

NEOLIBERALISATION, STATE AND SOCIAL CLASSES

The Political Economy of Contemporary Iran

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Abstract

This thesis analyses socio-economic and political transformations in contemporary Iran. The study aims to overcome the shortcomings of the existing International Relations and International Political Economy literature on the country that has sought explanations based upon various unique internal characteristics whereby Iran is disconnected from the wider space of economic, political and cultural globalisation. By reconstructing a historical materialist approach based on the radical social ontology of the *philosophy of internal relations*, the project situates Iran within the broader process of neoliberal restructuring of the global economy, therefore taking into account external and internal determinants and global and local dynamics. Accordingly, the proposed method of analysis traces the changes in social relations of production and the transformations in the class structure. It further examines the corresponding changes in the state form and the relationality between the process of neoliberalisation and the nuclear program. It argues that the neoliberal reorganisation of production process since the late 1980s has brought about an internationalist capital fraction and a nationalist capital fraction, named the *military-bonyad complex*, with contesting interests. The process has thus facilitated different competing accumulation strategies, which in turn have resulted in an unstable combined development, called hybrid neoliberalism. It has also generated an intense struggle within the state due to the historical importance of the state in Iran regarding capital accumulation. As well as changing the function and operation of numerous state institutions, this rising crescendo of confrontation has also provided the material bases for the realisation of the liberal/democratic discourse and the reconfiguration of the revolutionary interpretation of Islam, which has aided the two wings of power in their societal struggle for hegemony. Likewise, the foreign policy of the country has been the subject of this struggle whereby the internationalist fraction and the military-bonyad complex have taken different policies regarding the nuclear program. Considering the internal relations existing between geopolitics and capitalism, the former has utilised the nuclear program to expedite the permeation of foreign capital while the latter's hardline nationalist approach has enabled the further isolation of Iran by provoking a retaliatory Western stance in the form of international sanctions and frequent military threats from certain U.S. governments in the last few decades.

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List of Abbreviations

APOC: Anglo-Persian Oil Company

bn: billion

CBI: Central Bank of Iran

EOI: export-oriented industrialisation

FDI: foreign direct investment

FIPPA: Foreign Investment Promotion and Protection Act

FTZs: Free Trade-Industrial Zones

GDP: gross domestic product

GOEs: government-owned enterprises

GVCs: global value chains

IAEA: International Atomic Energy Agency

IIDRO: Iranian Industrial Development and Renovation Organisation

IKRC: Imam Khomeini Relief Committee

IMDBI: Industrial and Mining Development Bank of Iran

IMF: International Monetary Fund

IPE: International Political Economy

IPO: Iranian Privatisation Organisation

IR: International Relations

IRGC: Islamic Revolutionary Guard Corps

IRSF: Imam Reza Shrine Foundation

ISI: import-substitution industrialisation

LAPFI: Law of Attraction and Protection of Foreign Investment

MEK: The People's Mojahedin Organization of Iran (*Mojahedin-e Khalq*)

NGOs: non-governmental organisations

NIIO: National Iranian Industrial Organisation

NIOC: National Iranian Oil Company

NPT: Nuclear Non-Proliferation Treaty

OSF: Oil Stabilization Fund

PBO: Planning and Budget Organisation

POEs: publicly-owned enterprises

SATA: Armed Forced Social Welfare Organisation

SCI: Statistical Center of Iran

SOEs: state-owned enterprises

TCA: Trade and Cooperation Agreement

TCC: transnational capitalist class

TNCs: transnational corporations

TNS: transnational state

TPOI: Trade Promotion Organisation of Iran

TSE: Tehran Stock Exchange

UNCTD: United Nations Conference on Trade and Development

WMD: weapons of mass destruction

WTO: World Trade Organisation

Map of Iran


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ISLAMIC REPUBLIC OF
IRAN ایران
National capital
Provincial capital
City, town
Airport
International boundary
Provincial boundary
Road
Railroad
TURKEY
AZERBAIJAN
ARMENIA
TURKMENISTAN
UZB
AFGHANISTAN
PAKISTAN
IRAQ
KUWAIT
SAUDI ARABIA
QATAR
BAHRAIN
UNITED ARAB EMIRATES
OMAN
CASPIAN SEA
PERSIAN GULF
GULF OF OMAN
Tehran
Mashhad
Isfahan
Shiraz
Tabriz
Karaj
Qom
Ahvaz
Kerman
Yazd
Zahedan
Bandar Abbas
Bushehr
Rasht
Zanjan
Qazvin
Sari
Gorgan
Semnan
Kermanshah
Khorramabad
Arak
Hamadan
Birjand
Baghdad
Kuwait
Doha
Manama
Dubai
Abu Dhabi
Ashgabat
Turkmenbashi
Balkanabat
Gonbad-e Qābūs
Bojnord
Sabzevar
Torbat-e Heydariyeh
Tayyebat
Herat
Gonabad
Zaranj
Zabol
Nik Shahr
Chabahar
Gwadar
Jask
Iranshahr
Bam
Jiroft
Sirjan
Rafsanjan
Zarand
Bafq
Ardakān
Shahreza
Abadeh
Yasuj
Najafabad
Dezfūl
Shahr-e Kord
Masjed-e Soleyman
Bandar-e Mahshahr
Khorramshahr
Basrah
Abarkuh
Kāshān
Qāsr-e Shirin
Sanandaj
Sulaymaniyah
Kirkuk
Erbil
Mosul
Mahabad
Saqqez
Urmia
Marāgheh
Mīāndowab
Mianeh
Rudbar
Sakht Sar
'Amol
Shahrud
Kāshmar
Semnān
Sāveh
Malayer
Borujerd
Alīgūdarz
Karbalā'
Al Hillah
Al Kūt
Al 'Amārah
As Samāwah
An Nāsirīyah
Marvdasht
Borazjan
Firuzabad
Jahrom
Lar
Minab
Bandar Lengeh
Ras Al Khaimah
Hufuf
Dammam
Salyan
Astara
Ardabil
Maku
Khvoy
Van
Marand
Lake Urmia
Lake Van
Dasht-e Kavir (Salt Lake)
Kavir-e Namak
Namakzār-e Shāhdād (salt waste)
Hāmūn-e Jaz Mūrīān
Strait of Hormuz
Euphrates
Tigris
Karkheh
Karun
Qezel Uzan
0 100 200 300 km
0 100 200 mi

Chapter One

Introduction

1.1. The Enigma of Iran

In the wake of the debt crisis of the 1980s in the Global South, most developing countries had gone through a major economic shakeup to revive the then-exhausting capital accumulation as part of global neoliberal restructuring. Despite being instigated roughly around the same period, the Iranian case has been largely overlooked in International Political Economy (IPE) literature, unlike the rest of the developing world. This scholarly indifference towards exploring causes and conditions within which neoliberalism was brought about and has proceeded seems to be puzzling and arguably unjustifiable. For, firstly, the International Monetary Fund (IMF) and the World Bank have had an insignificant amount of leverage over the trajectory of its structural adjustment programme in contrast with many heavily indebted developing countries. Secondly, neoliberal reforms were only initiated a decade after a popular revolution with strong anti-capitalist and anti-imperialist propensities that vowed to eradicate poverty, inequality and class disparity. Drawing on historical materialism, the central purpose of this thesis is thus to provide an all-encompassing political economy account of contemporary Iran that not only traces the process of its neoliberal capitalist development, but also offers an analysis of its form of state and foreign policy, in particular its contentious nuclear program, which has been at the centre of longstanding controversies in International Relations (IR).

To shed light on the motivations of Iran for pursuing a nuclear weapons program, Kenneth Waltz, the founding father of structural realism, argued that building nuclear weapons is the most logical strategy for Iranian leaders considering the existential external threats facing the country. As well as the United States' long-lasting policy of regime change, the possession of nuclear arsenals by its arch regional enemy, Israel, has left Tehran with no other options but the development of nuclear bombs, Waltz noted.[1] That is to say, since the restoration of the balance of power as an eternal law of international politics always imposes its structuralist logic, Iran will necessarily try to acquire nuclear bombs so long as these external threats remain. Social constructivism, on the other hand, justified the pursuit of a nuclear program by Iran on the grounds of its revolutionary identity that has persistently informed its actions at the international

[1] Waltz, K. (2012). Why Iran should get the bomb. *Foreign Affairs*, 91(4), pp. 2-5.

system. Constructed as the amalgamation of several popular discourses in the Iranian society, some social constructivists maintained that this identity makes the continuance of the nuclear program a matter of national pride that cannot be abandoned at any costs.[2] When Iran signed the international agreement with the 5+1 (the five permanent members of the United Nations Security Council plus Germany) in June 2015, which not only practically ended the possibility of Iranian nuclear weapons but it also restricted the remaining nuclear activities for alleged 'peaceful uses of nuclear energy', it became apparent that structural realism and social constructivism fundamentally fail to grasp the dynamics of changes in international politics as well as within the Iranian state. Labelled as a historical international agreement, the nuclear deal thus put liberals in the driving seat as it seemed to attest that world politics is the game of win-win. Apart from seeing it as an accommodating process through which the Iranian and American leaders realised the expediency of absolute economic gains, the deal was further hailed as an instance of the importance of the global nuclear non-proliferation regime in the liberal world order. However, what was considered to be an irreversible international agreement melted into the air by a signature just less than three years after the sealing of the deal.[3] With the return of crippling U.S. sanctions and threats of war following Trump's ripping up of the deal and Iran's move to halt the implementation of its key commitments, which may lead to the resumption of its underground nuclear activities, it can be said with confidence that this full circle of events is not wholly explained by any prevailing IR theory. Likewise, it could be argued that the past few decades call into question the widespread theorisations of the Islamic republic state as either a unitary body based on an enduring and unvarying ideology or a government within a government in which politico-ideological elites derive their power from formal institutions or interpersonal relations. Needless to say, its conceptualisation as an apocalyptical theocratic state is absurd since it is far from the complex reality on the ground. In a word, the entire three-decade-long debate on Iran's actions and behaviours in global politics, in particular its nuclear policy, and the nature of its state does not explain much but rather adds to the confusion.

The enigma of Iran is to a large extent related to the inability of these accounts to move beyond inside/outside dichotomies, which rest upon the assumption of the global and local as somehow interconnected but distinct spheres. Accordingly, they fail to comprehensively locate the post-Iran-Iraq-war process of development and the trajectories of social changes within the context of present-day global capitalism, not to mention the almost absolute dissociation of geopolitical confrontations surrounding the nuclear program and the neoliberal restructuring of

[2] For example see Moshirzadeh, H. (2007). Discursive foundations of Iran's nuclear policy. *Security Dialogue* 38(4), pp. 521-543.

[3] Fleming, S. and Manson, K. (8 May 2018). Donald Trump pulls US out of Iran nuclear deal. *Financial Times*.

the economy. In the first place, this shortcoming produces analyses that downgrade altogether the importance of the internal social structure of the state and societal relations by subsiding the inquiry to trans-historical structural constraints of the international system. On the other hand, this also results in an internalist conception of development, state and identity whereby the causal significance of 'the international' is to a large degree elided by ultimately reducing everything to the exceptionality of the Islamic revolutionary ideology and the nature of the post-revolutionary state and its institutions. For these conceptualisations of the state and society build around a methodologically nationalist approach in which the nation-state is regarded 'as the self-evident container of political, cultural, and economic relations.'[4] Not only does the dualism of external and internal runs through almost all aspects of the aforementioned theories, these studies also reinforce the dualism of 'material/ideal', 'agency/structure', 'politics/economic' and 'state/market' as these domains are treated as 'always-already separate spheres.' For them, each sphere is considered to be a self-contained, relatively static and autonomous thing that exists independently from the other. In other words, by committing to an *ontological exteriority,*[5] their analytical framework consists of distinct spheres that 'are held in an externally *inter*acting relationship that fails to grasp their *inner*actions.'[6]

Against these theories, this thesis contends that there are inner connections between the nature of contemporary development in Iran, the form of its state, the ongoing socio-political transformations in the society and the geopolitical tensions related to its nuclear program. Put another way, it proposes that the wild flip-flop of mainstream approaches might be avoided if a dialectical method of analysis that brings all these aspects together is utilised. This relational method can be found in the radical social ontology of the *philosophy of internal relations* rooted in the intellectual tradition of historical materialism. Best developed in the work of Bertell Ollman, the concept views the connection between all spheres of the social world as internal and necessary, not external and contingent. By opposing the idea that objects are subsistent, pre-existing and independent entities that similar to billiard balls might run into one another, the philosophy of internal relations calls for the study of any object as 'relations, containing in themselves, as integral elements of what they are, those parts with which we tend to see them externally tied.'[7] With the concept of internal relations, Ollman insists, 'the problem is never how to relate separate entities but how to disentangle a relation or group of relations from the total and necessary configuration

4 Goswami, M. (2002). Rethinking the modular nation form: Toward a sociohistorical conception of nationalism. *Comparative Studies in Society and History*, 44(4), p. 794

5 Morton, A. D. (2013b). The limits of sociological Marxism?. *Historical Materialism*, 21(1), 129-158.

6 Bieler, A. and Morton, A. D. (2018). *Global Capitalism, Global War, Global Crisis*. Cambridge: Cambridge University Press. p. 6.

7 Ollman, B. (2003). *Dance of the dialectics: Steps in Marx's method*. Urbana, IL: University of Illinois Press, p. 25.

in which they exist.'[8] Hence, a method of analysis which advances from this ontological understanding 'focuses on exploring the manifold relations that exist between things and the movement of these relations over time, rather than considering objects of study as discrete building blocks that can be compared or contrasted but remain understood, in an ontological sense, as existing a priori or separate from one another.'[9] What follows from this is that if there is a dialectical interaction between all parts of the social world based on this conception of internal relations, we ultimately engage with the notion of the *totality*. Rather than being seen as simply the sum of all parts the totality is thus as an evolving, self-forming whole in which parts/instances are 'distinct mutually-conditioning moments' of this singular phenomenon.[10] This approach does not only imply that 'every phenomenon can be conceived as a moment of a whole' but also it avoids 'hypostatising the whole as a reality above or separate from its parts', by rejecting 'the whole (e.g. the global scale) into an a priori entity that is served from the mutual internal relations of its parts (e.g. other scales), sitting above them like some form of deus ex machina.'[11]

Inspired by this method of analysis, this thesis promises to offer an original account of contemporary Iran capable of moving beyond the abovementioned dualities. To achieve this, at the outset, the study makes a case for the importance of dialectical interactions between external and internal dynamics. Herein, by situating Iran within the broader process of neoliberal restructuring of the global economy, it accounts for a shaping factor of 'the international' in the country's economic development as well as other socio-political reformations/transformations since the late 1980s. Simultaneously, the approach draws resolute attention to the particularity of its domestic class structure to put a spotlight on the conflict of interests between different centres of political-economic power over these changes. In this way, the notion of development as a 'technical' process is problematised in favour of a politically charged process, which is proceeded through struggles and resistance from above and below by external and domestic forces. Notice that the Iranian state also cannot be any longer theorised as a passively external entity that has implemented a set of 'non-ideological' economic policies on behalf of the 'public interest', nor as a set of formal and informal institutions. Rather, this framework opens a way to perceive it as a form of social relations with 'capacities' and 'institutional endowments' which is strongly influenced by wider patterns of class formation.[12] Likewise, this mode of inquiry challenges the

8 Ollman, B. (1976). *Alienation: Marx' conception of man in capitalist society*. Cambridge: Cambridge University Press. p. 48.

9 Hanieh, A. (2018). Money, markets, and monarchies. Cambridge: Cambridge University Press. p. 15.

10 McMichael, P. (1990). Incorporating comparison within a world-historical perspective: An alternative comparative method. *American Sociological Review*, 55(3), p. 391.

11 Hanieh, A. (2018). p. 17

12 Kiely, R. (2007). *The new political economy of development: Globalization, imperialism, hegemony*. Palgrave Macmillan. p. 185.

separation of the market from the state by attesting that the neoliberal restructuring is 'a form of State "regulation", introduced and maintained by legislative and coercive means.'[13] It further casts doubt on the treatment of material and ideational structures as well as (geo)politics and the economic as distinct, separate spheres by demonstrating how ideological factions within the state structure, various major episodes of political turmoil and social upheavals in the last three decades and the controversial nuclear program are internally related to the contesting economic interests within the society and the state, and how these economic interests are themselves generated in relation and response to the advance of the transnational movement of capital.

1.2. Research Questions

The political economy of contemporary Iran since the end of the war with Iraq is the central puzzle of the research project. There is no denial of the importance of institutional and political relations in investigating this process. In fact, I will inspect them throughout the course of this study in some detail. That said, the treatment of these factors autonomously from capitalist social relations is challenged because institutions and political relations are social forms that emerged and were reconstituted through the production and reproduction of the society itself. For this reason, the primary lens through which the country's political economy is examined is the social relations of production. As explained above, to comprehend this, the Iranian production system should not be analysed in isolation of the whole, but as a part of the self-forming of the neoliberal world economy. Apart from tracing the changes in the structure of the economy and the accumulation strategy of the country following the introduction of a structural adjustment program, an investigation of the process of Iranian neoliberalisation authorises a survey of the class formation/reconfiguration of the country since the late 1980s. The first question of the research, therefore, is: 'What structural changes has the Iranian economy undergone in the last three decades as the result of the universalisation of neoliberal restructuring and which social class forces have been engendered through this process?'

Addressing this question helps to unpack the reorganisation of the Iranian state in the age of globalisation through exploring the changes in the institutional setup of the state and unveiling the connection between these institutional renovations and the operation of various social class forces (national, international, and transnational) within the state. Relatedly, this further fosters an investigation of links between the articulation of new discourses and the reconfiguration of the

[13] Gramsci, A. (1971). *Selections from the prison notebooks*. Q. Hoare and G. Nowell-Smith (eds. and trans.). London: Lawrence and Wishart, p. 160; see also Polanyi, K. (1944). *The great transformation*. Boston: Beacon Press. p. 141

class structure of the society which is necessary for the understanding of various major episodes of political turmoil and social upheavals in contemporary Iran. Incorporating the analysis of the form of state and ideological struggle for hegemony at the societal level results in two interrelated questions: 'How and to what extent has the Iranian state been transformed as a result of neoliberalisation? What has been the role of ideology in the battle for mastery and hegemony in society?'

Finally, based on the relational method of the research project in which the geopolitical tensions and conflicts among states are seen to be internally related to capitalist relations of production, it seeks to investigate whether the exclusion of any inquiry into the relationship between the two by detaching political economy from military-security interests is defensible. Specifically, the project seeks to explore whether the Iranian nuclear program and the process of neoliberal restructuring take their meaning in and through their relationality with each other. This results in the final research question: 'What has been the impact of tensions and conflicts over the nuclear program at the world order level on the neoliberal restructuring of the country's political economy?

1.3. Methodology and Data Collection

This qualitative project investigates the political economy of Iran in depth and within its real-world context to discover 'how' and 'why' certain events and phenomena have occurred. Based on the ontological underpinning of the study, my research strategy opts for the method of incorporated comparison developed by Philip McMichael. While the whole comprising of its parts, this methodology does not assume the whole prior to the parts. This connotes that supposedly unrelated units are components of a broader global conjuncture, which will make itself felt in particular contexts.[14] In this perspective, the observation of how parts are conditioned by the whole and how parts condition one another does not lead to the discovery of the whole since parts 'reveal and realize the changing whole.'[15] As an emergent totality, thus, the whole materialises through the action of its parts. This means that parts 'are comparable because they are historically connected and mutually conditioning', constituting in relation to one another 'and in relation to the whole formed through their inter-relationship.'[16] Drawing on this methodology, the Iranian neoliberalisation, the state form and the nuclear program will be explored in terms of their relation

[14] McMichael, P. (1990), pp. 368-89.

[15] Ibid, p. 391.

[16] McMichael, P. (2000). World-systems analysis, globalization, and incorporated comparison. *Journal of World-Systems Research*, 6(3), p. 671.

to the whole, which is neoliberal global capitalism. These issues, therefore, are presumed to exist as parts of a shared historical process of global and regional reconfiguration and contestation.

With respect to the methods of data collection, the study largely relies on a documentary and archival method. As obtained information from other methods might depend on the reaction of informants, archival and documentary sources have the advantage of being 'non-reactive'. Another reason why researchers gravitate towards using archives is the unavailability of other forms of data due to the unwillingness or the death of witnesses, for instance. Despite these advantages, documents often reinforce the political will and interests of those who are in charge of their production. As such, official documents often use passive voice to give them 'the sense of neutral and objective truth' in order to make their credibility undisputable. Add to this is the fact that in the process of fragmentation, 'documents go missing' and 'are accidentally or deliberately destroyed' by those in power.[17] All things considered, alongside the archival research, I, thus, initially planned to conduct in-depth semi-structured interviews with Iranian policymakers and political activists to confirm the accuracy of the information collected from the first method as well as compiling more data. Conducting interviews, however, was eventually abandoned not because of the ability of those in positions of authority to deflect questions or even deny access to their decision process in interviews, but due to the nature of the research project in the context of the country's volatile political environment, which could easily put not only my safety but also potential interviewees at risk. This politically tense environment even compelled me to carry out the archival and documentary research with high precaution. That being said, during my nine-week fieldwork in Tehran in summer 2017, I managed to collect data from various sources that have been central in developing the arguments advanced in the three main empirical chapters of the thesis. These sources included: (a) the databases of various Iranian ministries and governmental bodies; (b) documents produced by the government, employers and political parties and labour organisations; and (c) newspaper and periodical reports. It should be noted that since some of these sources are available online, the gathering of data continued after the fieldwork.

