas.
2. Government banks excluding the Central Bank of the I.R.I., the National Bank of Iran, *Sepah Bank*, *San'at va Ma'dan Bank*, *Keshavarzi Bank*, *Maskan Bank*, and *Tose'eh Saderat Bank*.
3. Government Insurance Companies excluding the Central Insurance Company and Iran Insurance Company.
4. Airlines and ship lines excluding the National Airlines and the Organization of Shipping and Ports.
5. Businesses that provide energy excluding the primary electricity networks.
6. Post and communications excluding mother communications networks; frequency allocation management; main [postal] networks for exchange, network analysis, and distribution management of basic postal services.

7. Industries related to the armed forces excluding defense and security productions as determined by the chief commander of the armed forces.

Requirements for Privatization:

1. Valuation of shares must be determined by the stock exchange.
2. A public notice that includes appropriate information to encourage and persuade the public to participate [in the public stock offering] must be released. Monopolization of information and favoritism must be prevented.
3. Necessary market, product pricing, and management reforms based on the law of commerce must be implemented in order to ensure sufficient financial returns from shares of companies eligible for privatization.
4. When shares of eligible companies are transferred to the private sector, expert opinion should be solicited [to devise a] comprehensive framework for both the technical mother companies and their downstream companies [in the privatization process].
5. In order to reform management and increase productivity of eligible businesses, the full management capacity of the country must be utilized. The necessary steps must be taken to recruit experienced, expert, and productive managers.

The sale in instalments of a maximum of 5% of shares to the managers and workers in companies eligible [for privatization] is allowed according to article C.

6. Considering article C of the policy outlines of Principle 44 and the change in the regime's responsibilities, the government is required to draft and implement its new role in policymaking, directing, and supervision over the national economy.
7. In line with the regime's responsibilities, directing a percentage of the transferred entities to new areas of advanced technology is permissible.

Article D. General Policies for Privatization:

1. Requirements for the Privatization Process

1. Strengthening the private and cooperative sectors to prepare them for widespread economic activities and management of large economic entities.
2. Supervision and support of the relevant authorities after the transfer in order to realize the goals of the transfer.
3. Utilizing legitimate and lawful methods for privatization with an emphasis on the stock exchange; strengthening the infrastructure for privatization; establishing a transparent process for releasing information; creating equal

opportunities for all; and taking advantage of incremental release of shares of large companies in the stock exchange in order to achieve the baseline price for the share.

4. Preventing conflict of interest of the officials and governmental decision makers in charge of the transfer process.
5. Observing the general policies pertaining to the cooperative sector in the transfers.

2. Utilization of the Earnings from Privatization Transfers

Income from transfer of shares from government businesses [to the private sector] will be deposited in a specific bank account of the national treasury and, in the framework of approved programs and budgets, will be utilized according to the following:

1. Creating self-reliance for poor and destitute families and enhancing social welfare.
2. Allocating 30% of the income from privatization [of government businesses] to country-wide cooperatives for poverty reduction.
3. Creation of economic infrastructures with priority given to less developed regions.
4. Granting resources (managed funds) for support of cooperatives; renewal and improvement of non-governmental economic entities with priority given to privatized businesses; and also, for investment in the private sector for development of impoverished regions.
5. Cooperation of government companies with the non-governmental sector up to a 49% ceiling for development of impoverished regions.
6. Completion of projects unfinished by government companies while abiding by article A of this law.

Article E. General Policies for Enforcing the Law and Preventing Monopolies:

1. The government shall continue to enforce the laws [of the country] after entry of non-governmental sectors [into the national economy] by establishing new policies, implementing [existing] laws and regulations, and supervision, especially with respect to religious and legal edicts regarding non-governmental banks.
2. Preventing the influence and domination of foreigners over the national economy.