Following the research trip to Iran, I had further examined the databases of various international organisations as well as some documents produced by the few departments of the federal government of the United States. Moreover, English-language newspapers and periodicals that frequently cover political conflicts and contestations in Iran, including the *Financial Times*, the *Guardian* and the *New York Times* had been utilised. Finally, the project has also drawn on extensive secondary research and engaged with a wide range of scholarly literature. It is worth noting that,

[17] Gidley, B. (2004). 'Doing historical and archival research'. In Searle. C. (ed.). *Researching society and culture*. London: Sage, p. 279.

throughout the thesis, wherever a Persian study has been used, I have translated the title into English, stating in parenthesis that the source is written in Persian.

During the fieldwork in Tehran, the first focus of collecting data was the changes in the accumulation strategy, prevailing social relations of production and transformation in the class structure of the society. In doing so, I examined the databases of relevant Iranian ministries including the Ministry of Economic Affairs and Finance, the Ministry of Industries and Mines, the Ministry of Commerce and the Ministry of Agriculture as well as the influential Research Center of the Parliament (*Majles*). Equally important was the investigation of the six sequential development plans proposed by the Management and Planning Organization of Iran after the end of the war with Iraq under the name of Five-year Economic, Social and Cultural Development Plans. While it was possible to access some of these materials electronically, visiting the National Library and Archives of Iran and the Library, Museum and Archives of the Majles during my field research helped me to amass necessary data. Another important source, both online and in print, was the Iranian Privatisation Organisation under the Ministry of Economic Affair and Finance, which documents the assignment of the state-owned enterprises (SOEs). Furthermore, during the field research, I gained access to important data about the economic activities of various revolutionary institutions (*bonyads*). Through investigating the obtained documents, it was possible to track the changes in the size and the importance of these institutions in the current political economy of the country.

Iran's decennial censuses of population and housing for 1996, 2006, and 2016 by the Statistical Centre of Iran (*markaz-e aamar-e Iran*) are highly beneficial in documenting the change in the class structure of the country in the last three decades. The censuses provide a relatively consistent classification of employment in different economic activities and occupations for the country, which is based on the international classification of status in employment adopted by the International Labour Office. Following several visits to the Statistical Centre of Iran, I gathered employment data for these periods, which was crucial in illuminating the magnitude of changes in the class structure under various administrations with contesting attitudes towards the neoliberalisation of the economy.

As well as assembling national data, after the fieldwork, I also examined the databases of a number of international organisations such as the United Nations Conference on Trade and Development (UNCTD), the World Bank, the IMF and the World Trade Organisation (WTO) to pinpoint the level of internationalisation/transnationalisation of Iran's economy. They were central in analysing changes in the Iranian production structure as they provide annual reviews of

world investment patterns and special country reports, including foreign direct investment (FDI). Alongside these primary sources, I widely used secondary literature, both in Persian and English, to grasp the changes in the mode of production and the class structure of the country since the beginning of the structural adjustment program.

The second focus of the fieldwork prioritised the horizontal, intra-class struggle inside the Iranian state and societal struggle for hegemony among various fractions of the ruling class. Primary materials such as newspapers and periodicals of Iranian political parties, groups and associations from this period provide a unique insight into the strategies and discourses of the reformist and conservative wings of power. With regard to the former group, I inspected the following newspapers and periodicals: *Salam, Hamshahri, Kargozaran-e Sazandegi, Donya-e Eghtesad, Sharqh, Sarmayeh, Mardomsalari, Aftab-e Yazd, Etemad, Neshat and Kian*. I further scrutinised the leading newspapers and periodicals of the second political camp, including *Jam-e jam, Javan, Khorasan, Resalat, Qods, Kayhan, Vatan, Jomhori-e Eslami, and Yalesarat*. In the National Library and Archive of Iran in Tehran, I examined some of these newspapers by focusing on specific dates during which key social and political events have occurred in the last few decades. By taking advantage of the same logic, after the research trip, I had continued scrutinising these newspapers, magazines and periodicals through using two online databases: (a) Irannamaye (www.irannamaye.ir) that provide access to most of the newspapers, magazines and academic journals since 1979 through subscription; (b) Magiran (www.magiran.com) which provide free access to several of the abovementioned newspapers since 2005. Needless to say, secondary sources from relevant academic literature were also extensively used to develop the central argument of Chapter 6.

Finally, during the fieldwork, I obtained some biographies, published diaries and memoirs of major policy-makers with regards to the country's nuclear policy that have been published in recent years. Among others were the diaries of the ex-president and the principal architect of the neoliberal restructuring, Ali Akbar Hashemi Rafsanjani, Iran's Supreme Leader, Ali Khamenei, the current Iranian President, Hassan Rouhani, and one of the chief nuclear negotiators during the early stage of the talks, Hossein Mousavian. On top of probing the UN Security Council resolutions and Iranian, European and US official documents about the nuclear program, I monitored some of the abovementioned newspapers and periodicals to get to the bottom of the opposing foreign policies of various wings of power in Iran. Again, I deployed secondary sources from academic literature to construct my analysis of the nuclear crisis. I should clarify that since the issue has been expansively investigated by numerous researchers, the use of secondary materials for this part of the thesis was perhaps more pronounced than the rest.

1.4. Structure and Central Arguments of the Thesis

This thesis explores the political economy of Iran in the age of globalisation through investigating the restructuring of social relations of production, configuration of social classes, reorganisation of the state, changes in the complex relationship between various wings of the ruling class and subaltern classes and internal links between the nuclear program and the process of neoliberalism. The key object of inquiry through which all these aspects come together is the Iranian ruling class. It argues that the neoliberal reorganisation of production processes since the late 1980s, as a result of the interaction of global and local dynamics, has brought about an internationalist capital fraction and a nationalist capital fraction with contesting interests. While the former has pushed for further integration into the global economy and closer relations with foreign capital, the nationalist wing, which I call the *military-bonyad complex*, has prioritised the domestic market and vigorously endeavoured to hamper the entrance of transnational capital to the country. Not only have these competing strategies resulted in the unstable hybrid neoliberal form of development, but they have also generated an intense struggle within the state due to the historical importance of the state in Iran to capital accumulation. As well as changing the function and operation of numerous state institutions, this rising crescendo of confrontation has also provided the material bases for the realisation of the liberal/democratic discourse and the revolutionary interpretation of Islam, which in turn they have aided the two wings of power in their struggle for societal hegemony. Likewise, the foreign policy has been the subject of this struggle whereby the internationalist fraction and the military-bonyad complex have taken different policies regarding the nuclear program. Attesting the internal relations between geopolitics and capitalism, the former has utilised the program to expedite the permeation of foreign capital while the latter's hardline nationalist approach has enabled the further isolation of Iran by provoking a tough Western stance in the form of international sanctions and often military threats from certain U.S. governments.

This account of the political economy of contemporary Iran is presented over six chapters, plus the introduction and conclusion. Although each chapter serves a discrete purpose, they together aim to yield the coherent interpretation of the country. Chapter 2 overviews international relations approaches to the study of the country, arguing that different variants of structural realism and social constructivism have major shortcomings. The chapter also engages with the existing political economy literature, mostly written in Persian, including neoclassical economics, new institutionalism and neo-statism to problematise their articulations of Iran's process of capitalist development in the age of globalisation. It contends that these approaches suffer from methodological nationalism, ahistoricism and ontological exteriority. Moving beyond the limitations of these perspectives by advancing an alternative theoretical framework rooted in the

historical materialist canon is the objective of Chapter 3. Grounded in the philosophy of internal relations, the conceptual approach of the project proposes a method to move away from studying national development trajectories that are not situated within the broader context of the global economy. The approach also endeavours to put forward a theoretical argument to analyse the form of the state, societal transformations and geopolitics to overcome the dualism of material and ideal, politics and economics, and state and market, which is prevalent among the mainstream accounts.

As a historical background of the study, Chapter 4 periodises the development of capitalism in Iran from the beginning of the nineteenth century until the commencement of neoliberal restructuring in 1989. Tracing the long durée of the institutionalisation of modern state and consolidation of capitalist relations of production in the course of the successive structures of global order, namely Pax Britannica, the era of rival imperialisms, and Pax Americana, the chapter characterises the nature of its development as uneven and combined. In particular, it focuses on the way in which Iran was incorporated into the global order of Pax Americana as it played an imperative role in the unfolding of contemporary changes. It thus illuminates the conjuncture through which the accumulation strategy of import-substitution industrialisation (ISI) developed during the second Pahlavi state and surprisingly continued to a large degree throughout the first decade of the Revolution. As well as shedding light on the developmental path that has heavily influenced the current form of development, this part of Chapter 4 followed the genealogy of particular social class forces, which have been prominent actors over the fate of neoliberalisation and the form of state in recent years.

Chapter 5 offers a new approach to the study of contemporary capitalist development in Iran by putting both global and local dynamics at the forefront of the analysis. It argues that the development of neoliberalism in Iran has to some extent restructured the social relations of production. This has led to the emergence of the international fraction of capital, linked to non-oil export sectors and a downstream oil and gas industry, who are also keen to integrate into transnational corporation-controlled global value chains (GVCs). At the same time, the neoliberal restructuring, which proceeds as a result of the conflict of interests between different centres of political-economic power, has also generated opposing incentives for closure, contributing to the constitution of the nationally-based military-bonyad complex. By pursuing different accumulation strategies, the struggle between these two fractions of the capital has produced a new peculiar, combined form of development. Formulated as 'hybrid neoliberalism', the chapter contends that it is neither purely neoliberal nor state capitalism since it is the merger of the ISI and the export-oriented industrialisation (EOI). Apart from making a case for the characterisation of the post-1989 capitalist development as the dialectics of continuity and change, the chapter challenges

methodological nationalism of the prevailing accounts by articulating its present-day form of development as an upshot of the dialectical interaction of international and internal determinants. It also shows that a careful engagement with the neoliberalisation process casts considerable doubt on the explanations that reduce all struggles to an ideological battle by identifying material bases of various social class forces.

Chapter 6 has two chief objectives of sketching the reorganisation of the institutional structure of the state and tracing the battle for hegemony in the society as a result of the reconstruction of classes outlined in the previous chapter. To this end, first, it problematises the conventional conceptualisations of the Iranian state as a unitary entity based on a longstanding ideology or a government within a government since these explanations put too much emphasis on the ideology and interests of political elites, which end up producing voluntarist notions of state power. In contrast, by conceiving the state as a relationship of forces among classes and class fractions, the chapter argues that the incoherent appearance of the state policies is the product of the struggle of emerging fractions of capital to realise their interests through institutions rather than the persistence of institutional division of the post-revolutionary state. It illuminates that the state institutions have consequently undergone some noticeable alterations since 1989 as a result of neoliberal restructuring as a politically-charged and struggle-driven process. With regards to the second aim, the chapter calls for the importance of the notion of the 'material structure of ideology', therefore exposing the links between the resurgence of an already-existing liberal/reformist interpretation of Islam and re-articulation of the revolutionary discourse of Islam to the material interests of these class fractions. Thereafter, by employing the 'ideological-coercive-material matrix', it challenges the people-state dualism in the understanding of recent political unrests in Iran. In respect of the 2009-2011 Green Movement, it characterises the movement as a (short-term) alliance-compromise of these two fractions of capital with other classes to nullify the supremacy of the rival, crystallising the impasse of the outright control of the state by one fraction and the actuality of minimal hegemony over society.

After critically reviewing the existing Marxist theories of geopolitics, Chapter 7 aims to give a nuanced account of the Iranian nuclear program. Theoretically, it calls for the significance of the internal relations between geopolitical confrontations and process of capital accumulation and the flexibility of geopolitical strategies due to the balance of power between different fractions of ruling class within the state in any given time. Apart from these two conceptual arguments, the chapter claims that the 'non-West' as an active agent has to be recovered to overcome the deep-rooted problem of Eurocentrism embedded in classical and contemporary Marxist theories of geopolitics. What followed from this is a non-Eurocentric analysis of the Iranian nuclear program

whereby the kaleidoscope of nuclear policy changes in the last three decades is understood as the manifestation of struggles of different fractions of capital inside the Iranian state and the U.S. state in line with their long-term objectives and class interests. The chapter concludes that a true explanation of geo-territorial struggles in historical materialism should transcend the charge of Eurocentrism, the possibility of which is opened up by the inclusion of the active role of Iranian social class forces in the analysis.

To sum up, this chapter argued that dealing with the challenge of theorising contemporary Iran's process of development, transformations of the state and society as well as foreign policy is bound up with moving beyond the commitment to ontological exteriority. The solution offered to tackle the enigma of Iran was the philosophy of internal relations and the idea of the totality, which emerges out of it, through which it would be possible to perceive the inner connections between capitalist development, state formation and geopolitics. This ontological foundation lays the ground for locating contemporary Iran in the context of global socio-economic processes and placing capitalism, class and social power at the forefront of the analysis. In other words, the outcome of deploying this ontology is the development of a conceptual framework capable of producing a historical analysis that rejects methodologically nationalist and 'exceptionalising' frameworks of the mainstream accounts regarding Iran. Before developing this theoretical framework, the first task, however, is to engage critically with the existing IR and IPE literature on contemporary Iran. This is the aim of the following chapter.

Chapter Two

Debating Iran: Theories and Critique

2.1. Introduction

This chapter reviews and problematizes IR and IPE literature about Iran, to make the case for an alternative account, which will be presented in the following chapter. It prioritises a critical engagement with mainstream IR theories due to the high level of attention given to the defence and foreign policy of the country, particularly the nuclear program. Obsession with Iran's actions and behaviours in the international system began with the victory of the Islamic Revolution and the establishment of the Islamic Republic in 1979, which sparked a hostile American-Iranian relationship. Since then, Iran has been accused of offering financial and logistical support for 'terrorists', blamed for contributing towards the destabilisation of the Middle Eastern peace process and has been accused of suspected of exporting Islamic revolutionary ideas. While Washington has always regarded Iran as a rogue state, which jeopardises the security of Israel and Western interests in the region, Tehran has portrayed the U.S. as 'the great Satan' whose ultimate goal is regime change. Against this backdrop, the disclosure of Iran's clandestine nuclear program in 2002 exacerbated unfriendly relations, resulting in the naming of Iran as a member of the so-called 'axis of evil' by George W. Bush.

Understanding these tense relations and conceptualising the motivations and intentions of Tehran in international politics have been the objective of a scholarly debate between structural realists and social constructivists. The chapter criticises the explanations of these accounts for their state-centricity, as well as their lack of attention to the importance of the relations between geopolitics and capitalist development. Given that there has been little political economy literature published in English, the chapter also looks at three studies of Iran's contemporary form of development in Persian. It argues that the theoretical assumptions of these neoclassical economist, new institutionalist, and neo-statist accounts leave them open to the charge of ahistoricism and methodological nationalism.

The remainder of the chapter is organised as follows. The second section explains and problematises structural realist analyses of Iran after outlining the fundamental assumptions of the theory. Similarly, in the following section, the sketching of the conceptual underpinnings of social constructivism paves the way for a critical assessment of their various accounts of Iran's foreign policy. The focus of the fourth section is to unpack and reflect upon the different prevailing

political economy theories, arguing that they also have major deficiencies. In light of this critical engagement, the final section re-addresses the need for a new conceptual framework for a better understanding of contemporary Iran.

2.2. Structural Realism

The structural realist view of international politics consists of three core beliefs. First, states are treated as the principal actors of international politics. Although states are not the only international actors, they are the most prominent actors in international politics due to their capacity, especially powerful states, to set the context and establish the rules for non-state actors.[1] Second, the structure of the international system determines the behaviour of states. Put another way, as states' external environment shapes their foreign policy, internal structures and characteristics such as domestic political systems and cultures are irrelevant. In essence, for structural realists, states are like 'billiard balls that vary only in size.' Their final core belief is that even though states may occasionally cooperate, their conflicting interests compel them to compete for power among themselves.[2] Several straightforward assumptions about the international system are put forward by structural realists to explain why states compete for power. Unlike domestic politics with a central authority, the international system is depicted as anarchic because of the presence of an ordering principle in which 'there is not government over governments.'[3] This anarchic structure of the international system is considered to be the fundamental root of perpetual conflict and war. In addition, all states, albeit to varying degrees, possess some offensive military capabilities, which can harm and pose a threat to others, predominately their neighbours. Furthermore, while states may pursue goals such as economic prosperity and protecting human rights, the fundamental objective is always 'survival'. The economic and ethical concerns are 'second-order' concerns because states are willingly ready to sacrifice them whenever they conflict with fundamental national interests, namely security and survival. Finally, states are cost-benefit calculators and thus rational actors. As such, these *unitary, rational, and self-interested entities* 'are capable of coming up with sound strategies that maximise their prospects for survival.'[4] The amalgamation of these factors renders rational states with no choice but to survive in order to maintain their territorial integrity and the autonomy of their political order. In this system

1 Waltz, K. (1979). *Theory of international politics*. New York: McGraw-Hill. p. 94.

2 Mearsheimer, J. (2001). *The tragedy of great power politics*. London: W.W. Norton. p. 18.

3 Ibid, p. 30.

4 Mearsheimer, J. (2013). 'Structural realism'. In T. Dunne, M. Kurki and S. Smith (eds.). *International relations theories: discipline and diversity*, Oxford: Oxford University Press. pp. 78-79.

envisaged by structural realists, self-help or reliance on their own resources is the most important means for survival.[5] Deriving from this, the theory is primarily preoccupied with military power because any actor with 'limited coercive power resources' is outside of the structural realist 'high politics' of international security analysis.[6]

Despite sharing these core assumptions and beliefs, there is disagreement among two variants of structural realism, namely defensive and offensive realism, about how much power states should pursue. For defensive realists, the international structure does not provide an incentive for seeking additional power, whereas for offensive realists a search for security imposed by the anarchic structure of the system drives states to maximise their power.[7] Put differently, while defensive realism argues that all states function similarly in order 'to maintain a balanced portfolio of power capabilities' and the preservation of the status quo, offensive realism asserts that in the anarchic self-help system states can eliminate or neutralise rivals by maximising power.[8] This suggests that defensive realism has a 'status quo bias' since it is entirely 'about how defensively motivated states behave', therefore dismissing 'the presence of revisionist states.' On the other hand, because offensive realism maintains that all states 'seek to maximise power (i.e., military strength)', it contains only revisionist states, implying that 'there are virtually no status quo powers.'[9]

2.2.1. Structural Realism and Nuclear-armed Iran

According to defensive realists, the reason behind the proliferation of nuclear weapons is, in fact, an extension of state self-help logic. Nuclear weapons enable states to provide for their own security, making the spread of nuclear arsenals a logical reaction to the forces of anarchy in the system. When a state acquires 'the most important ends without actively using force', the possibility of peace will also increase. Although a war between two nuclear-armed states remains possible, nuclear victory is extremely unlikely. Relatedly, in a nuclear world, states act with high care because 'the devastation of an all-out war would be unimaginably enormous'; nobody 'would be spared this devastation'; and 'the devastation could occur extremely quickly, within a matter of days or

5 Hyde-Price, A. (2006). 'Normative' power Europe: A realist critique. *Journal of European Public Policy,* 13(2), p. 221.

6 Ibid, p. 219

7 Snyder, G. (2002). Mearsheimer's world offensive realism and struggle for security: A review essay. *International Security,* 27(1), p. 154.

8 Hyde-Price, A. (2006). p. 220.

9 Snyder, G. (2002), pp. 157-8. See also Marks, J. (2009). Nuclear prudence or nuclear psychosis? Structural realism and the proliferation of nuclear weapons. *Global Change, Peace & Security*, 21(3), pp. 325-40.

even hour.'[10] Hence, a rational actor would not dare to contemplate the devastating costs of nuclear retaliation from the attacked state. Moreover, for deterrence, 'a second-strike capability' is enough and adding more weapons, in contrast to conventional warfare, does not effectively alter the military balance of power. In short, the logic of nuclear deterrence reduces the possibility of a devastating and costly war between nuclear-armed states nearly close to zero, ultimately increasing the stability and security of the international system.[11] Defensive realism embraces the idea that new nuclear-armed states behave similarly to those that have had nuclear bombs for an extended period since 'the varied qualities of governments and the temperaments of leaders are irrelevant.'[12] The argument rests upon the assumption of rationality and the survival motive in which nuclear-possessed states regardless of their radical, ideological, and messianic characters follow the logic of nuclear deterrence. The spread of nuclear weapons among radical developing states will eventually convert them to defensive, conservative and secure states obsessed with their own security and behaving 'with caution and moderation', thus posing no threat to the status quo.[13] Because nuclear deterrence logic applies to all types of nuclear powers, defensive realists welcome the gradual spread of nuclear weapons.[14]

According to this realist perspective, Iran has historically been under regional and extra-regional threats. Regionally, as a non-Arab, Shia country, it is surrounded by Arab Sunni Muslims in the region. Not long ago, it was invaded by Iraq and fought a costly and indecisive war for eight years during the 1980s in which Saddam Hussein used chemical weapons.[15] What is more, the strategic problems posed by a nuclear India and a mostly-Sunni nuclear Pakistan (with twice Iran's population and long-term political instability) have risen dramatically.[16] Most importantly, nuclear-armed Israel destabilises the Middle East and directly threatens Iranian national security by indicating its preparedness for a preventive strike against Iran's nuclear facilities.[17] In other words, by acquiring nuclear weapons, Israel creates a security dilemma in the region, forcing threatened Iran to trigger its own nuclear programs to maintain its national security. Defensive realists contend, not only does Iran face these regional threats, but it also confronts a realistic extra-

10 Jervis, R. (1988). The political efforts of nuclear weapons. *International Security,* 13(2), p. 83; see also Waltz, K. (2008). *Realism and International Politics*. New York: Routledge. pp. 260-1

11 Waltz, K. (1990). Nuclear myths and political realities. *American Political Science Review,* 84(3), p. 740.

12 Waltz, K. (2008). p. 284.

13 Betts, R., Sagan, S. and Waltz, K. (2007). A nuclear Iran: Promoting stability or courting disaster?. *Journal of International Affairs,* 60(2), p. 137.

14 Waltz, K. (2013). 'More may be better'. In S. Sagan and K. Waltz (eds.). *The spread of nuclear weapons: An enduring debate*. New York: W. W. Norton. pp. 3-41.

15 Bowen, W. Q. and Kidd, J. (2004). The Iranian nuclear challenge. *International Affairs,* 80(2), p. 263.

16 Kemp, G. (2003). How to stop the Iranian Bomb. *The National Interest,* Vol 72, p. 50.

17 Bowen, W. Q. and Kidd, J. (2004). p. 265.

regional military threat from the United States since Washington has pursued regime change as its policy towards Iran since 1979. In the new securitised environment after 9/11, they claim that the regime change threat became realistic when the US overthrew the Taliban in Afghanistan and occupied Iraq in 2001 and 2003 respectively and classified Iran as a member of the Axis of Evil. For these reasons, Kenneth Waltz argues that a nuclear-armed Iran is not a grave danger to the world, but rather it is 'the most likely to restore stability to the Middle East.'[18] Against a prominent concern among most Western commentators and policymakers, Waltz thus claims that Iranian nuclear policy 'is made not by "mad mullahs" but by perfectly sane ayatollahs who want to survive just like any other leaders',[19]maintaining that deterring an imminent security threat is the only purpose that motivated Iran to build nuclear weapons.[20]

In contrast to the defensive realist account of Iran as a regional status quo power in quest of enhancing its security, offensive realists characterise Tehran 'as a revisionist power seeking to establish regional hegemony and to export its revolution.'[21] It is asserted that developments in the region and at the international level have provided Iran with opportunities for exerting its power. The first decisive element is the collapse of the Soviet Union as the powerful northern neighbour and the emergence of a half-dozen newly independent weak states. The second factor is the overthrowing and removal of two Iranian archenemies in the eastern and western borders in 2001 and 2003 respectively by the United States, namely Saddam Hussein and the Taliban government. Another factor that contributes to Iran's stronger position in the Middle East is the high level of Arab weakness and disorganisation as a result of the refusal of Arab leaders to make economic and political reforms as well as the decline of Arab nationalism and the rise of Islamic fundamentalism.[22] In addition, Pakistan's long-term strategic standoff with India precludes any offensive actions towards Iran. With regards to an Israeli threat, it is stated that the Iranian rhetoric to eliminate Israel, compels Israel to consider a preventive or a pre-emptive strike for self-defence.[23] Above all, despite the contentious relation between Iran and the U.S. since the victory of the 1979 revolution, the reluctance of some powerful groups within the U.S. state and the lack of support for another war in the Middle East by the American public discredit the significance of

18 Waltz, K. (2012), p. 2.

19 Ibid, p. 4.

20 Betts, R., Sagan, S, and Waltz, K. (2007). p. 145.

21 Rahigh-Aghsan, A. and Jakobsen, P. V. (2010). The rise of Iran: How durable, how dangerous? *The Middle East Journal*, 64(4), p. 560; Eisenstadt, M. (2001). The armed forces of the Islamic Republic of Iran: An assessment. *The Middle East Review of International Affairs*, 5(1), pp. 13-14.

22 Rubin, B. (2006). Iran: The rise of a regional power, *The Middle East Review of International Affairs*, 10(3), pp. 143-44.

23 Sherrill, C. (2012). Why Iran wants the bomb and what it means for US policy. *Nonproliferation Review*, 19(1), p. 36.

the extra-regional military threat argument made by defensive realists.[24] All these factors considered, offensive realists conclude that Iran does not face realistic regional or extra-regional threats, adding thus that nuclear arms rather than being utilised for deterrence will be used by Tehran to lift its ability to pursue a more aggressive and coercive foreign policy to achieve its long-term strategic goal of dominance in the Persian Gulf area.[25] That said, offensive realists maintain that this does not mean Iran will employ nuclear weapons in future conflicts. Rather, they will significantly change Iran's level of caution in dealings with other states, strengthening its ability to bargain in the region.[26] More importantly, contrary to Waltz's deterrence model, a nuclear-armed Iran increases instability in the Middle East because of the *stability-instability paradox,* which is spelt out as:

> Even if states recognize that the absolute destructiveness of nuclear weapons makes the risk of their use unimaginable, that very recognition allows for the possibility that they will feel free to fight a war at the sub-nuclear level with confidence that it will not escalate to the nuclear level. Because even during the heat of the fight, the restraint from using nuclear weapons will remain, it will be 'safe' to fight a conventional war. Further, once the possibility that a state will adopt such a philosophy is realized, the logical thing for all states to do is 'to compete for security at the conventional level, much as they did before the advent of nuclear weapons.'[27]

Accordingly, offensive realists argue that a nuclear-weaponised revisionist Iran, dissatisfied with the current regional balance of power, believing in having a sound deterrent capability, could potentially antagonise Israel for instance by stronger support for 'terrorists' without fear of nuclear reprisal. Such emboldened adventurism could lead to miscalculation and escalation at the nuclear level. Another side effect of Iranian nuclear weapons is that both Israel and Iran, believing in vulnerability to a first strike and not fear of the second strike, could launch a pre-emptive strike.[28]

2.2.2. Problems of Structural Realism

There is undoubtedly the dispute between the two leading schools of structural realism over whether the anarchic structure of the system provides incentives for states to be aggressive to survive. Nonetheless, they share constitutional assumptions and ideas that are largely problematic. First, in structural realist theory, the Iranian state is a unitary concept in which there is no distinction between the state and civil society. Because international politics is dictated by the

[24] Ibid. pp. 38-9.

[25] Betts, R. (1979). Incentives for nuclear weapons: India, Pakistan and Iran. *Asian Survey*, 19(11), p. 1063; Rubin, B. (2006), p. 9.

[26] Whyte, C. (2011). Why Israel fears a nuclear Iran: Realism, constructivism & Iran`s dual- national identity. *Central European Journal of International & security studies,* 5(3), p. 150.

[27] Roth, A. (2007), Nuclear weapons in neo-realist theory. *International Studies Review,* 9(3), p. 378.

[28] Warren, R. (2012). Miscalculation nuclear deterrence in the Middle East: Why Kenneth Waltz gets it wrong. *Global Security Studies Review*, 1(1), pp. 36-8.

structure of the international system of states, the internal structure of the Iranian state is completely ignored. The structural realist metaphor of 'states as billiard balls',[29] neglects the relationship between the state and civil society and is unable 'to consider the state/society complex as a basic entity of international relations.'[30] Accordingly, they ignore the fact that there are different forms of states not only in different historical periods but also within the same epoch.[31] By distancing itself from domestic politics and turning into 'a desubjectified systemic structuralism where international politics was seemingly governed *ex machina'*, structural realism expunges social structure totally from the study of international relations.[32] The reified nation-statist ontology of world politics not only does overlook the internal social structure of the state, but it also disregards intersocietal relations.

The second problem of the structural realist theory is what can be called *naturalism* and *ahistoricism*. While structural realism distances itself from classical realism in which 'human nature' is defined as the essence of international politics, its individualist ontology assumes states as 'atomic, rational and possessive' and therefore emphasises *a priori* or independent existence of their identities from social interactions.[33] In other words, it attributes a nature to states that preoccupies them with a particular concept of national interest. As a rational actor, Iran is, like all states, obsessed with its survival, and this fundamental and unchanging essence provides a guide to its actions. The conceptualisation of the Iranian state as a cost-benefit calculator is based on the idea of universal rationality, which is essentially Eurocentric and evidence of a non-historical mode of thinking.[34] The reproduction of Eurocentrism means that structural realism is unable to provide a sufficiently historicised conception of the Iranian state. Moreover, the structural realist theory asserts 'the dismaying persistence of the international states-system and the recurrence of the struggle for power and security over several millennia despite the rise and fall of different kinds of political systems, ideologies and so forth.'[35] Here again, the international system is considered to have an immutable nature that constrains Iran's actions and forces the country, like all other states, to pursue its national interests through the mechanism of the balance of power in an anarchic

29 Roach, S. (2013). 'Critical theory'. In T. Dunne, M. Kurki and S. Smith (eds.). *International relations theories: Discipline and diversity*. Oxford: Oxford University Press. p. 171.

30 Cox, R. (1981/1986). 'Social Forces, states and world orders: Beyond international relations theory'. In Keohane, R. (ed.). *Neorealism and its critics*. New York: Columbia University Press. p. 205.

31 Devetak, R. (2013). 'Critical Theory'. In S. Burchill, et al. (eds.). *Theories of international relations*. Hampshire: Palgrave Macmillan. p. 177.

32 Heine, C. and Teschke, B. (1996). Sleeping beauty and the dialectical awakening: On the potential of dialectic for International Relations. *Millennium*, 25(2), p. 401.

33 Devetak, R. (2013). p. 175.

34 Cox, R. (1981/1986). p. 212.

35 Burchill, S. and Linklater, A. (2013). 'Introduction'. In S. Burchill and A. Linklater (eds.). *Theories of international relations*. Hampshire: Palgrave Macmillan. p. 14.

system. In effect, the structural realist analysis of Iran is essentialist and ahistorical in which history is nothing more than a quarry that provides materials 'to illustrate variations on always recurrent themes.'[36] It is crucial to note that the theorisation of the immortal essence of the state and the permanency of the structure of the international system by structural realists is itself the product of a particular historical era. As Heine and Teschke point out, the theoretical direction and agenda-setting of this 'Americanised discipline' are fundamentally dictated by the Cold War. From 'the ashes of two disastrous world wars arose a 'hard-and-fast' intellectual concern for 'order and stability' in an antagonised world of bipolarity.'[37] In contrast to the structural realist static IR theory claiming 'transhistorical validity', what is needed to conceptualise Iran in international politics is a necessary time-bound theorisation.

Third, structural realism largely ignores the social relations involved in the production and circulations of goods and services and the power relations inherent in it between those who control the means of productions and those who create value and surplus value. Because the structural realist conceptual framework implicitly takes 'it as a given element of national interest, and therefore as part of its parameters.'[38] Moreover, guilty of ontological exteriority, structural realism generally excludes any inquiry into the relationship between capitalism and geopolitics by an artificial detachment between political economy and military-security interests. Nonetheless, capitalism is 'a historically determinant form of societal organisation at the heart of which is not simply 'the economy' but the *social* process of production constituted by both 'vertical' relations between capital and labour and 'horizontal' relations among many capitals.'[39] Therefore, because capitalism is a 'definite mode of life',[40] geopolitical and international confrontations must be conceptualised as properties of this wider phenomenon. In other words, the geopolitical state system is internally related to capitalist relations of production in the modern era.[41] Analysing the Iranian nuclear program without its internal relations with the process of neoliberal globalisation in the current capitalist structure ignores a fundamental point of modern world politics: 'capitalism could only emerge, take root and reproduce itself – both domestically and internationally – through

36 Cox, R. (1981/1986). p. 212.

37 Heine, C. and Teschke, B. (1996). p. 403.

38 Cox, R. (1981/1986). pp. 216-7.

39 Anievas, A. (2014). *Capital, the state and war*. Michigan: University of Michigan Press. p. 6

40 Ibid.

41 Bieler A. and Morton, A. D. (2015). Axis of evil or access to diesel? Spaces of new imperialism and the Iraq War. *Historical Materialism*, 23(2), pp: 94-130. I will examine this internal relation in the chapter that investigates the nuclear program and the neo-liberal restructuring in Iran in great detail, both theoretically and empirically.

a violent, coercive, and often war-assisted process subjugating, dominating, and often annihilating many of those social forces that stood in its way- *processes that continue to this day*' (emphasis added).[42]

In short, due to an ahistorical mode of thinking, a neorealist approach is unable to grasp the structural changes witnessed in the last few decades as a result of global neoliberalisation. Its state-centric analysis further leads it to overlook the indispensable role of transnational actors and international institutions as well as the significance of the role of ideas. Portraying the Iranian state as a homogeneous unit is another noticeable shortcoming as it tends to neglect the local balance of political and economic forces inside the state. All in all, the analysis of the Iranian state and conceptualisation of its foreign policy grounded in structural realism is problematic, and the various neo-realist theorisations of Iran in global politics must be judged as sorely lacking.

2.3. Social Constructivism

For social constructivists, the exclusion of domestic determinants and ideational factors are the principal defects of the structural realist analyses of Iran's foreign policy. Accordingly, social constructivism calls for 'a focus on regional and domestic determinants in addition to international, systematic determinants' in the shaping of foreign policy in the framework of analysis.[43] More specifically, it challenges structural realism for ignoring 'ideas', arguing ideology is the primary context within which policy gets shaped and not just one explanatory variable among others.[44] It has been thus argued that firstly, systemic pressures as a result of the change in the international distribution of power following the collapse of the Soviet Union, as structural realists argue, have not had an impact on Iranian foreign policy. Secondly, Iran's foreign relations have not been based on a rational, cost-benefit calculated policy. Rather, it follows the 'logic of appropriateness' in which the country attempts to do the right things according to its ideological foundations.[45] This means that understanding Iranian behaviour in the international system lies in the comprehension of 'the ideological and normative characteristic of the country's foreign policy.'[46] As a necessary step in grasping distinctive social constructivist explanations of Iran's behaviours in the International system, I shall first explore the theoretical underpinnings of the theory

[42] Anievas, A. and Nisancioglu, K. (2015). *How the West came to rule: The geopolitical origins of capitalism*. London: Pluto Press. p. 12.

[43] Warnnar, M. (2013). *Iranian foreign policy during Ahmadinejad: Ideology and actions*. New York: Palgrave Macmillan. pp. 12-3.

[44] Ibid. pp. 2-3.

[45] Mohammadnia, M. (2011). A holistic constructivist approach to Iran's foreign policy. *International Journal of Business and Social Science*, 2(4), pp. 280-1.

[46] Ibid. p. 280.

For social constructivists, as reality is socially constructed, international relations, as part of human relations, do not essentially consist of material forces and conditions but reside in thoughts and ideas.[47] Deriving from a philosophical foundation that dismisses the existence of a world independent from the ideas of the people involved in it, Emanuel Adler notes that constructivism as a social theory of international politics 'is the view that the manner in which the material world shapes and is shaped by human action and interaction depends on dynamic normative and epistemic interpretations of the material world.'[48] Its first fundamental ontological proposition indicates that *social* or *ideational* structures are the integral structures of international politics, meaning the key structures of the system are intersubjective not strictly material.[49] That is to say, 'what actors do in international relations; the interest they hold, and the structures within which they operate are defined by social norms and ideas, rather than by objective or material conditions.'[50] In contrast to structural realist materialist view in which power is defined in terms of military capability, the starting premise of social constructivism is that 'the material world is indeterminate and is interpreted within a larger context of meaning. Ideas thus define the meaning of material power.'[51] Furthermore, not only behaviour is regulated but, more importantly, identities of political actors are shaped and constructed by these ideational structures.[52] In social constructivist ontology, therefore, the meaning of material forces and the content of actors 'depend largely on the shared ideas in which they are embedded, and as such culture is a condition of possibility for power and interest explanations.'[53] It should be, however, emphasised that the identities of states in social constructivist theory are not eternal as they are always influenced by evolving normative structures. The second ontological proposition of social constructivism is that interest is not a pre-given and fixed variable, but self-perception or identity of a state is the fundamental source of its interests. According to Alexander Wendt, 'identities are the basis of interests. Actors do not have a "portfolio" of interests that they carry around independent of social context; instead, they define their interests in the process of defining situations.'[54] Put differently, identities which are constructed by historical, cultural and social backgrounds 'inform interests

47 Jackson, R., Sørensen, G. and Møller, J. (2010). *Introduction to International Relations: Theories and approaches*. Oxford: Oxford University Press. p 162.

48 Adler, E. (1997.) Seizing the middle ground: Constructivism in world politics. *European Journal of International Relations*, 3(3), p. 322.

49 Wendt, A. (1995). Constructing international politics. *International Security*, 20(1), p 71.

50 Jackson P. T. (2004). Bridging the gap: Toward a realist-constructivist dialogue. *International Studies Review*, 6(2). p 338.

51 Tannenwald, N. (2005). Ideas and explanation: Advancing the theoretical agenda. *Journal of Cold War Studies*, 7(2), p. 19.

52 Wendt, A. (1995). p. 72.

53 Wendt, A. (1999). *Social theory of international politics*. Cambridge: Cambridge University Press. p. 193.

54 Wendt, A. (1992). Anarchy is what states make it: The social construction of power politics. *International Organization*, 46(2), p 398.

and, in turn, actions.'[55] The mutual constitution of states and structures is the last ontological proposition of social constructivism. In international politics envisaged by the theory, although ideational and normative structures condition and inform the identities and interests of states, 'those structures would not exist if it were not for the knowledgeable practices of those actors.'[56]

Social constructivism in IR is divided into three variants, namely systemic, unit-level and holistic constructivism. The first form ignores the domestic political realm and thoroughly concentrates on the normative structures of the international domain by focusing on how unitary actors relate to each other in the external environment and how the normative and ideational structures of international society produce and reproduces the social identities of states.[57] In unit-level constructivism, the emphasis is on the domestic normative structures and their influences on the identities and interests of states. Internal factors such as culture are crucial to the definitions of 'self', 'other' and interests of a state in the international system. Seeking to bridge these two domains, holistic constructivism 'treats the domestic and the international as two faces of a single social and political order.'[58]

2.3.1. Social Constructivist Analyses of Iran's Foreign Policy

Unit-level analysis has overshadowed social constructivist studies of Iran's foreign policy. By employing this approach, Maysam Behravesh investigates the prime historical, ideological and identity-related factors that have shaped the post-revolutionary Iran-West relations.[59] The revolutionary nation-state identity, Behravesh notes, is constructed by shared perceptions and history among Iranians about the West. The post-revolutionary 'Westophobic'/anti-Western discourse, which has determined Iran's revolutionary foreign policy, emerged chiefly from these shared perceptions. At the heart of this discourse is Iranians' collective sense of historical victimisation, such as the US-British plotting the 1953 coup, American support for the Shah during the revolution and Washington's backing of Saddam Hussein's invasion. The creation of the state of Israel by the help of these powers also to a large degree resonates bitterly with many Iranians. The identification of the West as the chief enemy, and of Western cultural and political practices as anti-Islamic, set the ground for the construction of Iranian identity based on

55 Reus-Smit, C. (2013). 'Constructivism'. In S. Burchill, et al. (eds.). *Theories of international relations*. New York: Palgrave Macmillan. p. 224.