3. Preventing the creation of monopolies by non-governmental economic institutions by drafting regulatory legislations.

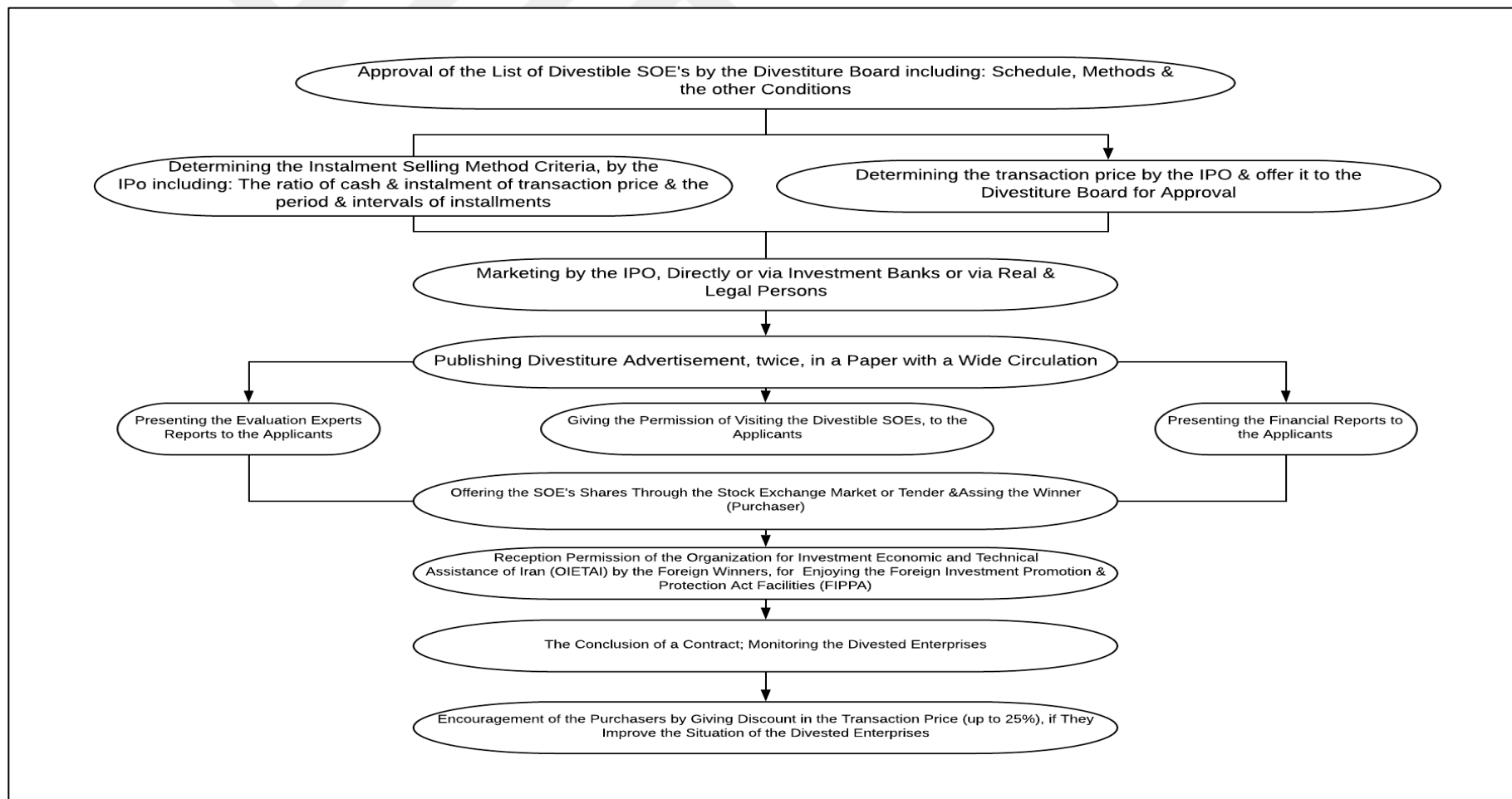
* Section 2.9 of article A was decreed in 1387 [2008].

** Article C of the general policies pertaining to Principle 44 of the Constitution was decreed by the Supreme Leader on 10/4/1385 [7/1/2006]

This Appendix is taken from the Iran Data Portal website.



APPENDIX 2: The Executive Process of Privatization in the IRI



Source: Iran Privatization Organization (2019)

CURRICULUM VITAE	
Name Surname	: MERVE ÇAKIR
Date of Birth	: 31.03.1991
Place of Birth	: SİVAS
Marital Status	: Married
Nationality	: T.C.
e-mail	: mervicapci.91@gmail.com
EDUCATION	
High School	: Kızılcahamam Anatolian High School / 2009
University	: Middle East Technical University / Economics / 2014
Postgraduate	: Ankara Yıldırım Beyazıt University/ Graduate School of Social Sciences/ Economics / 2019
WORK EXPERIENCE	
2019-	Turkmeneli Cooperation and Culture Foundation / Researcher
2017-2018	Centre for Iranian Studies in Ankara / Assistant
2016-2017	Centre for Iranian Studies in Ankara / Scholarship
2015-2016	Republic of Turkey Ministry of National Education / Teacher
Computer Skills	Office 365, Lucidchart, R, EViews
Languages	English