56 Ibid. p. 225.

57 Ibid. p. 227.

58 Ibid. p. 228.

59 Behravesh, M. (2011). A crisis of confidence revisited: Iran-West tensions and mutual demonization. *Asian Politics & Policy*, 3(3), p. 329.

oppressed/oppressor dichotomy. Accordingly, the author claims that Iran's anti-Western and anti-oppressor identity causes major areas of conflict with the West including human rights issues, the nuclear program, Iranian-Israeli hostility and US-led military interventions in the region.[60] For Warnnar, Iranian identity is temporal because 'through the Iranian Revolution, Iran became a changed nation: from submission, dependence, and despotism, it is turned into a resistant, self-reliant and popular nation.'[61] After the revolution, three pillars of Iranian identity have been resistance against the West, independence, and democratic and popular revolution. Its identity is also spatial since the regime' identification of Iran happened in juxtaposition to the US as Iran's main 'other' and other 'arrogant powers' like the United Kingdom.[62] Warnnar insists that because all Iranian politicians and officials ideologically committed to the system of the Islamic Republic and the ideas of the 1979 revolution as a result of the electoral preselection procedure of the Guardian Council, there is an ideological convergence among Iranian foreign policy elites.[63] In the most comprehensive unit-level constructivist analysis of Iranian nuclear policy, Homeira Moshirzadeh emphasises that the policy is backed by all political parties and groups in Iran because it is articulated with meta-discourses that are popular in Iranian society including the discourse of independence, the discourse of justice and the discourse of resistance.[64] As a hegemonic discourse even before the Islamic Revolution, the discourse of independence is reinforced by three narratives: Iran's glorious past, historical victimisation by invaders, and (semi)-colonial/imperial encounters. While Iranians have historically embraced the idea of justice because of its prominent position in Shia Islam, the establishment of the Islamic Republic brought this discourse to practice by supporting the liberation movements and Third Worldism. The existing international system is criticised by the Iranian version of Third Worldism for its unequal hierarchy system in which 'the universality of rules, norms of international society and the unjust nature of double standard...applied to a category of states or to a particular group of them.'[65] In Iranian nuclear discourse, Moshirzadeh notes, the discriminative character of the Nuclear Non-Proliferation Treaty (NPT) is the obvious indication of the unjust, double standard nature of law in the

[60] Ibid. pp. 332-6. Similarly, Kreidie suggests that the global struggle of the oppressed against the oppressor, the regional discourse of Islamism and the discourse of Shi'ism as main identity narratives have shaped Iran's strategies. See, Kreidie L. H. (2013). The rise of Iran: An identity fight to challenge the existing power establishment contesting US hegemony, Israeli, and Sunni powers in the Middle East. *International Journal of Liberal Arts and Social Science*, 1(3), pp. 150-68.

[61] Warnnar, M. (2013). p. 99.

[62] Jansiz and Lakani also make a similar claim about the impact of defining the US as the threating infidel 'other' and 'enemy' on Iran's identity. See, Jansiz, A. and Lakani, S (2015). The role of culture and identity in relations between Iran and the United States of America. *Asian Culture and History*, 7(2), pp. 21-8.

[63] Warnnar, M. (2013). p. 4. The Guardian Council of Constitution is a powerful institution, composed of six experts in Islamic law and six jurists. It is charged with interpreting the Constitution, approving of candidates, and supervising all elections. Its role in the state structure will be examined in detail in Chapter 6.

[64] Moshirzadeh, H. (2007), p. 528.

[65] Ibid. p. 533.

international system. Finally, although the discourse of resistance, which is based on confronting Western interferences in the region as a menace to Iran's sovereignty and independence, has gradually declined since the revolution, some prominent Iranian institutions including the Guardian Council and the Islamic Revolutionary Guard Corps (IRGC) still commit to the idea of resistance and revolutionary rhetoric.[66]

In an attempt to analyse Iran's foreign policy from a holistic constructivist approach, Mohammadnia argues that 'since the 1979 Islamic revolution, Iranian foreign and security policy has been dominated by a new set of revolutionary values and discourses.'[67] This is because the Iranian identity structure is not conditioned by material structures, but rather it has been constituted by political Islam, Shi'ism and the Islamic Revolution. Furthermore, the domestic transition from the monarchical system to the revolutionary Islamic state, not the systemic factors, constitutes a new identity and consequently new interests for Iran. According to this account, since the revolution several socially constructed discourses have given meaning to Iran's foreign policy and determined its actions and behaviours, including the discourse of resistance, the discourse of independence and self-sufficiency, the discourse of Persian nationalism, the discourse of enemy, the discourse of Islamic unity and Islamic solidarity, the discourses of martyrdom and Jihad, and the discourse of justice.[68] Based on a holistic constructivist approach, Mohammadnia claims that Iran's endogenously constructed identity and interest may be affected by interaction at the systemic level. Nonetheless, he concludes that the national identity is still more important because 'at the first step, before starting interaction with the international community, Islamic Republic of Iran constructs its identity based on its corporate identity (domestic level) which determines who is "friend" and who is "enemy". At the second step, this previously held identity could be radicalised and strengthened due to the confrontational normative environment (particularly because of the West conflictual policy toward Iran).'[69]

2.3.2. Shortcomings of Social Constructivism

By adding an ideational dimension to the analysis, these social constructivist studies belie the simplistic structural realist notion of rationality under which Iran supposedly pursues only survival and power. Considering the exogeneity of ideas to states' interest formation and action in structural

[66] Ibid. p. 537. The IRGC is the most powerful military and security organisation in Iran. After the war with Iraq, it has transformed into an economic giant and a powerful political actor. A thorough investigation of revolutionary institutions and organisations including the IRGC is one of the central objectives of Chapter 5.

[67] Mohammadnia, M. (2011), p. 279.

[68] Ibid. pp. 283-8.

[69] Ibid. p. 289.

realism, it is thus convenient to criticise its disregard for the important role of ideas in international politics. The social constructivists also reject *a priori* existence of sovereign Iran and thus provide a foundation for a historical understanding of the country. Nonetheless, as I shall argue shortly, the social constructivist accounts suffer from several deficiencies and, more importantly, cement preponderance of the mainstream within the discipline as they still operate base on core assumptions of dominant IR approaches.

While, in general, social constructivism aims to challenge the mainstream theories by admitting the role of non-state actors, such as non-governmental organisations (NGOs) or transnational corporations (TNCs) in altering states beliefs, its conception of the state as an *anthropomorphic actor* which 'cannot be reduced to its parts'[70] reproduces the state-centric premise of the mainstream approaches. The social constructivist analyses of Iran, both at the unit-level and holistically, evaluate the Iranian state as a homogenous unit, holding singular identity that dictates its actions. This logic can be applied to other countries in which their interactions determined by their unanimous identities. They ignore the antagonism among the various factions of Iran's ruling class, who hold conflicting interpretations of Islamic ideology, and thus the power struggle between different social forces inside the state. Simply put, the social constructivists fail to explain *whose* values and beliefs have constituted or embodied the Iranian state's identity and interests; *which* agents or social forces have constituted this new set of revolutionary values and discourses; *why* has this particular set of revolutionary ideas become dominant within the state. Due to the lack of a theorised notion of power, social constructivism fails to 'ascertain whose interpretations come to constitute the social world and why they do so', which resulted in this disappointing reality that 'constructivism as a whole stands as merely the latest reincarnation and manifestation of liberal theorising, reaching similarly bland conclusions about social change as mainstream approaches.'[71]

Furthermore, similar to structural realism, social constructivism overlooks the social relations generated as a result of the process of production on the global level and inside Iran. Since the 1980s, the transnationalisation of production and finance as part of globalisation have largely altered the structure of the international system, leading to the rise of particular social forces. As I shall demonstrate in Chapter 5 in great detail, these changes have fundamentally affected the contemporary Iranian production process by engendering new social class forces with a massive impact on Iranian policy-making decisions. The social constructivist explanation is frustratingly limited because the end of the war with Iraq in 1989 and especially, the instigation of

70 Wendt, A. (1999). p. 197.

71 Bieler, A. and Morton, A. D. (2008). The deficits of discourse in IPE: Turning base metal into gold? *International Studies Quarterly*, 52(1), pp. 109-10.

economic reforms under a structural adjustment program in the late 1980s are not considered as major transformations in the actions and behaviours of the Islamic Republic of Iran. Rather, it has been argued that the Islamic identity, which is based on several popular discourses after the Islamic Revolution of 1979, has continuously determined Iran's foreign policy. This fundamental deficiency is related to 'the widely-held premise that ideas have a life of their own, separate from material reality.'[72] While certainly not disputing the significance of the revolutionary Islamic ideas in the domestic and foreign decision-making processes in Iran, I argue that by elevating these Islamic ideas to a driving-force of history, not human action, social constructivists obscure the way that Iranian society has changed. As Chris Harman correctly puts it: 'Humans cannot act independently of their circumstances. But this does not mean they can be reduced to them. They are continually involved in "negating" the material objective world around them, in reacting upon it in such a way as to transform both it and themselves.'[73] Hence, in contrast to the social constructivist promise that the meaning of the material world is defined by ideas, my approach to the question of ideas is inspired by the concept of the *material structure of ideology*,[74] which fundamentally challenges ontological exteriority embedded in social constructivism. This is because the concept considers the connection between material and ideational structures as dialectical interrelationship and their development 'as intimately bound together and necessarily interrelated and reciprocal.'[75] The concept will be explained at length and empirically utilised to shed light on the construction of new discourses in modern Iran in Chapter 6. Here, it is enough to say that while ideas are considered to be the products of ceaseless class struggle, as far as the material structure of ideology concerned this does not mean the rejection of the independent existence of ideas. Rather, the concept emphasises that the relevance and realisation of ideas heavily hinge on a favourable economic reality and more precisely the employment and capitalisation of the already existing ideas by particular social class forces at a specific point in time.

2.4. Political Economy Literature

The debt crisis of the 1980s in the Global South produced a resurgence of neoclassical understanding of development, whose prescription was to leave the allocation of all resources to the market without any intervention from the government.[76] With a high degree of consensus

[72] Alexander, A. (2015). ISIS and counter-revolution: Towards a Marxist analysis. *International Socialism.* Issue 145.

[73] Harman, C. (2015). Base and Superstructure. *International Socialism*, 2(32).

[74] Bieler, A. and Morton, A. D. (2008), pp. 117-22.

[75] Gramsci, A. (1995). *Further Selections from the Prison Notebooks*. D. Boothman (ed. and trans.). London: Lawrence and Wishart. p. 414.

[76] Leys, C (1996). The crisis in 'development theory. *New Political Economy*, 1(1), p. 42.

among scholars and policy-makers around this particular economic model, the only question was whether the implementation of neoliberal market reforms 'should be undertaken as fast as possible or deliberately more slowly.'[77] Grounded in the experience of capitalist development in Western Europe, neoclassical economics called for the need for the installation of this 'universally applicable' economic system in the developing world as well as Eastern and Central European countries as swift as possible, ignoring the particularity of the forms of development in those societies and historical and cultural differences between them.[78] This demand for a complete reconstruction of economic arrangement[79] manifested itself in the pursuit of four key economic reforms: *macroeconomic stabilisation* which requires a swift reduction of a massive budget deficit, a centralised fiscal policy, a tightening monitory policy and a unified exchange rate; *deregulation* of price and elimination of price subsidies; *privatisation* of small, medium and large state-owned enterprises; and *reinforcing the social safety net*.[80]

Nonetheless, this neoclassical theory invited a barrage of critiques from neo-statist scholars.[81] By providing empirical analyses of the East Asian 'miraculous' developmental catch-up, neo-statists contested that these states' tightly-governed markets and directed industrialisation policies as in the case of the shift from ISI to EOI.[82] Drawing on this experience, neo-statism thus asserted that economic progress requires a developmental state, which is 'characterised as having a developmentally-oriented elite, relative autonomy from vested interests, a competent bureaucracy, a relatively weak civil society, and a consolidated state prior to the development of powerful economic interests.'[83] Apart from this robust and compelling critique, the failure of initial radical neoliberal economic reforms in all parts of the world, which was labelled as 'the transition recession', ultimately compelled neoliberals to shift their focus from the neoclassical emphasis on competition and markets towards the institutional setting of economic activity in the 1990s.[84] Accordingly, new institutionalists, in a rather different interpretation, attributed the 'East Asian

77 Aslund, A. (2007). How capitalism was built: The transformation of Central and Eastern Europe, Russia, and Central Asia, Cambridge: Cambridge University Press. p. 30.

78 Balcerowicz, L. (2002). *Post-Communist transition: Some Lessons*. London: The Institute of Economic Affairs. p 30.

79 Hardy, J. (2009). *Poland's new capitalism*. London: Pluto Press. p. 32.

80 Aslund, A. (2002). *Building capitalism: The transformation of the former Soviet Bloc*. Cambridge: Cambridge University Press, p. 77.

81 See for example White, G. (1988). *Developmental states in East Asia*. London: Macmillan; Wade, R. (1990). Governing the market: Economic theory and the role of government in East Asian industrialization. Princeton, NJ: Princeton University Press; and Alice Amsden, A. (1989). Asia's next giant: South Korea and late industrialisation. New York: Oxford University Press.

82 Ha-Joon Chang, H. (2002). *Kicking away the ladder? Economic development in historical perspective*. London: Anthem; Evans, P. (1995). *Embedded autonomy: states and industrial transformation*. Princeton, NJ: Princeton University Press; Amsden, A. (1990). Third World industrialization: 'Global Fordism' or a new model?. *New Left Review,* 1(182), pp. 5–31; Atul Kohli, A. (2004). *State-directed development: political power and industrialization in the global periphery*. Cambridge: Cambridge University Press.

83 Kiely, R. (2007). p. 178.

84 Saad-Filho, A. (2005). 'From Washington to Post-Washington consensus'. In Saad-Filho and Johnston (eds.) Neoliberalism: A critical reader. London: Pluto Press. p. 117.

miracle' to 'fundamentally sound, market-oriented policies' of the governments to promote an EOI strategy from the start.[85] Relatedly, in the case of market transition in post-communist societies, inspired by the so-called East Asian miracle, some argued that 'the paths taken by each society from communism determine the choices available to solve the economic, social and political problems of transition.'[86] Since the resources for the future economic restructuring of these societies were believed to be constrained by historical structures and the existence of different institutions and organisation, new institutionalism thus demanded the adaption of a slower economic reform whereby governments had time to reform old institutions and set-up new prerequisite institutions for a 'managed' liberalisation.[87] This political economic approach is best summarised by Joseph Stiglitz, who argues that 'the government should serve as a complement to markets, undertaking actions that make markets work better and correcting market failures.'[88] While asserting on the importance of the role of the government, new institutionalism ultimately reproduces neoclassical methodological foundations and its dogma of viewing markets as generators of developmental dynamism. For it has only added institutionalisation to the already accepted three '-isations' of liberalisation, stabilisation and privatisation.[89]

All these three mainstream schools of political economy, namely neoclassical economics, new institutionalism and neo-statism, build their understanding of development around particular instances of the East Asian newly industrializing countries or Western Europe. The danger of the universalisation/generalisation of particular experiences of these accounts is that the process of 'correct' form of development is already articulated in an abstract and formalistic manner, resulting in static categories. Consequently, the study of the process of development in any given society is nothing but the mere application of these theoretical blueprints to multifaceted socio-historical realities of development. In other words, all three political economy theories have *a priori* answers to the trajectory of development even before the start of the analysis.

85 World Bank. (1993). The East Asia miracle. Oxford: Oxford University Press; Hughes, H. (1989). Catching up: The Asian newly industrialising economies in the 1990s. *Asian Development Review*, 7(2), pp. 128-44; see also O'brien and Williams (2016), p. 225.

86 Shields, S. (2012). *The international political economy of transition*. London: Routledge. p. 27.

87 Ibid. pp 28-30. See also Grabher, G. and Stark, D. (1997). Organizing diversity: Evolutionary theory, network analysis and postsocialism. *Regional Studies,* 31(5), pp: 533-44; Stark, D. (1996). Recombinant property in East European capitalism, *American Journal of Sociology*, 101(4), pp: 993-1027; Martin, R. (2013). *Constructing capitalism: Transforming business systems in Central and Eastern Europe*. Oxford: Oxford University Press.

88 Stiglitz, J. (2005). More instruments and broader goals: Moving toward the Post-Washington consensus. London: Palgrave Macmillan. p. 36.

89 Gowan, P. (1995). Neo-liberal theory and practice for Eastern Europe. *New Left Review,* 1/213, p. 13.

2.4.1. Critique of Political Economy Literature of Iran

The attempts to apply these theoretical blueprints to investigate the process of development in contemporary Iran have unsurprisingly produced scholarly accounts with serious limitations. In a study to dissect the roots and causes of the state economy in Iran, Mosa Ghaninejad argues that since 'Iranian traditional collective values' do not resonate with 'modern individualist values', the trace of nationalism and state economy could be found in all political systems in Iran from the early twentieth century until the present time.[90] In regards to the Iranian post-1989 economic reforms, his claim is that the privatisation initiative and other market-oriented reforms have resulted in the continuation of an insecure business environment as well as widespread corruption due to the residues of nationalist and socialist intellectual sediments. According to Ghaninejad, from the neoclassical economics perspective, what has to be done to progress is to rely on 'scientific truth' of the market system and private sector instead of pursuing these 'ideological mirages'.[91] Unmistakably, a strident eurocentrism is at the heart of the analysis as a particular autonomous quality of the 'West' (individualism) is considered to be superior to 'the rest'. By universalizing Europe 'as the originary and privileged space of modernity', it is thus contradictorily concluded that *irrational* Iranian values have hindered a progress that could be only realized through an efficacious emulation of the 'European modernity and its associated institutions and practices.'[92] His insistence on the reliance of on scientific truth is derived from the claim that economics is the master of social sciences through which an 'objective' and 'impartial' evaluation and measurement is developed, thus reinforcing and reproducing the neoliberal orthodoxy as a universally validated theory.[93] Under this interpretation of truth, his neoliberal modality accentuates the necessity for the de-politicisation of the political form of the social organisation of the society with the aim of the fetishisation of technocrats and the normalisation of 'the changing structures of class, state and the significance of neoliberalisation, transnational power or historical change.'[94]

As it has been mentioned, although institutionalists challenge the neoliberal blueprint approach regarding the scale and pace of change and the importance of national institutions, they embrace the major components of the neoliberal agenda. For instance, in Farshard Momeni's new institutionalist account of Iranian neoliberalisation, more or less all neoclassical assumptions and

90 Ghaninejad, M. (2017). *Economy and State in Iran* (in Persian). Tehran: Donya-e-Eqtesad Press. p. 11

91 Ibid, pp. 412-18.

92 Matin, K. (2011). Redeeming the universal: Postcolonialism and the inner life of Eurocentrism. *European Journal of International Relations*, 19(2), p. 354. I will return to the issue of Eurocentrism at length in Chapter 7 where I call for the incorporation of the active agency of the 'non-West' in any analysis of geopolitics.

93 Shields, S. (2012). p. 13.

94 Ibid. p. 19; see also Shields, S. (2008). How the East was won: Transnational social forces and the neoliberalisation of Poland's post-communist transition. *Global Society,* 22(4), p. 462.

policies derived from them to realise development including liberalisation, stabilisation, and privatisation are expectedly accepted. Looking at the failed Iranian neoliberal reforms, rather than Iranian traditional collective values, he lays the blame on the absence of functional national institutions, not the market nor the way the country has been incorporated into the global economy.[95] Central to his argument, similar to Ghaninejad, is the assumption of the separation of economic policies from the broad socio-political context. Any critical interrogation of Momeni's new institutional and Ghaninejad's neoclassical accounts would be flawed if it neglects the particular material and political interests underpinning or embedded in these theories. Because 'theory is always *for* someone and *for* some purpose',[96] they are not neutral subjects who engage with objective reality, but scholars who involve their values and beliefs in their arguments. In reality, these partisan subjects have been crucial actors in the universalisation of a particular knowledge, which has been used for the construction of the class hegemony of particular capital fractions in the age of globalisation.

Perhaps, more important than the above criticism is that both analyses have an internalist concept of development whereby the causal significance of 'the international' is to a large extent eluded. As a result, the success or failure of development are reduced to internal determinants whether they be excessive state intervention form the neoliberal perspective or the underdevelopment of national institutions from the institutionalist approach. They therefore view the global economy and Iranian economy as dichotomous entities, ignoring the specific constellation of global and local factors in the shaping of the historical production of particular trajectories of development. The inability to account for the international origin of patterns of development largely due to the disregard for the changing logic of capital accumulation at the global level is the primary rationale behind their internalist explanatory formula. Put differently, without linking the process of national development to the expansion of global capitalism under a specific model of accumulation at any given time, the methodological nationalism is usually reproduced in one way or another.

Against these narrations, drawing on the neo-statist perspective, Mohammad-Taghi Delafrouz compares Iran's socio-political context of development with the Asian newly industrialising countries, claiming that due to the lack of developmentally-oriented elites, rational bureaucracy, and an autonomous state, elites have become involved in a discursive battle to win

95 Momeni, F. (2014). *Iran's economy during the structural adjustment era* (in Persian). Tehran: Naghsh & Negar Press. pp. 177-78.

96 Cox, R. (1981). Social forces, states and world orders: Beyond international relations theory. *Millennium: Journal of International Studies,* 10(2), p. 128.

the waving social demands of various societal groups through elections.[97] While admitting the weak civil society in Iran is similar to these countries, he observes that 'the plurality and dispersion of elements of power and the [populist] nature of the electoral system' in the Islamic Republic has disturbed 'stability required for grand developmental economic policies.'[98] Although the confrontation between the U.S. and Iran is mentioned as an inimical condition for development,[99] he also ultimately falls into the trap of methodological nationalism to trace the debacle of development. Because not only the pre-revolutionary form of development is represented as an equally unsuccessful experience despite the fitting international milieu, the analysis also fails to capture different forms of the restructuring of global capitalism since the Second World War and their rather different shaping factors in the developing world. This has manifested itself in the odd comparison of the East Asian process of development in the 1960s and 1970s with post-revolutionary Iran. Hence, by following neo-statist ideal-type model that often implicitly incorporates Weber's concept of bureaucratic rationality,[100] in an internalist manner, the author argues that because the state autonomy in Iran is dis-embedded in the society it is counterproductive to development, unlike the Asian developmental states.

It is worth pointing out that Delafrouz's attempt to link the state to the wider social forces is not, however, an endeavour to conceptualise the state as a form of social relations but to show the irrationally of an external entity that intervenes in society. Similar to other neo-statist accounts, the study fails to comprehend that any form of state (including the so-called 'developmental state') is not completely autonomous from society since its institutional setup and its capacities to implement certain policies and pursue specific long-term objectives are strongly influenced by the class structure of the society and the balance of power between various fractions of capital within the state. Whilst Delafrouz reifies 'the state', Ghaninejad and Momeni do the same with 'the market' because the process of development is preceded either by the state or the market, which are conceptualised as 'things' independent from society and societal struggles. This commitment to the ontological exteriority that treats the state, market and society as always-already separate spheres results in the omission of the role of agency and struggles of social classes over the direction and outcome of development. The failure to understand development as an inherently

97 Delafrouz, M. T. (2014). *State and economic development: Political economy of development in Iran and the developmental states* (in Persian). Tehran: Agah Press. p. 245, and pp. 332-43.

98 Ibid, pp. 354-56.

99 Ibid, p. 371.

100 Selwyn, B. (2009). An historical materialist appraisal of Friedrich List and his modern-day followers. *New Political Economy*, 14(2), p. 166. See also Selwyn, B. (2016). Elite development theory: A labour-centred critique. *Third World Quarterly*, 37(5), p. 789.

antagonistic and politically charged process consequently has produced three modes of explanation that are deeply ahistorical.

2.5. Conclusion

This chapter presented a number of critiques regarding the mainstream IR theories as well as various political economy accounts of contemporary Iran. With regards to the former, it argued that structural realism and social constructivism each attribute a specific nature to the Iranian state. While structural realism depicts the state as a transhistorical unit obsessed with a uniform national interest, social constructivism characterises the state as a homogenous unit with a singular Islamic identity, albeit with a time-bound framework starting after the revolution of 1979. This state-centric premise not only discounts the antagonism inside the state among various class fractions, but it also writes off inter-societal relations among states. Through scrutinising political economy analyses, it also became clear that the Iranian state for them is a 'thing' or 'subject' independent or above society and social classes. It further demonstrated that a central theme which runs through all political economy accounts as well as the social constructivist analysis is an internalist conceptualisation of the state and society. From this methodological starting point, much of the literature on contemporary Iran has thus sought explanations based upon various 'unique' internal characteristics, which in turn reinforce an 'exceptionalism' treatment through which Iran is disconnected from the wider space of economic, political and cultural globalisation. As a result of these shortcomings, most of the studies are disturbingly ahistorical or at best less sensitive to history.

To historicise the state, the society and the country's developmental trajectory, the core lens of analysis needs to be an investigation of the social relations involved in the production and circulation of goods and capital and the power relations arising from them, which are almost completely left out by mainstream theories. This starting point should not be the national economy but the ways in which Iran has integrated into the global economy that allows capturing the neoliberal restructuring of global capitalism and its shaping factor in the country's development since the late 1980s. In other words, what is required is a focus on the 'dialectic of global/local' in which contemporary Iran would be theorised as a specific constellation of factors – global and local – which have shaped its production, the emergence of new relations, and possibilities of different politics.[101] This unnoticed analytical starting point of social relations of production premised on the dialectic of global/local or external/internal would lead to a conception of

[101] Rupert, M. (1998). (Re-)engaging Gramsci: A response to Germain and Kenny. *Review of International Studies,* 24(3). pp. 432-3.

different fractions of the ruling class, their accumulation strategies, and the class basis of the state, which in effect prevents subsiding the analysis to an ideologically specific and culturalist explanatory formula. Furthermore, it averts a transhistorical and an essentialist understanding of the Iranian nuclear program by seeing conflicts around it as properties of capitalism. Contouring this historical materialist approach is the central task of the next chapter.

Chapter Three

Rethinking Iran: A Historical Materialist Approach

3.1. Introduction

The previous chapter presented a number of critiques regarding the mainstream theorisations of Iran in the disciplines of IR and IPE. To recap, it was argued that structural realism and social constructivism attribute a nature to the Iranian state. While the former depicts the state as a transhistorical unit obsessed with a uniform national interest, the latter characterises the state as a homogenous unit with a singular Islamic identity, albeit with a time-bound framework started after the 1979 revolution. Not only does this conceptual premise discount the antagonism inside the state among various class fractions, but it also writes off the intersocietal relations among states. What is more, the exclusion of an inquiry into the relationship between geopolitical conflicts and capitalist development was rejected, suggesting that these conflicts must be seen as the properties of the totality of the system, i.e. global capitalism. Thereafter, it was demonstrated that the political economy literature embarks on the analysis of the process of production, unlike these IR narratives of Iran. That said, the neoclassical, new institutionalist and neo-statist accounts were problematised as they rest upon methodological nationalism that detach the country from the outside by viewing the national economy and the global economy as dichotomous entities separate from each other. In a word, the chapter revealed that the existing literature suffers from ontological exteriority that sees various spheres of the social world separate from each other.

In line with the ontological foundation of the thesis outlined in Chapter 1, a conceptual framework is needed to help us to go beyond the binary understanding of the national and the global economy, to locate domestic struggles in the material interests of both internal and external social forces, to historicise the form of Iranian state by recognising the internal links between the political and the economic spheres as well as the ideational and material structures, and to grasp the internal relations between the logics of capital and geopolitics. Informed by the social ontology of internal relations, by defining a set of foundational concepts derived from Marxian political economy, this chapter thus aims to develop a critical approach that could be deployed to comprehensively analyse the political economy of contemporary Iran.

The remainder of the chapter is organised as follows. The second section starts by defining capitalism and outlining its structural conditions and dynamics as well as assessing the role of

agency and its relation to structure from a historical materialist approach. The following section aims to provide a conceptual framework that can shed light on the process of the institution of capitalism and the recurrent restructuring of capitalist relations of production. Informed by these abstract discussions, section four illuminates on the process of neoliberal globalisation in order to provide a theoretical framework for grasping the recent reorganisation of production and reconfiguration of classes in Iran. After theorising the state as an arena for an open-ended class struggle among various social class forces, the fifth section deals with the debate regarding the internal relations between geopolitics and capitalism to lay a theoretical foundation for an empirical examination of the impacts of the Iranian nuclear program on the neoliberal restructuring of the economy. The final section provides the rationale for and an overview of the structure of the subsequent empirical chapters.

3.2. Capitalism: Its Structuring Conditions and the Role of Agency

In Marx's conception of historical materialism, 'social metabolism' with the natural world is central. Marx argues that 'labour is…a process between man and nature, a process by which man, through his own action, mediates, regulates and controls the metabolism between himself and nature…in order to appropriate the materials of nature in a form adapted to his own needs.'[1] This labour process[2] consists of three elements: (1) purposeful work, (2) the objects of labour or raw materials and (3) the instruments of work. Therefore, to understand the structural dynamics and material inequalities of different social systems, the social form of the metabolism with nature is crucial. Although the labour process is common to all forms of society, the way it is organised varies across space and time.[3] Through this process, 'forms of domination and control of labour bound up with a wider set of class-relations expressive of them and of the social functions implied in them' realise.[4] In Marx's terminology, these historically created general forms are referred to as 'modes of production'. It should be emphasised, however, that a mode of production is not 'a simple economic relation, or merely a form of exploitation.' Quite the contrary, it should be seen as 'a composite totality of social relations that encapsulate certain conditions of production – be they

1 Marx, K. (1867/1990). *Capital, Vol.1*. London: Penguin Books, p. 283.

2 David Harvey asserts that Marx's comprehension of the relations between human and nature through the labour process is fundamentally different from the dominant understanding of these relations during the age of the Enlightenment. According to Harvey, in contrast to the intellectuals of the Enlightenment, who viewed history as a titanic struggle between humanity and nature, Marx dialectically construed this process as 'wholly natural and wholly human at the same time' that not only changes external nature but also simultaneously changes human own nature. Harvey, D. (2010). *A companion to Marx's Capital Vol.1*. London: Verso, p. 111.

3 Makki, F. (2015). Reframing development theory: The significance of the idea of uneven and combined development. *Theory and Society* 44(5), p. 479.

4 Banaji, J. (2010). *Theory as history: Essays on modes of production and exploitation*. Leiden: Brill. p. 1.

political, cultural or intersocietal – and the 'laws of motion' that arise out of those conditions.'[5] By focusing on these general configurations, Marx sets up the materialist conception of history, which allows him to identify the particularity of capitalism as a mode of production.[6]

In non-capitalist modes of production, the 'metabolic' interchange with nature is socially organised through 'hierarchically coded definitions of personhood' in which some are subordinated by others. Contrary to these relations of personal dependence, in capitalism, social relations are mediated by the market. Accordingly, the social hierarchal relations are superseded by a form of 'personal interdependence, based on dependence, mediated by things' on 'a web of market-mediated relations.'[7] Unlike those who define capitalism as a market-based system in which commodities sell in a market for profit, for Marx, capitalism arises when the owner of the means of production finds a wage labourer available.[8] As the capitalist does not buy the labour of the worker but his labour-power for a given period of time, the labour-power is a commodity under capitalism.[9] Nonetheless, it is important to emphasise that all wage labourers are not 'free' since 'there is a large class of people within capitalist society, whose labour power is commodified in many different ways', including semi-free labour, forced labour, child labour, self-employed as well as non-wage activities that workers depend upon such as the farming of small plots of land or unpaid family labour. The common denominator for all these subaltern workers is 'the coerced commodification of their labour power.'[10] Two conditions are attached to the exchange of labour-power as a commodity. First, the worker always works under control of the capitalist and second, the product of the worker belongs to the capitalist.[11] By combining the wage labour of workers with machines and raw materials, the capitalist produces finished products. The significance of this exchange is that 'the value of labour-power, and the value which that labour-power valorises in the labour process, are two entirely different magnitudes.'[12] In other words, the labour-power, on the one hand, creates the value as a wage to provide the bundle of commodities needed for the reproduction of the worker and his/her family. On the other hand, it also has a particular use-value that creates new value, surplus-value, for the capitalist through a volume of unpaid labour time to the worker.[13] By assuming a perfectly functioning capitalist system in which 'the labour-

5 Anievas, A. and Nisancioglu, K. (2015), p. 98.

6 Makki, F. (2015). p. 479.

7 Ibid, p. 479

8 Marx, K. (1867/1990), P. 274.

9 Mandel, E. (1990). Introduction to Capital, Vol.1, p. 50.

10 Linden, M. V. D. (2008). *Workers of the world: essays toward a global labor history*. Leiden: Brill. Pp. 32-3.

11 Marx, k. (1867/1990), pp. 291-92.

12 Ibid, P. 300

13 Harvey, D. (2010). p. 124.

power is bought and sold at their full value'[14] – workers are paid a 'fair' wage in classical political economy terms – in the sphere of exchange (the labour market), Marx argues that the exploitation takes place in the sphere of production where workers' labour-power is used to generate surplus-value. For Marx, unlike liberals that portray the capitalist market as a neutral arena of exchange, capitalism is thus a set of social relations between humans – appears as a relation between things or between humans and things – that constantly reproduces the subordination of labourers to the owners of capital.[15]

The sale of commodities in the process of circulation in the market realise the generated surplus-value in the sphere of production, meaning that many capitals enter a competition in the market to sell their products. However, uncertainty surrounding the ability to sell the commodities at the maximum profit necessitates additional capital to the existing capital. Put slightly differently, the surplus-value in the capitalist system does not consume for luxury goods but appears in the form of money that increases the purchasing power of capitalists for more raw materials, more machines and above all more labour-power. 'Accumulate, accumulate! That is Moses and the Prophets'[16] is a metaphor used by Marx to portray this economic compulsion of capitalism. As Mandel puts it:

> Private property, the fragmentation of social labour among various firms, that is, the very nature of generalised commodity production – capitalism – implies a compulsion to compete for shares of the market. The need to accumulate capital, the need to increase the extraction of surplus-value, the unquenchable thirst for surplus-value which characterises capitalism, it is all here: the accumulation of capital=the transformation of surplus-value into additional capital.[17]

For that reason, the drive for the accumulation of capital by various capitalists to compete in the market for a greater profit is the basic law of the capitalist mode of production, which in turn inflames the fire of growth in the capitalist system. In contrast, the absence of competition is an alarming sign for the system because when capital formation falls 'exclusively into the hands of a few existing big capitals [monopolies]…the animating fire of production would be totally extinguished.'[18]

Marx divides capital into two categories: constant capital[19] and variable capital in which the former is past labour used in the means of production. The latter is variable because in the process

14 Marx, K. (1867/1990). p. 431.

15 Selwyn, B. (2014). *The global development crisis*. Cambridge: Polity, p. 2.

16 Marx, K. (1867/1990). p. 742.

17 Mandel, E. (1990), p. 52.

18 Marx, K. (1894/1991). *Capital, Vol. III*. London: Penguin Books, p. 368.

19 Although it is called 'constant', it should not be interpreted as fixed value due to the fact that the productivity in producing raw materials and especially machinery also varies. See, Harvey, D. (2010), p. 128.

of production the value of labour-power does undergo an alteration. While in the second form the class struggle over the value of workers' labour-power affects the whole capitalist class, in the first form the struggle is among individual capitalists for ephemeral value. In other words, rules of reproduction in capitalism consistently constitute vertical antagonisms between the capitalist class and the labouring class on the one hand and horizontal antagonisms among individual capitals on the other hand.[20] The unquenchable thirst for surplus-value extraction necessitates a constant struggle among individual capitalists for further technological innovation to increase the level of productivity and thus produce more goods at lower costs.[21] However, Marx notices that this extra surplus-value vanishes quickly when superior technologies are generalised because under the 'coercive law of competition' if the apparatus of production of a firm does not apply and adopt the new method of production, it will face declining rates of profit and ultimately will be steamrolled by competitors.[22]

Nonetheless, what is logical for individual capitalists may be disastrous for the whole system as it generates periodic crises. From a Marxist perspective, the crisis in capitalism is not considered as the pathology of the system but arises inherently from the structural contradictions of the capitalist mode of production. Although Marx did not provide a systematic theory of capitalist crisis, later scholars have constructed broad categories of crisis, emphasising one and other aspects of Marx's scattered discussion.[23] According to David Harvey, the tendency of the rate of profit to

[20] Brenner, R. (1986). 'The social basis of economic development'. In John Roemer (ed.). *Analytical Marxism*. Cambridge: Cambridge University Press, pp. 23–53.

[21] Bieler, A. (2014). Transnational labour solidarity in (the) crisis. *Global Labour Journal*, 5(2), p. 116.

[22] Marx, K. (1867/1990), p. 436.

[23] Foley, D. (1986). *Understanding capital: Marx's economic theory*. Massachusetts and London: Harvard University Press, p. 145. These reconstructions can be divided into three main theories: *falling rate of profit*, *disproportionality* and *overproduction.* The crisis of the profit rate to fall is generally spawned as a result of the inability to extract satisfactory surplus value (Agnoletto 2013; pp. 464 and 467-70). However, as the rate of profit falls due to the fact that organic composition of capital – the ratio of the value of constant capital to the value of variable capital – rises faster than the rate of exploitation – the ratio of surplus value to the value of variable capital –, Clarke (1991, p. 444) argues that 'the fall in the rate of profit is neither a necessary nor a sufficient condition for crises.' Disproportionality occurs because capital is allocated by the decentralised decisions of individual capitalists. One version of the theory stresses on the disproportionality between consumption and investment, the other version focuses on disproportionalities between departments I and II, for example in producing an insufficient amount of raw material in one industry. However, these 'disproportionalities are not merely the contingent result of the "anarchy of the market"', and thus they can be corrected by state intervention or regulation of the market as reformists argue. Rather, 'they are the necessary result of social form of capitalist production'. The economic compulsion of capitalism for accumulation, not only leads to a general overproduction of commodities, but also appears 'in the form of the disproportional development of the various branches of production' (Clarke 1991, pp. 446-458). On the other hand, some argue that the fundamental source of crisis lay in the contradiction between the limitless development of productive forces and the restrictive power of the mass of population to consume, resulting in the crisis of overproduction. The competition for the increase in the productivity of labour by investment in constant capital leads to a sharp decline in wages and gives rise to unemployment. As a result, either absolute pauperisation – for example in early capitalism and now in less developed countries – or a relative fall in real wages may cause (Moosavi, 2010, p. 30). This means that producing cheaper goods with fewer workers results in the inability to realise the generated surplus-value. Or put more simply, the lack of demand in the market due to the limiting purchasing power of labouring classes causes the crisis of overproduction (Bieler and Morton 2014, p. 37). The most basic contradiction in the capitalist system for this crisis is that the 'increase in production has not been called forth by an expanding demand, but has been driven by the desire of the capitalist to increase the production of surplus-value' (Clarke, S 1999, p. 65; Moosavi, 2010, p. 30). One may argue that the capitalist classes could take up the shortfall of the demand in the market. However, as Marx affirms, this suggestion is equivalent to the abandoning of 'the entire nature of capitalism', which is the 'quest for accumulation rather than consumption' (Kettell, 2006, p.

fall as the central chronic tendency of the system manifests itself in recurring crises of overaccumulation, which is defined as 'surpluses of capital and of labour power side by side without there apparently being any means to bring them profitably together to accomplish socially useful tasks.'[24] Nevertheless, for capitalists, the condition of production and the extent of the market are barriers that must be overcome, rather than are taken as given.[25] One way of averting and overcoming the crises of overaccumulation is the spatial reorganisation, or what Harvey calls the 'spatial fix' which is facilitated by the uneven logic of development in capitalism.[26] Through this spatial reorganisation, as well as guaranteeing new markets for goods, new spaces for the absorption of surpluses in capital globally in productive capacity or money are secured as a result of the reduction in production costs by accessing to cheaper labour power and raw materials.[27] It is important to notice that the uneven development of capitalism acts as the facilitator of its geographical outward expansion, but at the same time the new spatial overhaul deepens its unevenness. In short, the constant pressure on all individual capitalists for hunting ephemeral surplus-value through the introduction of new technologies, the tendency towards crisis, and the uneven development are three key structuring conditions of the capitalist mode of production.

As well as creating the structural properties of capitalism, the social relations of production also generate social classes as the key collective agents.[28] *Social Class* in this thesis is defined as 'a group of people who share a common relationship to the process of social production and reproduction and are situated relationally on the basis of social power struggle.'[29] As explained above, under the capitalist mode of production, those who own the means of production, the bourgeoisie, and those who sell their labour power, the proletariat, are the main classes that stand opposed to each other. However, this does not imply a homogeneous understanding of these classes and thus it is important to distinguish between various groups within a single class, considered here as class *fractions*. As such, within the capitalist class, industrial capital,

26). See: Agnoletto, S. (2013). Periodic crises in capitalism: Pathological or restorative?. *Science & Society*, 77(4), pp. 459-485; Clarke, S. (1990). The Marxist theory of overaccumulation and crisis. *Science & Society*, 54(4), pp. 442-467; Moosavi, S. (2010) Capitalism and crises: Towards economic change. *Social Scientist*, 38(7/8), pp. 29-43; Bieler, A. and Morton, D. A. (2014). Uneven and combined development and unequal exchange: The second wind of neoliberal 'free trade'?. *Globalisations*, 11(1), pp. 35-45; Kettell, S. (2006). Circuits of capital and overproduction: A Marxist analysis of the present world economic crisis. *Review of Radical Political Economics*, 38(1), pp. 24-44. For an overview of the Marxist theories of crisis, see also Clarke, S. (1994). *Marx's Theory of Crisis*. Palgrave Macmillan; Fine, B. and Saad-filo, A. (2004). *Marx's capital*. London: Pluto Press, pp. 76-86; Harvey, D. (2006). *The limits to capital*. London: Verso, pp. 413-445.

24 Harvey, D. (2004). The 'New' Imperialism: Accumulation by dispossession. *Socialist register*, 40, p. 63.

25 Clarke, S. (1999). Capitalist competition and the tendency to overproduction: Comments on Brenner's 'uneven development and the long downturn'. *Historical Materialism*, 4(1), p. 65.

26 Harvey, D. (2003). *The new imperialism*. Oxford: Oxford University Press, pp. 87-8.

27 Bieler, A. (2013). The EU, global Europe, and processes of uneven and combined development: The problem of transnational labour solidarity. *Review of International Studies*, 39(1), p. 174.

28 Cox, R. (1981), p. 138.

29 Robinson, W. (2004). *A theory of global capitalism*. Baltimore and London: John Hopkins University Press, p.37.

commercial/merchant capital and financial capital fractions can be identified.[30] As will be shown shortly in detail, this class could also be divided into different fractions based on the orientation of their activities, including transnationally-oriented, internationally-oriented and nationally-oriented capital. Equally, labouring classes include several distinct fractions: urban/industrial workers, the white-collar workers, informal workers as well as some workers in the rural sphere, classified generally as farmers.[31] As well as the capitalist class and the working class, there are other social classes, including the middle class and petty bourgeoisie. While deprived of owning the means of production similar to other workers, senior officials, managers and professionals, as members of the middle class, exercise some degree of *authority* and possess relative *autonomy*, unlike members of the working class. The petty bourgeoisie is defined as the owners of small enterprises, usually less than 10 workers, whom themselves work alongside other workers (paid or unpaid family labour). What distinguishes a petite bourgeois from a bourgeois is the fact that he/she does not engage in the process of reinvestment at the extended level as the extracted surplus value from the exploitation of workers uses for the maintenance of his/her small business and unproductive consumption.

Although the social relations of production engender social class forces, they cannot simply determine the ideas, interests, and strategies of social class forces. As Stuart Hall argues, the economic structure provides the repertoire of categories as outlined above and has constraining effects on the strategies of classes. Nevertheless, 'what the economic cannot do is (a) to provide the contents of the particular thoughts of particular social classes or groups at any specific time; or (b) to fix or guarantee for all time which ideas will be made use of by which classes.'[32] Hall asserts that it is 'an untenable proposition' to claim that a mode of production analysis 'can produce empirically-constituted "whole classes" at the level of the economic' due to the fact that 'the political, juridical and the ideological also have *their own* effects, just as they have their own, determinate, conditions of existence, not reducible to "the economic"' (emphasis original).[33] Here, Hall argues for the significance of the determination by the economic in *the first instance* and not in the last instance. Crucially, this understanding of determinacy justifies 'the necessary "openness" of historical development to practice and struggle' of the agency of classes and fundamentally problematises the deterministic interpretation of history, which results in 'absolute predictability'

[30] Ibid, p. 37.

[31] Selwyn, B. (2014), P. 16.

[32] Hall, S. (1996). 'The problem of Ideology: Marxism without guarantees'. In Morley & Chen (eds.). *Stuart Hall: Critical dialogues in cultural studies*. London and New York: Routledge, p. 43

[33] Hall, S. (1977). 'The "Political" and the "Economic" in Marx's theory of classes'. In Hunt (ed.). *Class & Class Structure*. London: Lawrence and Wishart Ltd, pp. 55-56.

of the practice of the agency.[34]

This echoes Marx's famous argument that 'men make their own history, but they do not make it as they please.'[35] In other words, even though each given set of structuring conditions constrains the strategies of agents and limits their actions, they still have 'a range of strategies at their disposal, from which they can choose to go forward.'[36] Perhaps, Marx's notion of *a class-in-itself* and a *class-for-itself* can capture this dialectic conception of class. Whilst the former refers to members of a class group who share an objective place in the economic structure regardless of whether they are conscious of their collective condition, the latter is a class whose members are aware of their structural position only through struggle, and they act collectively to achieve their shared interests.[37] In other words, class as a historical rather than economic category is 'constituted by a form of conflictive behaviour generated *primarily but not exclusively* by common experiences in the production process' (emphasis added).[38] According to E. P. Thomson, class struggle is the only means in which a class-in-itself becomes class-for-itself:

> Classes do not exist as separate entities, look around, find an enemy class, and then start to struggle. On the contrary, people find themselves in a society structured in determined ways, they experience exploitation (or the need to maintain power over those whom they exploit), they identify points of antagonistic interest, they commence to struggle around these issues and in the process of struggling they discover themselves as classes.[39]

Whilst the analysis of social relations of production can identify a class-in-itself, through a focus on class struggle it is possible to show the formation of class consciousness. Hence, the structural and agency levels of analysis are equally important since the first one interrogates the production relations while the second one is concerned 'with intentionality and with the forms of consciousness involved in intervention that shape social processes and as well the direction of development in material relations.'[40] In short, a careful analysis of a distinctive capitalist epoch requires giving equal attention to both the structuring conditions of the capitalist mode of production and the strategies of different social class agents. After engaging with the relationship between structure and agency in capitalism at the abstract level, I will now turn to examine the ways in which capitalist social relations establish and restructure.

34 Ibid, p. 44.

35 Marx, K. (1852/1984). *The Eighteenth Brumaire of Louis Bonaparte*, London: Lawrence and Wishart Ltd, p. 10.

36 Bieler, A. (2014), p. 120.

37 Robinson, W. (2004), p. 38.

38 Andrew, E. (1983). Class in Itself and Class against Capital: Karl Marx and His Classifiers. *Canadian Journal of Political Science*, 16(3), p. 579.

39 Thompson, E. P. (1978). Eighteen-Century English society: Class struggle without class?. *Social History*, 3(2), p. 149.

40 Robinson, W. and Harris, J. (2000). Towards a global ruling class? Globalization and the transnational capitalist class. *Science & society*, pp. 21-2.

3.3. Institution and Restructuring of Capitalism

By using a method of rational abstractions, the delineation of the formal structures of the capitalist mode of production was the primary intention of Marx. Except the section on primitive accumulation in *Capital*, his analytical object was 'a pure construct of a capitalist society free from all disturbing accompanying circumstances' rather than an empirical and thus historical extrapolation of capitalism in England.[41] Through this method, Marx claims that the establishment of capitalist social property relations generates its own law of motion, including the capitalist's compulsion to accumulate, the tendency towards perpetual technological revolutions, the insatiable thirst for surplus-value extraction, the inevitability of class struggle, the tendency towards social polarisation and finally periodic crises.[42] These laws are expressed and realised through the established relations of capitalist production at different levels of the social process of production.[43] Nevertheless, Marx's analysis of capitalism did not fully provide an account of how the expansion of capitalism across the world proceeds. By referring to the preface to the 1867 first edition of *Capital Vol I* in which Marx famously claims that '[t]he country that is more developed industrially only shows, to the less developed the image of its own future',[44] some authors have accused of Marx being Eurocentric. In the 1872-75 French edition, Marx however revised the entire book including the above sentence to 'The country that is more developed industrially only shows, *to those that follow it up the industrial ladder*, the image of its own future.' This implies that societies like India and Russia that not yet began their 'industrial path' were not included. Furthermore, in his late writings, especially on Russian communal forms as the 'point of departure for a communist development', Marx reiterates the possibility of different developmental paths from Western Europe for other societies.[45] While certainly attributing the construction of a unilinear version of the historical process to Marx is highly questionable, there is undoubtedly a fundamental lacuna in his theorisation regarding the outward expansion of capitalism and the forms of this expanded reproduction in new societies despite the attempts in the final years of his life.

41 Makki, F. (2015) p. 481.

42 There is a controversy surrounding the number of capitalist laws of motion among Marxists. Besides the laws mentioned above, in the Mandel's list 'the tendency towards growing concentration and centralisation', 'the tendency for the organic composition of capital to increase', 'the tendency of the rate of profit to fall' and 'the tendency towards growing objective socialisation of labour' are also outlined. See, Mandel, E. (2003). The laws of motion of the capitalist mode of production. *International Viewpoint-Online Socialist Magazine*.

43 Banaji, J. (2010), p. 60.

44 Marx, K, (1867/1990), p. 91.

45 Anderson, K. (2016). *Marx at the margins*. London: The University of Chicago Press, pp. 171-80 and 224-36.

3.3.1. Uneven and Combined Development

It was Trotsky's thesis on uneven and combined development that yielded a concrete and historical analysis of the capitalist expansion. The basic ontology of human development, according to Trotsky, is its universal unevenness, labelled as the 'most general law' of history. Human development repeatedly and constantly engenders layers and axes of the unevenness to the extent that the entire socio-historical process is 'the interaction of differentially developing social temporalities.'[46] Although capitalism emerged within and through these variegated processes, it attempts to universalise and equalise the unevenness processes of development incessantly. Although the outward expansion of capitalism draws all countries economically closer together and levels out their stages of development, this process develops some part of the world while hampering and throwing back the development of others.[47] In other words, 'the dynamic of capital reveals a dialectical nature expressed through the contradictory unity of universalising and differentiating tendencies',[48] reproducing the uneven tendencies of human development, as it was touched upon above in the discussion about the structuring conditions of capitalism.

Through 'analysing the particular location of Russia within the world economy',[49] Trotsky remarked that the structural competitive nature among Russia and other European societies was created by the relations of unevenness between them. This unevenness gave rise to 'a whip of external necessity' in which the less-developed Russian society was 'being pushed forward by the friendly, and even more by the hostile, pressure of the neighbouring [European capitalist] state organisations, which had grown up on a higher economic basis.'[50] This relational condition of power-differential compelled Russia to adopt the most cutting-edge technologies and institutions pioneered by the leading Western states under the policy of industrialisation.[51] The Russian economy predominantly relied on ineffective agriculture, indicating the unevenness of its development in relation to the advanced manufacturing Western neighbours. The response to the external threats from the West resulted in the establishment of 'a number of small pockets of

46 Allinson, J. C., and Anievas, A. (2010). The uneven and combined development of the Meiji Restoration: A passive revolutionary road to capitalist modernity. *Capital & Class*, 34(3), p. 472-73.

47 Trotsky, L. (1936/1970). *The Third International after Lenin*. New York: Pioneer Publishers, pp. 19-20.

48 Allinson, J. C. and Anievas, A. (2009). The uses and misuses of uneven and combined development: An anatomy of a concept. *Cambridge Review of International Affairs*, 22(1), p. 50.

49 Bieler, A. (2013), p. 171.

50 Trotsky, L. (1906/2007). 'Results and Prospects'. In Trotsky, L. *The Permanent Revolution and Results and Prospects*. London: Socialist Resistance. p. 27.

51 Anievas, A. and Nisancioglu, K. (2015), p. 45.

highly developed industries especially in military related production.'[52] To articulate this process, Trotsky proposed 'the privilege of backwardness':

> Although compelled to follow after the advanced countries, a backward country does not take things in the same order. The privilege of historic backwardness – and such a privilege exists – permits, or rather compels, the adoption of whatever is ready in advance of any specified date, skipping a whole series of intermediate stages. Savages throw away their bows and arrows for rifles all at once, without travelling the road which lay between those two weapons in the past.[53]

Yet Trotsky himself was quick to note that the universal law of unevenness produces another law, the law of combined development – by which he meant 'a drawing together of the different stages of the journey, a combining of separate steps, an amalgam of archaic with more contemporary forms.'[54]

The integration of Russia into the global economy led to 'some degree of capitalist industrialisation' while the backward forms 'were not destroyed by capitalist penetration', Trotsky explained.[55] The end result for Russia was an amalgamated socio-economic system and socio-political institutions that peculiarly combined the native and foreign and fused the backward and advanced in its social formation. What is significant in Trotsky's analysis is that a simple reproduction of the development of Western advanced societies is not the fate of less developed countries because 'the latest conquests of capitalist technique and structure root themselves into relations of feudal or pre-feudal barbarism, transforming and subjecting them and creating peculiar relations of classes.'[56] Hence, the capitalist penetration into new territories, not only amalgamates and melds all aspects of their social formations, but also the tensions and instability inherent in these peculiar structures make conflicts inevitable.[57]

Drawing on Trotsky's analysis of the development of capitalism in Russia, a new school within the Historical Sociology of International Relations has recently extended the use of the notion of uneven and combined development. This intellectual current makes a case for the causal significance of 'the international' in development, proclaiming that the process in any given society proceeds by its interactive relation with other developmentally differentiated societies. As well as rendering 'the analytical distinction between the 'internal' and 'external' itself ontologically

52 Bieler, A. (2013), p. 171,

53 Trotsky, L. (1932/2007). *History of the Russian Revolution*. Chicago: Haymarket Books, p. 4.

54 Ibid, p.3.

55 Kiely, R. (2012). Spatial hierarchy and/or contemporary geopolitics: What can and can't uneven and combined development explain?. *Cambridge Review of International Affairs*, 25(2), P. 235.

56 Trotsky, L. (1938). Introduction to the tragedy of the Chinese revolution. Quoted in Anievas, A. and Nisancioglu, K. (2015), p. 48.

57 Davidson, N. (2006). 'From uneven to combined development'. In B. Dunn, and H. Radice (eds.). *100 years of permanent revolution: Results and Prospects*. London: Pluto Press, p. 22

unstable',[58] it also demonstrates that development is 'neither unilinear, nor homogeneous, nor homogenizing but interactively "multilinear."'[59] Despite this substantial contribution, the transhistorical understanding of the phenomenon, which has put forward by some members of the tradition, is questionable since the nature of uneven and combined development 'can only be grasped through an understanding of capitalist social relations of production.'[60] More importantly, it is highly problematic to analyse concrete cases of combinations while remaining at the level of 'the international' because the territorial confines of states 'are where the specific combinations take place.' This is because if what happens in a given society is an example of a universal process, uneven and combined development (UCD) cannot explain the particularity of development in any given society.[61] Put differently, whereas unevenness is the universal feature of capitalism, combinations are a feature of certain societies. This inability ultimately relates to the fact that the UCD School overlooks 'the spatio-temporal dynamics and causal effects of state and class agents' in the wide variety of processes through which capitalism has become constituted and restructured around the world.[62] To overcome this shortcoming, the notion of passive revolution could be understood as a key complement to the concept of UCD as it is sensitive to the domestic class structure and yields necessary agential aspects to the analysis.

3.3.2. Passive Revolution

Gramsci developed the concept of 'passive revolution' through the analysis of the unification of Italy between 1860 and 1866. The *Risorgimento* movement and the birth of other modern European states, Gramsci argues, were different from the French Revolution of 1789. This is because the French emergent bourgeoisie 'was able to present itself as an integral "state", with all the intellectual and moral forces that were necessary and adequate to the task of organizing a complete and perfect society.'[63] In contrast, Italy and other European societies went through successive waves of reform that demoted the feudal classes' position without completely eliminating them from governing due to the feebleness of their bourgeoisie.[64] Thereafter, Gramsci extended the

58 Matin, K. (2011), pp. 367-8; Rosenberg, J. (2006). Why is there no international historical sociology?. *European Journal of International Relations*, 12(3), p. 327.

59 Matin, K. (2012a). International relations in the making of political Islam: Interrogating Khomeini's 'Islamic government'. *Journal of International Relations and Development*, 16(4), p. 460; Anievas and Nisancioglu. (2015), pp. 43-63.

60 Bieler, A. (2013), p. 172.

61 Davidson, N. (2009). Putting the nation back into 'the international'. *Cambridge Review of International Affairs*, 22 (1), p. 19.

62 Bieler, A. and Morton, A. D. (2018), p. 99.

63 Gramsci, A. (2007). *Prison notebooks, Vol. 3*. (J. A Buttigieg, Ed and Trans.). New York: Columbia University Press, p. 9.

64 Gramsci, A. (1971), p. 115

term to fascism whereby the Italian state emulated the Fordist regime of accumulation to survive the period of crisis. In the early twentieth century, to overcome the contradiction of capitalist accumulation as a result of *laissez-faire* liberalism embodied in the great depression of 1929, the Fordist regime of accumulation replaced the old accumulation process. Americanism, according to Gramsci, was the cultural and ideological foundation of Fordism to transfer the new accumulation strategy into other countries. As a result, fascism in Italy was an emulation of the United States' experience in 'a Caesarist form' in order to survive and reorganise capitalism through periods of crisis.[65] Accordingly, the concept refers to instances of the establishment of modern states on the basis of the institution of capitalism or the expansion of aspects of the social relations of capitalist development,[66] through which the 'state replaces the local social groups in leading a struggle of renewal. It is one of the cases in which these groups have the function of domination without that of "leadership": dictatorship without hegemony.'[67] In short, it could be argued that as well as being a route to bourgeoisie domination, Gramsci conceptualises passive revolution as a means for the continuation of the rule of the capitalist class in the time of crisis, war and revolution.[68]

However, the recent attempts to deploy the concept in historical sociology and international political economy have generated debate. Adam Morton provides a twin definition of passive revolution, arguing that the essential form of its condition can take two different processes: 'a revolution without mass participation, or "revolutions from above"' and 'revolutions-restorations'. While the former involves 'elite-engineered social and political reform that draws on foreign capital and associated ideas while lacking a national popular base', the latter explicates 'how a revolutionary form of political transformation is passed into a conservative project in which popular demands of class struggle still play some role.'[69] In contrast, Alex Callinicos contends that this interpretation leads to the extension of the concept of passive revolution by applying it to more different situations by which the concept could lose its specificity to the extent that it might become 'a distinction without a difference.'[70] He points out that the problem of over-extension of the concept is present in the *Prison Notebooks*, maintaining that, unlike Gramsci, only Risorgimento

65 Gramsci, A. (1988). *The Antonio Gramsci Reader: Selected Writings 1916-1935*. (ed.) Forgacs, D. London: Lawrence and Wishart, pp. 264-5; Gramsci, A. (1971), p. 119). See also Buci-Glucksmann, C. (1979). 'State, transition and passive revolution'. In C. Mouffe (ed.). *Gramsci and Marxist theory*. London: Rutledge & Kegan Paul, pp. 208-9; Morton, A. D. (2003). Structural change and neoliberalism in Mexico: Passive revolution in the global political economy. *Third World Quarterly*, 24(4). p. 632.

66 Morton, A. D. (2010). The continuum of passive revolution. *Capital & Class*, 34(3), p. 318.

67 Gramsci, A. (1971), pp. 105-6.

68 Buci-Glucksmann, C. (1980). *Gramsci and the state*. London: Lawrence and Wishart, Ch. 14.

69 Morton, A. D. (2013a). *Revolution and the state in modern Mexico: the political economy of uneven development*. Lanham, MD: Rowman & Littlefield, pp. 38-9; Bieler, A. and Morton, A. D. (2018), p. 102.

70 Callinicos, A. (2010). The limits of passive revolution. *Capital & Class*, 34(3), p. 505.

can be described as a passive revolution because fascism and Fordism are instances of '*counter*-revolutionary projects that seek to manage the structural contradictions of the capitalist mode of production.' On the other hand, because 'the *ancient régime* has given way to a society in which the capitalist mode of production prevails', Callinicos argues that the Risorgimento can plausibly be described as 'revolution without revolution', therefore reducing the application of the concept to just transition between modes of production.[71] This interpretation restricts the significance of the concept for the understanding of the dynamics of capitalism. However, at the same time, Morton's definition of passive revolution that may apply to all elite-engineered reforms with the purpose of the reorganisation of capitalist social relations of production in the absence of an 'antithesis' from below could be equally problematic. Hence, in my view, to qualify as an instance of passive revolution, capitalist restructuring must be carried out in the midst of a socio-economic crisis that might bring about a revolutionary rupture from below. In other words, the furtherance of the role of the state in modifying the relations of production has to be seen as an attempt to tame and pacify the participation of masses in the process of social upheaval through which subaltern demands are displaced and partially fulfilled at once. To be precise, a passive revolution occurs if four key elements exist. 'First, the international as a source of both material pressures towards transition, in light of the uneven development of capitalism, and of events and ideas that become inevitable reference points of an epoch. Second, a structurally necessary transformation whose specific form and content are determined by a specific relation of political forces, and particularly by the presence of a non-hegemonic dominant class and a weak, or weakly organised and articulated, subaltern bloc. Third, the extensive use of state power as a surrogate for hegemony on the part of the ruling class to effect a transformation for which it cannot win the consent of the ruled. Finally, an outcome whereby popular demands are simultaneously partly fulfilled and displaced in a way that essentially consolidates the political *status quo*.'[72] Accordingly, in the absence of 'a vigorous antithesis prior to a passive revolution and the partial fulfilment of popular demands' following the process of restructuring, a transition within capitalism in the form of reforms from above could be simply called 'capitalist restructuring'.[73] As a catastrophic rather than an organic equilibrium of class forces, the outcome of a passive revolution is 'neither predetermined nor inevitable' but an open-ended struggle in which the relations of forces between contending class forces condition the process.[74] The concept of passive revolution illustrates why processes of the

71 Ibid, p. 498.

72 Roccu, R. (2017). Passive revolution revisited: From the prison notebooks to our 'great and terrible world'. *Capital & Class*, 41(3), pp. 547.

73 Ibid, pp. 549-50

74 Morton, A. D. (2010), pp. 329-20.

expansion of capitalism to new territories and the transformation in the modality of capital accumulation could be inherently struggle-driven processes and could thus complement UCD. That said, it is ultimately a question of empirical inquiry whether a transition towards or within capitalism could be conceptualised as a passive revolution. Consequently, it is possible to use UCD and passive revolution in tandem as well as UCD and capitalist restructuring together. In the latter case, the importance of the domestic class structure could be unveiled by focusing on intra-class struggles between different fractions of the ruling class without significant participation of subaltern classes in the process.

Table 3.1 Transitions and Revolutions

Transitions Between Modes of Production	Bourgeois Revolution Passive Revolution → Social Revolution Proletarian Revolution
Transitions Within Capitalism	Restructuring from Above Passive Revolution Political Revolution

Related to the concept of revolution, the notions of social and political revolution are equally important in the arguments made in the following chapters about modern and contemporary Iran. A social revolution involves 'the transference of political power to a new class; and this change in ruling class tends to entail a basic change in the social system (mode of production).'[75] It is 'a process, more or less extended in time' because 'such a sweeping change cannot be conceived as a mere act or event.'[76] A social revolution could take three different forms, namely bourgeois revolution, passive revolution and proletarian revolution. In contrast, a political revolution is 'a social-revolutionising drive toward the transference of state power to a new class' without

[75] Draper, H. (1978). *Karl Marx's theory of revolution, ii: The politics of social classes*. London: Monthly Review, p. 19.
[76] Ibid.

revolutionising the socioeconomic foundation of the society. In this case, we witness a change in the personnel of the ruling class without a transformation in the class power since the new ruling class maintains the socioeconomic foundation of the society by thwarting the initiatives of the exploited majority for the creation of a new society.[77]

Drawing on these concepts, Chapter 4 will empirically investigate the establishment of capitalism and the modern state in the late nineteenth century and the early twentieth century, the transformation in capitalism in the case of the Shah's 'White Revolution' of the 1960s and the revolution of 1979. Chapter 5 will shed light on another transformation within Iranian capitalism following the instigation of neoliberal restructuring of the late 1980s. These investigations will demonstrate that while the formation of the modern state is an instance of passive revolution, the 'White Revolution' and the neoliberal restructuring are examples of capitalist restructuring from above. The 1979 revolution is qualified as an instance of political revolution. Relatedly, it will be shown how the uneven development of global capitalism has facilitated combined forms of development during the establishment of capitalism/the institutionalisation of the modern state as well as the two forms of capitalist transformation in the second half of the twentieth century. For the time being, since the central focus of this study is neoliberalism, it is necessary to examine in detail the latest spatial reorganisation of the capitalist mode of production. What is globalisation and how to understand it, is thus the focus of the next section.

3.4. Structural and Agential Transformations in the Age of Neoliberal Globalisation

The post-World War II global capitalist economy – under the hegemony of the United States which lasted until the mid-1970s – was based on economic principles of the 'embedded liberalism' rather than the *laissez-faire* liberalism of the nineteenth and twentieth centuries. Broadly informed by Keynesian principles, balancing social welfare concerns with a commitment to market principles was in the centre of this international economic order. It 'was committed to a liberal international economy, but the liberalism was tempered by domestic state intervention to support social purposes such as full employment.'[78] The commitment to multilateralism as the second fundamental principle of the order resulted in the founding of the multilateral financial institutions:

[77] For the distinction between social and political revolution see: Skocpol, T. (1979). *States and social revolutions: A comparative analysis of France, Russia and China*. Cambridge: Cambridge University Press; Trotsky, L. (1936/1972). *The revolution betrayed*. New York: Pathfinder Press; Davidson, N. (2010b). From deflected permanent revolution to the law of uneven and combined development. *International Socialism*, 128.

[78] O'Brien R. and Williams, M. (2013). *Global political economy*. Basingstoke, Hampshire: Palgrave McMillan, p. 93.

the World Bank, the IMF.[79]

The acknowledgement of the need for state intervention and the promotion of Fordist principles brought about a limited but noteworthy participation of organised labour in the process of decision-making, something which was unprecedented in the history of capitalism. The Fordism regime of material accumulation advocated a stabilised national industrial capitalist system by incorporating workers into the new system through higher salaries and tight control simultaneously. The Fordism regime was 'a "class compromise" between workers and capitalists mediated by the state, involving government measures to regulate capitalist competition and the class struggle.'[80] Although Fordist methods of mass production – the factory system with standardised mass production lines – led to an initial dramatic rise in labour productivity, it brought a high degree of alienation and deadening boredom at work due to the 'unprecedented degree of unskilled repetitive labour.' To overcome the problem, rising consumption was considered to be the answer. In other words, under Fordism regime 'dissatisfaction was transformed into demand and regulated through annual pay bargaining', raising the power of organised labour even further.[81] After two decades, it became obvious that under this method of production, exploitation was more costly for capital because to exploit workers effectively – in the presence of high cost of variable capital as a result of the effectiveness of working class struggle – 'capital required to invest an ever-increasing amount in machinery and raw materials.' Consequently, despite growing capital investment in mechanisation, the rate of productivity declined sharply between 1968 and 1973.[82] The refusal of individual capitalists to invest in the absence of profitable opportunities brought about an increase in surpluses of capital and labour, i.e. the crisis of overaccumulation. Alongside this, competition from new producers with new methods of production called '"flexible specialisation", "lean production" or "Toyotism" (after the Japanese car company)'[83] as well as the Vietnam War and the oil crisis of 1973-4 'sounded the death-knell of the post-war economic structure.'[84]

To recover from the crisis and revive capital accumulation, since the early 1970s, two structural changes at the material level have been implemented in the global economy: the

79 Ravenhill, J. (2014). 'The study of global political economy'. In J. Ravenhill (ed.). *Global political economy*. Oxford: Oxford University Press, p. 13.

80 Robinson, W. (2004), p. 17.

81 Holloway, J. (1996). 'The Abyss opens: The rise and fall of Keynesianism'. In W. Bonefeld and J. Holloway (eds.). *Global capital, national state and the politics of money*. Basingstoke, Hampshire: Palgrave McMillan, p. 24.

82 Ibid, p.24.

83 O'Brien, R. and Williams, M. (2013), p. 188.

84 Simon, R. (2010). Passive revolution, perestroika, and the emergence of the new Russia. *Capital & Class*, 34(3), p. 433.

transnationalisation of finance and the transnationalisation of production.[85] This historical phenomenon, now referred to as globalisation, is the latest spatial reconfiguration of the capitalist mode of production. Regarding the former, the rise of financial off-shore markets, as well as deregulation of national money markets and financial operators, has blurred over the differences between them, leading to the emergence of an integrated global financial market[86] with the new characteristics: '(a) the blurring of the line, in terms of ownership structures and market activities, between banking, securities and insurance industries, a process referred to as desegmentation; (b) the liberalisation of traditional cartel arrangements in national sectors through domestic market-orientated reform programmes, understood as marketization; and (c) the integration of financial markets across traditionally closed national jurisdictions, or transnationalisation.'[87] In a word, this spatial fix has freed the shackles of large financial firms to invest in the world market.

In the production process, the Fordism regime has been replaced by new, flexible accumulation model by placing different stages of a production process at several widely scattered locations, which has ultimately altered structures of production in each country and region, resulting in a profound integration of national economies into the global economy. This reorganisation of production has proceeded through two different forms of outsourcing, namely FDI and arm's length. Whereas in the FDI model, the production process is offshored but kept in-house, in the arm's length model, TNCs outsources parts or sometimes the entire process of production to independent suppliers even though they effectively retain control over the final product as well as the process of the production of its parts.[88] Indicating the importance of transnational production in the contemporary global economy, FDI 'creates networks of ongoing relationships between parents firms and foreign affiliates and, increasingly, among foreign affiliates.'[89] Because of the deregulation of national currency control systems facilitates free movement of capital, as discussed above, the level of FDI has increased sharply, elucidating a tight connection between the transnationalisation of finance and the transnationalisation of production.[90] Empirical data show that the value of FDI inflows increased from $59 billion in 1982 to $1,697 billion in 2008, and desire a sharp drop after the 2008 financial crisis, it eventually

85 Bieler, A. (2000). *Globalisation and enlargement of the European Union: Austria and Sweden social forces in the struggle over membership*. London: Routledge, p. 19

86 Bieler, A. (2006). *The struggle for a social Europe: Trade unions and EMU in times of global restructuring*. Manchester: Manchester University Press, p. 47-48

87 Underhill, G. R. D. (1997). *The new world order in international finance*. p. 3. Quoted by Bieler, A. (2006).

88 Smith, J. (2016). *Imperialism in the twenty-first century: Globalization, super-exploitation, and capitalism's final crisis*. New York: Monthly Review Press, p. 79

89 Bieler, A. (2006), p. 50.

90 Ibid, p. 50.

surpassed the pre-crisis average in 2011.[91] Despite the ongoing significance of FDI, in recent years, TNCs have increasingly favoured arm's length outsourcing. As John Smith points out, the recent popularity of this relationship between outsourcing firms and their low-wage suppliers are related to '1) foreign investors find it necessary to pay higher wages than domestic employers, limiting the desired reduction in costs; 2) arm's length means hands clean; 3) transference of risk; 4) avoidance of FDI in favour of what UNCTAD [United Nations Conference on Trade and Development] calls a "non-equity mode" releases funds for investment in financial markets or to finance acquisitions and share buybacks (two ways in which the fragmentation of production can accelerate the concentration of capital).'[92]

This process of dividing production processes into ever finer vertical and horizontal segments and locating their stages of production in various counties has led to the creation of GVCs. The new global architecture has mostly been achieved as a result of state-negotiated international trade/investment agreements. Through several rounds of WTO negotiations starting from the mid-1980s, the opening up of all economies to manufacturing goods, services, public procurement, and investment had been aggressively pursued. To replace ailing ISI with EOI strategy, these rounds of global trade talks encouraged developing counties to abandon development policy of the protection of infant industries in favour of participating in the GVCs controlled by TNCs. Since 2003, following the collapse of the Doha Round of WTO negations, the extended free trade agenda in the format of bilateral free trade agreements between counties and regions have been enthusiastically promoted.[93]

Generally, the profit disproportionately distributes among various parties involved in GVCs as Martin Hart-Landsberg provides a paragon of this unequal relationship: 'the estimated 2009 production cost of Apple's 3G iPhone was $178.96 per phone. Although China was the host country for the final assembly, its value-added contribution was largely limited to its labour, which amounted to only $6.50 per phone…With a United States selling price of $500, it was estimated that Apple enjoyed a 64 per cent profit margin on each phone sold in the United States.' Other participants in the production network of this commodity as Korean and Taiwanese suppliers enjoyed far more modest rewards than Apple.[94] Not only has the transnationalisation of

91 Thun, E. (2014). 'The globalisation of production'. In J. Ravenhill (ed.). *Global political economy*. Oxford: Oxford University Press, p. 185.

92 Smith, J. (2016), p. 82.

93 Bieler, A. et al. (2014). Trade unions, 'free trade', and the problem of transnational solidarity: An introduction. *Globalizations*, 11(1), p. 4.

94 Hart-Landsberg, M. (2013). *Capitalist globalization: Consequences, resistance, and alternatives*. New York: Monthly Review Press, pp. 21-2.

production hampered the emergence of leading firms/brands in the developing world that fundamentally challenge Western and in particular the US firms,[95] but it has also decreased the share of manufacturing value added in the global economy for developing counties. 'In 1970, 18.5 per cent of the total exports from the developing world were manufactured goods', but 'this figure had increased to over 80 per cent by the end of the 1990s.' Nonetheless, their share of manufacturing value added has decreased since the 1980s, and their 'manufacturing output's contribution to gross domestic product (GDP) has barely changed since 1960.' On the other hand, while 'developed counties' share of manufacturing fell (from 82.3 per cent in 1980 to 70.9 per cent by 1997)', 'their share of manufacturing value added actually *increased* over the same period, from 64.5 per cent to 73.3 per cent.'[96] All in all, the transnationalisation of production and finance has intensified the uneven pattern of development between different regions, cities and the countryside, and within countries.[97]

The economic doctrine of neoliberalism has been the ideological backbone of this material reorganisation because, as a set of policies, it is envisioned to promote the deregulation of all economic activities to facilitate the free flow of capital across borders.[98] Under neoliberal policies, efficiency and price stability have become new priorities for governments across the globe. The doctrine has advocated the privatisation of SOEs and the liberalisation and deregulation of the economy at the national level. Furthermore, the rejection of the policy of full employment and universal rights of healthcare and education in favour of market freedom has been at the centre stage of this economic dogma.[99] On the whole, this neoliberal economic package include fiscal policy discipline, removal of public subsidies, tax reform, introduction of market-based interest rates, competitive exchange rates, trade liberalization, liberalization of foreign direct investment, privatization of SOEs and a move away from import substitution (in the case of developing countries), deregulation and introduction of private property rights.[100] Emerging out of 'the systemic needs of capitalist social reality' rather than 'an ideological choice of the capitalist class (or a fraction thereof)', neoliberalism has therefore been a means for the reconstitution and strengthening of class power in favour of capital.[101] They have been 'embraced, sometimes

95 Saull, R. (2012). Rethinking hegemony: Uneven development, historical blocs, and the world economic crisis. *International Studies Quarterly*, 56(2), p. 332.

96 Kiely, R. (2012), pp. 240-41.

97 Saull, R. (2012), p. 333.

98 Hanieh, A. (2010). The internationalisation of Gulf capital and Palestinian class formation. *Capital & Class*, 35(1), 82.

99 Bieler, A. (2000), p. 22.

100 Hill, D., et al. (2016). 'Development and neoliberalism'. In S. Springer, K. Birch and J. MacLeavy (eds.). *The handbook of neoliberalism*. London: Routledge, pp. 130-133.

101 Hanieh, A. (2013). *Lineages of revolt: Issues of contemporary capitalism in the Middle East*. Chicago: Haymarket Books, p. 14; Harvey, D. (2005). *A Brief History of Neoliberalism*. Oxford: Oxford University Press, p. 19.

voluntarily and in other instances in response to coercive pressures' by almost all countries, from welfare states such as Sweden to the newly independent ex-Soviet Union states and the majority of developing countries.[102] It is worth stating that the current expanded 'free trade' has also been the facilitator of the implementation of these policies almost everywhere, especially in developing countries, since 'the dominant trade regime goes hand in hand with other defining characteristics of neoliberalism such as unregulated capital movements, privatisation of public services, the commercialisation of land and water, and, particularly important for trade unions, the deregulation of labour markets.'[103]

Since changes in the social relations of production give rise to a specific constellation of social class forces, as argued earlier, the transnationalisation of finance and production has led to the emergence of transnational class forces. According to William Robinson a transnational capitalist class (TCC), composing of 'the transnational corporations and financial institutions, the elites that manage the supranational economic planning agencies' as well as 'major forces in dominant political parties, media conglomerates, and technocrat elites and state managers' in the developed countries of the North and the developing countries of the South, has become as a global ruling class as a result of the global reorganisation of production.[104] Robinson argues the TCC is both a class-in-itself and class-for-itself as it has developed 'a subjective consciousness of itself' compared to a global working class which remains a class-in-itself without developing a subjective consciousness of itself that gives 'greater coherence to transnational agency as a "class-for-itself."'[105] Accordingly, the TCC has been involved in constructing a new *hegemonic world order* through forming a new global *historical bloc*, neoliberal historical bloc, Robinson maintains. Several pivotal arguments challenge the conceptualisation of the TTC in its current format. First, highlighting the increasing level of transnationalised economic processes does not automatically imply the formation of a *single* global fraction of transnational capital that self-consciously pursues a unified objective of a global capitalist project. This conclusion can only be deduced if there is an unsophisticated causal chain of 'class place-class consciousness-class action.' As pointed out above, an emphasis on the class place ignores the fact that the constitution of class interests and class actions also requires cultural and political mediation. While I agree that some political, ideological and especially economic conditions exist for the formation of a TCC globally, these conditions

102 Harvey. D. (2005), p. 3.

103 Bieler, A. et al. (2014), p. 5.

104 Robinson, R. and Harris, J. (2000), p. 12.

105 Robinson, W. (2014), p. 51.

largely remain unconnected.[106] Second, due to intense competition between individual capitals, the idea of a monolithic and relatively homogenous capitalist class even at the national level has been heavily contested both theoretically and empirically. Surely, for the same reason, a unified transnational capitalist class cannot be accepted 'as it underestimates the horizontal socioeconomic and political competitiveness and contestations between individual capitals.'[107] Underestimating this factor lead to this statement that 'the emergence of a transnational capitalist class (TCC) meaning that it is no longer possible to simply speak in terms of a rivalry between 'German' capital, 'French' capital, or 'American' capital, etc. Transnational capital, too, relies on the legal and institutional support by states and international institutions of global governance, but different fractions of capital are no longer defined by their particular relationship to a specific state.'[108] In contrast, if we assume that competition continues between and among capitalists in a transnational environment, for these transnationally oriented capitals 'would be damaging to abandon their national bases because of the many advantages these bases provide, for example contracts with the military, export subsidies and access to intelligence information'[109] specially in times of crisis when struggles for domination and conquest of particular markets intensify between various capitals. All things considered, instead of using 'the transnational capitalist class' to grasp the changes in the configuration of class structure as a result of transnationalisation of production and finance, it seems more appropriate to speak of transnational fractions of capital in plural as they are transnationally oriented but still nationally rooted. It is then more convenient to say transnational fractions of the German capital, French capital, or American capital, etc. Furthermore, it is important to note that the dramatic increase in transnational production does not imply the disappearance of national production. Not only does the process of globalisation lead to the emergence of transnational fractions, but it also has enormous impacts on social classes engendered by national production. These social forces based on national production can be divided into two groups: *nationally orientated* and *internationally orientated social classes*. The former, spawned by national production that produces for the domestic market, while the latter 'stemming from national production that produces for export'.[110] While the neoliberal policies are advocated and supported by internationally orientated social class forces due to the fact that borders

[106] Hirsch, J. and Wissel, J. (2011). The transformation of contemporary capitalism and the concept of a transnational capitalist class: A critical review in neo-Poulantzian perspective. *Studies In Political Economy*, 88(1), pp. 9, 14-15 and 23; Anievas, A. (2008). Theory of a global state: A critique. *Historical Materialism*, 16(2), p. 197.

[107] Taylor, I. (2017). Transnationalizing capitalist hegemony: A Poulantzian reading. *Alternatives*, 42(1), p. 29; see also Block, F. (2001). Using social theory to leap over historical contingencies: A comment on Robinson. *Theory and Society*, 30(2), p. 218.

[108] Bieler, A. and Morton, A. D. (2015). Axis of evil or access to Diesel? Spaces of new imperialism and the Iraq War. *Historical Materialism*, 23(2), p. 105.

[109] Hack, L. Cited in Hirsch, J. and Wissel, J. (2011), p. 11.

[110] Bieler, A. (2000), p. 47.

constitute barriers for their exports, similar to transnational fractions, nationally orientated social class forces might advocate some aspects of neoliberalism while vehemently oppose entrance of foreign capital and international competition, as it will be illustrated in the case of Iran in the following chapters. Equally, the process of transnationalisation of production and finance has reconstructed and reshaped other social classes, particularly the working class. As well as creating new transnational strata of workers employed by transnational firms who operate through transnational chains of production and distribution, neoliberal policies of privatisation and deregulation of the labour market have directly contributed to the expansion of informalisation of work and creation of the precariat as a growing segment of the working class.[111]

Informed by this conceptual framework, Chapter 5 will thoroughly investigate the structure and the location of Iranian production in the global economy in the age of globalisation. It will empirically examine the extent to which the Iranian economy has been transnationalised or internationalised, demonstrating how the previous model of accumulation has undergone change over time. It will further survey the ways in which the process of neoliberalisation after the instigation of a structural adjustment in the late 1980s has transformed the class structure of the society and reconfigured the ruling class as well as subaltern classes.

3.5. Globalisation, Changing Form of the State and Geopolitics

From the ontological perspective of the thesis, it is clear that there are dialectical interactions between the changes in the process of production and its related economic policies and the form of the state, which goes against prevailing understanding of the state and its role in the era of neoliberal globalisation. Whilst structural realists dismiss the implications of globalisation on the authority of the state by arguing that states are still the only significant actors in international politics,[112] so-called hyperglobalists insist that the transnational and global interaction networks and flows have diminished the role of states. As the task of states is to 'provide regularity frameworks' for the requirements of global capital,[113] states increasingly become powerless and thus their authority dramatically decline.[114] For other mainstream scholars, such as Cerny, states are restructured, rather than become obsolete, as globalisation obligates authorities often

111 Bieler, A., et al. (2014), pp. 1-2.

112 Waltz, K. (2000) Globalisation and American power. *The National Interest*, 59, pp. 46-56.

113 Scholte, J. A. (2005). *The sources of neoliberal globalization* (Vol. 10). Geneva: United Nations Research Institute for Social Development.

114 Ohmae, K (2004). 'The end of the nation-state'. In F. Lechner and J. Boli (eds.). *The globalisation reader*. Oxford: Blackwell Publishing, pp. 214-19; see also Ohmae, K. (1995). *The end of nation state: The rise of regional economies*. London: Harper Collins.

voluntarily to reform states' institutions to cope with the demands of the competition in the global market.[115] The central problem with these approaches is the separation between the state and the market, categorically dismissing the internal relations between two entities. Besides, the process of integration into the global economy is depicted as an automatically cooperative process without generating forces with an interest in conflict or closure within the state.

The conceptualisation of the state in the age globalisation by some scholars working within the historical materialist tradition also reproduces the state's demise claim, most notably William Robinson's transnational state (TNS) thesis. Robinson asserts that not only does the transnationalisation of production and finance give rise to the transnational capitalist class, but it also leads to the emergence of a transnational state, which both arguments are in my view highly problematic. Since the issue of the TCC was dealt with above, the TNS thesis is the centre of attention here. The transnational state is defined as 'a particular constellation of class forces and relations bound up with capitalist globalisation and the rise of a TCC embodied in a diverse set of political institutions.'[116] It creates an emerging network that comprises supranational economic institutions, such as the IMF, the WTO, the World Bank and supranational political forums including the G-8, the OECD, and the EU as well as transformed national states due to the penetration of transnational forces. Under the process of globalisation, Robinson notes, the state as a traditional organising principle of capital accumulation and development is thus superseded by new apparatus of the transnational state while still reiterating that this is a loose network and 'has not yet acquired a centralised institutional form.'[117] Quite similar to the hyperglobalist argument, the TNS thesis assumes that 'states act as mere transmission belts for the diffusing aspects of global capitalism.' The problem with such argument is that it views class struggle as 'external to the process of [global] restructuring' and depicts labour and the state 'powerless'.[118] Furthermore, the transnational state thesis conceptualises national restructuring 'as a uniform process' in which all states integrate into the global economy in the same way. The TNS thesis thus is liable for offering 'a *flattened ontology* that removes state forms as significant spatial scales in the articulation of capitalism, levels out the spatial and territorial logic of capital accumulation, and elides the class struggles extant in specific locations.'[119] In short, the state is not dead, nor has a transnational state replaced the inter-state system, and therefore what is necessary is the

115 Cerny, G. (2010). *Rethinking world politics: A theory of transnational neopluralism*. Oxford: Oxford University Pres.

116 Robinson, W. (2004), p. 99.

117 Ibid, p. 100.

118 Bieler, A. and Morton, A. D. (2013/14) The will-o'-the-wisp of the transnational state. *the Journal of Australian Political Economy* 72, pp.33-34.

119 Morton, A. D. (2007a). *Unravelling Gramsci: Hegemony and passive revolution in the global economy*. London: Pluto Press, p. 148.

conceptualisation of the state in the epoch of globalisation that accentuates in 'its internal relations with market conditions, with the wider interstate system, and with global capitalist relations of production.'[120] An engagement with Gramsci's state theory and Poulantzas' nuanced interpretation of the capitalist state helps to understand these internal relations.

Unlike mainstream theorisations of the state which reduce the state to the government, in Gramsci's state theory, the state includes two inseparable realms: the apparatus of government or 'political society' – including government, political parties, and military – as well as the private apparatus of hegemony or 'civil society' such as media, education, religious institutions.[121] Although Gramsci argues that these two spheres should be distinguished methodologically, in practice, he notes, they are intertwined and thus should not be confused with an 'organic distinction'.[122] Through this additional aspect of the state that ruling classes maintain their dominance and 'organise the political and cultural struggle for hegemony.'[123] For Poulantzas, similar to Gramsci, the state contains the repressive apparatuses, political society, and the ideological apparatuses or civil society. What is unique, however, about Poulantzas' understanding of the state is that he does not view it 'a passive tool or neutral actor' but like capital, the state is considered also as social relations.[124] By this, he means as a relationship between social class forces, the state represents a material condensation of a relationship among classes and class fractions, which in turn it produces a necessary specific form of state.[125] Analysing the post-1970s European states, Poulantzas points out that their forms had drastically alerted as a result of the reproduction of American capitalism within Europe. According to Poulantzas, the American transnational capital did not represent itself as an autonomous force outside European states but was embodied by classes or fractions of classes within these states, resulting in class antagonisms between national and transnational fractions of capital. Precisely because of this class antagonism and the balance of power inside the European states, the process of 'internalisation' of the interests of American transnational capital within these states had led to the restructuring of their forms rather differently, Poulantzas avows. Through this historical investigation of the changing forms of the European states during the 1970s, Poulantzas related state institutions to the social relations of

120 Bieler, A. and Morton, A. D. (2013/14), p. 38.

121 Gramsci, A. (1999). 'The political party as modern "prince"'. In Forgacs, D. (ed.). *The Gramsci reader*. London: Lawrence and Wishart Limited, p. 243

122 Texier, J. (1979). 'Gramsci, Theoretician of the superstructures: On the concept of civil society'. In C. Mouffe (ed.). *Gramsci and Marxist theory*. London: Rutledge & Kegan Paul, p. 51.

123 Bieler, A and Morton, A. D. (2003). Globalisation, the state and class struggle: A 'Critical Economy' engagement with Open Marxism. *British Journal of Politics and International Relations*, 5(4), p. 482.

124 Jessop, B. (2016). *The state: Past, present, future*. Cambridge: Polity, p. 54.

125 Poulantzas, N. (1978). *State, Power, Socialism*. London: Verso, pp. 128-29.

production and thus conceptualised the internal relation between state and market. Building upon this particular interpretation of the process of reproduction American capital within Europe, it could be argued that neoliberal global restructuring and the emergence of transnational class fractions leads to the reorganisation of the state rather than to its demise. In this process, transnational class forces of capital do not 'confront the state as an external actor, as a transnational state' but they 'are closely involved in the class struggle over hegemonic projects within the state form.'[126] In other words, while transnational capital fractions are of significant influence in the current global political economy, their operations still remain in the spatial form of state. They push for change and economic restructuring inside the national structures in which balance of political and economic forces inside the state determine its outcomes. 'The exact way this is played out and the extent to which the interests of transnational capital become internalised within individual state forms needs to be empirically assessed and is likely to differ from state to state depending on the different configurations of social forces and institutional set-ups at the national level in line with different historical trajectories of national state formation.'[127]

This understating of the state and its changing form in response to the reorganisation of social relations of production casts serious doubts on the view of the Iranian state as transhistorical institution always retaining an eternal form or homogeneous and unchanging ideological unit or an increasingly retreating entity as a consequence of globalisation. Inspired by this theoretical comprehension of the state, Chapter 6 will provide an analysis of the Iranian form of state in the current epoch, documenting the open-ended class struggle between transnational, internationally-orientated and nationally-oriented class forces over a hegemonic project within the state. The chapter will further critically engage with other theorizations of the Iranian state based on institutionalist and elite theory, and expand the conceptual discussion by further engagement with the internal relations between ideas and material structures with the aim of constructing a novel argument about the battle for hegemony within the state and society in the last few decades in Iran.

Not only the aforementioned theorisation of the state contests mainstream theories, but it further challenges the pervasive Marxist theory of geopolitics through which structural realist notion of rivalry between states is to a large degree reproduced. Influenced by Lenin's theory of imperialism, the new imperialism tradition in IR has been under scrutiny for their protracted and oblique entry into the discipline of international relations regarding the relationship between

126 Bieler, A. and Morton, A. D. (2013/14), p. 42.

127 Ibid, p. 42.

geopolitical dynamics and capitalism. It is being argued that the approach 'cannot convincingly grasp geopolitics and international without falling prey to Realist essentialising', and therefore the questions of politics remain its theoretical blind spot.[128] In other words, the conceptualisation of the dynamics of capitalism and geopolitics by some Marxist scholars in international theory present 'a (neo)-realist moment' in which states – leading capitalist states – as the main actors competing with each other in an anarchic nature for military and economic resources. Andrew Davenport makes the bold claim that the realist moment of historical materialism is related to the ambivalence of Marx's own theory in which the whole of politics is consigned to ideology. Politics in Marxism, thus, is not to be 'hypostasised into something existing in-self, something autonomous and self-sufficient, something ontological.[129] Likewise, it could be argued that ultra-imperialism theory and its contemporaries also reproduce mainstream IR theory of the state by proposing an alliance between the core capitalist states. Here, rather than witnessing a geopolitical competition among the leading capitalist states, as the new imperialism theory argues, neoliberal globalisation is seen to be facilitated close cooperation between the core capitalist states under the hegemony of the US.[130]

The attempt to provide 'a partial reconciliation of Marxism and realism'[131] has resulted in another issue, and perhaps the most problematic one, which is the sharp distinction between the properties of geopolitical rivalry and economic competition. This implies that 'there is, necessarily, a realist moment in any Marxist analysis of international relations and conjunctures: in other words, any such analysis must take into account the strategies, calculations and interactions of rival political elites in the state system' that are not necessarily related to the accumulation of capital.[132] In contrast, if we view capitalism as a world-historical system that subordinates everything to its predominant drive to accumulation, it is highly questionable to separate the logic of capital from the logic of geopolitics. Unlike assuming an external relation between these two logics, the philosophy of internal relations makes it possible to argue that the production relations and geopolitics are internally related to each other.[133] Based on this ontology, it thus is possible to show

128 Davenport, A. (2011). Marxism in IR: Condemned to a realist fate?. *European Journal of International Relations*, 19(1), p. 27.

129 Ibid, 40.

130 Panitch, L. and Gindin, S. (2006). 'Imperialism and global political economy' - a reply to Callinicos, *International Socialism*, 109 (2), pp. 1-6; Panitch, L. and Gindin, S. (2008). 'Finance and American empire'. In Panitch and Konings (eds.). *American empire and the political economy of global finance*. Basingstoke, Hampshire: Palgrave McMillan, pp. 17-48. Similarly, Ray Kiely (2010) believes that although there is evidence of conflict among the core capitalist states, the emphasis must be on the cooperation between them. This is because the US imperialism successfully has promoted 'the internationalisation of capital and global integration'. As a result, inter-imperialist rivalries based on states representing national blocs of capital has been eroded. See, Kiely, R. (2010.) *Rethinking Imperialism*. London: Palgrave Macmillan, pp. 220-247.

131 Callinicos, A. (2007). Does capitalism need the state system?. *Cambridge Review of International Affairs*, 20(4), p. 532.

132 Ibid, p. 542.

133 Bieler, A. and Morton, A. D. (2015), p. 100.

'how the state's system constitutes the reproduction of capitalism' and 'how class relations are shaped both by capitalism as a mode of production and by geopolitics.'[134] Due to crisis tendencies, capitalism constantly is in search for the creation of hothouse conditions for capital accumulation through two interrelated aspects: *place* and *geopolitics*. In terms of place, all countries are home in the reproductive process and hence 'the social setting of the reproduction of capital should be conceived in terms of social economy rather than of political geography.' In terms of geopolitics, as well as using militarism and war as the 'executor of accumulation of capital', capitalism also employs other means to create favourable territories for the accumulation of capital depending on actual historical situations.[135] In the current stage of capitalism, not only has the transnationalisation of production and the emergence of the transnational capital fractions fundamentally reshaped the state, but it has also brought about fundamental changes to geopolitical struggles. As it was argued above, the state is not a homogeneous unit a condensation of a relationship of class forces within which the powerful transnational class forces involved in a class struggle with other class fractions to impose necessary changes in line with their long-term interests. Accordingly, far from pursuing a coherent foreign policy representing the interests of a homogenous national capital, the state has become the arena of a constant battle between various class fractions with contesting foreign policies. Following this conceptualisation of the internal relation between capitalism and the international states-system, Chapter 7 will investigate internal links between geopolitical tensions surrounding the Iranian nuclear program and the neoliberal restructuring of the economy. After thoroughly reviewing all Marxist of theories of geopolitics, the chapter empirically will survey various foreign policies of Iran and the United States related to this contentious program and the relationship between these policies and the interests of various class fractions with both states.

3.6. Conclusion

Grounded in the radical social ontology of the philosophy of internal relations and based on the critique of the mainstream theories of development, state and geopolitics, this chapter endeavoured to develop a critical political economy approach. It argued that an investigation of production structure should be the starting point of analysis through which social class forces as the key collective actors could be also identified. Viewing capitalism as a world-historical formation, it stressed that the investigation of changes in the social relations of production in any

134 Morton, A. D. (2007b). Disputing the geopolitics of the states system and global capitalism. *Cambridge Review of International Affairs*, 20(4), p. 601.

135 Bieler, A. and Morton, A. D. (2015), pp. 107- 111.

given society needs to be grasped in relation to global neoliberal restructuring. This is because, in this world-historical perspective, parts/instances are perceived as 'distinct mutually-conditioning moments of a singular phenomenon posited as a self-forming whole.'[136] Hence, the examination of the reorganisation of the production process and the reconfiguration of social classes is the first level of analysis of the thesis. It further pointed out that to understand the different outcomes of the process of renovation of capitalism in different societies, the domestic class structure and the struggles of local class forms of the agency should be incorporated into the analysis. In the second step of the analysis, therefore, struggles among class forces for hegemony within the state and society becomes the focal point of attention whereby the reorganisation of the form of state and the relations between ideational and material structures could be examined. Finally, the chapter made a case for the significance of relating geopolitical struggles to the renovation of capitalism as the third level of analysis of this approach through which it is possible to empirically investigate how and to what extent geopolitical tensions are internally linked with the logic of capital accumulation. In short, the chapter developed a theoretical approach based upon a dialectical method of analysis that sharply rejects the dualism of the external/internal, global/local, structure/agency, state/market, ideas/materials and military-security interests/political economy.

This approach will be applied to empirical analysis throughout the remainder of the thesis. In line with the point of departure of the framework, Chapter 4 will investigate the development of capitalism in Iran before the initiation of neoliberal reforms. This historical chapter will set out the grounds for the analysis of the transformations in the mode of production since the late 1980s in Iran by shedding light on the previous model of accumulation and the class structure of the society, especially during the global order of Pax Americana. Concerning the first level of analysis, Chapter 5 will position Iran within the neoliberal global economy, investigating the ways in which the production structure has been reorganised as a result of the interaction of external and internal processes and forces, and how this, in turn, has led to the emergence of new class fractions and reconfiguration of the existing social class forces. In line with the second level of analysis, the objective of Chapter 6 will be to grasp the conversion in the institutional setup of the state and the operation of new class fractions of capital within them following the neoliberal restructuring of the economy. The overhaul of the relationship between various fractions of the ruling class and other social classes through an investigation of conflicts for hegemony at the societal level will be also the subject of this chapter. The final empirical chapter, which prioritises the third level of analysis, will trace the ups and downs in Iranian and U.S. foreign policies, particularly related to

[136] McMichael, P. (1990), p.391.

the nuclear program since the early 1990s to reveal the internal relations between these policies and the long-term interests of various rival class fractions within both states.

Chapter Four

Development of Capitalism in Modern Iran

4.1. Introduction

This chapter addresses the development of the capitalist mode of production and the forms of state in Iran before the instigation of the neoliberal restructuring of the late 1980s as a historical background for the study. This endeavour aims to provide a detailed analysis of various epochs of capitalist development in Iranian modern history, in line with the principles of the theoretical framework outlined in the previous chapter. To recap, it was argued that to comprehend the capitalist development of any given society, it is necessary to adopt a world-historical perspective in which the global economy is the essential point of departure. However, it was stressed that the structure of the global capitalist order does not simply predetermine the outcome of any transformation in the production process. Rather, any structure of global capitalism in each epoch creates a terrain in which a certain mode of development can be more favourably articulated. That is to say, despite the dominance of a particular model of world capitalism in each era, its spread in each society is rather different as a result of the domestic class structure and the specific form of class struggle. Analysed through this theoretical perspective, this chapter investigates changes in the mode of production and various forms of state during the successive structures of global order, namely Pax Britannica, the era of rival imperialisms and Pax Americana with the aim of documenting the dialectical relationship between the development of the country and the international context. The significance of this chapter for the principal objective of the thesis, which is neo-liberal restructuring post late-1980s, is twofold. First, with the principal focus on the process of development of capitalism in the era of Pax Americana, this chapter sketches the process of state-led development under the strategy of ISI during the reign of Mohammad Reza Shah, which led to the development of national industries and the expansion of capitalist social relations in the Iranian countryside. It further illuminates that state capitalism had strengthened in the first decade following the revolution and ISI strategy was upheld by the Islamic revolutionary state despite the ousting of the old ruling class and the transference of political power to a new ruling class. This legacy, as it will be explained in detail in Chapter 5, has had an indispensable effect in the process of neoliberalisation in recent decades and the development trajectory of contemporary Iran. Secondly, it sheds light on the genealogy of particular class forces and political agents such as tradition merchants and Shia ulama as well as the emergence of two fractions of the

ruling class in the first decade following Islamic revolution, namely the strata of government managers and the bonyad-bazaar nexus, who have been prominent social actors over the destiny of neoliberalism and state form in recent years.

The remainder of this chapter consists of six main sections. The following section briefly discusses the mode of production and the form of state in pre-modern Iran through introducing the tributary mode of production to challenge the commonly-held 'oriental despotism' argument. The fundamental objective of the section, however, is to illustrate how the Shia ulama was brought into existence as the state functionaries and why the ulama-bazaar bloc, which has played an indispensable role in the class struggle in the history of modern Iran, was established in this era. The third section scrutinises the ways in which Iran integrated into the global economy under the liberal free trade international economic order of the nineteenth century imposed by Britain. The section surveys the diffusion of capitalist social relations of production and the process of modern state formation, conceptualising it as a passive revolution. The fourth section scrutinises the wide-ranging land reform and the rapid industrialisation programme of the late Pahlavi state during the order of Pax Americana under the name of the White Revolution and breaks down the process of state-led development based on the ISI strategy. The fifth section argues that the revolution of 1979 was the product of the reforms from above by the Shah during the 1960s and 1970s. The swift overhaul of the class structure as a result of the White Revolution had profoundly antagonised all classes against the 'monarcho-bourgeoisie' and united them under the idea of overthrowing of the Shah. The sixth section deals with the first decade of the revolution to grasp its economic structure and the transformation in the class basis of the state and the formation of two wings of power, namely the *strata of government managers* and the *bonyad-bazaar nexus*. The final section summarises the key points of the chapter and provides a brief outline of the centrality of this historical chapter for the subsequent chapters of the thesis.

4.2. Mode of Production and State in Pre-Modern Iran

Unlike the dominant characterisation of pre-capitalist non-European societies among Marxists as an Asiatic mode of production whose state-form is 'oriental despotism' and lacked any meaningful types of class formation, the tributary mode of production seems to render a more viable formulation to conceptualise the pre-modern Iran. Defined as a mode of production where the means of production and the ruling class are controlled by the state,[1] it comprises two class-

[1] Banaji, J. (2011), p. 23.

relational axes. While the first one expresses itself in 'the vertical opposition of a ruling, tax-collecting class in a contradictory relationship with a class of peasants exploited for the appropriation of productive surpluses', the second axis is 'the horizontal differentiation between a 'landed nobility' and 'patrimonial authority' within the tax-collecting class.'[2] Accordingly, the control of peasant-labour by the state as well as 'the subordination of the ruling class to the will of the ruler' through forging a unified imperial service are its prevailing social relations of production.[3] Besides the internal relations of surplus appropriation, the continual territorial accumulation through conquering new lands and authority over long-distance trade constitute its laws of motion.[4]

In the case of pre-modern Iran, rather than being driven by an internal logic, this unique mode was the product of an amalgamation of Turkish tribal nomadism of Central Asia and the Iranian sedentary-agricultural society, crystallised in the institution of *uymaq* or 'household-state' and resulted in the lack of private property in land through the formulation of 'patrimonial-absolutist states'.[5] *Uymaqs* as mini-states with political and administrative authority collected tax from peasants and urban merchants 'in return for partaking in "national" defence or external expeditions.' The *uymaqs* were appointed by the king, who was himself the leading *uymaq*.[6] The instability of the system, as a single *uymaq* could overthrow the ruling dynasty, led to the process of state centralization during the Safavid rule (1501-1736) through succeeding the *uymaqs'* structure with the *ghulaman* slave army. The process intensified the conquest of new territories since the centralised state needed greater taxes, tributes, and above all population to recruit more slaves. Granting of land to the new military commanders cum state officials crucially presupposed the formal ownership of the lands by the king, gratifying both the ancient Persian and Shi'a Islam concept of kingship as the owner of all lands. However, nullifying the *uymaqs'* political power through the centralisation process unintendedly brought new socio-political forces to the state structure, namely the Shi'a ulama and the bazaari classes, in particular the mercantile class.[7] Initially drawn to provide ideological legitimacy for the Safavid state against the Sunni Ottman Empire, the Usuli Shi'a ulama[8] gradually became the state functionaries in the battle with the *uymaqs*, whose

2 Anievas, A. and Nisancioglu, K. (2015), p. 99.

3 Banaji, J. (2011), p. 24.

4 Anievas, A. and Nisancioglu, K. (2015), pp. 101-2.

5 Matin, K. (2007). Uneven and combined development in world history: The international relations of state-formation in Premodern Iran. *European Journal of International Relations*, 13(3), p. 430.

6 Ibid, p. 434.

7 Matin, K. (2013). *Recasting Iranian modernity*. London: Routledge, pp. 437-8.

8 The Usuli School of Shi'ism believes that reliance on the Quran and the traditions of Prophet Mohammad and the Imams is not always enough and the active intellectual exercise of the qualified Shi'a jurisconsults (fuqaha) is necessary for establishing legal standards. The doctrine of velayate faghih (the guardianship of the jurisconsult) which reconstructed by Khomeini introduced

ideological basis was Sufism,[9] by taking over of the judicial system based on their interpretation of Islam. Aimed to augment their positions in the state bureaucracy, vast areas of land in the name of the non-taxable charitable property (*waqf*) were assigned to them by the later Safavi kings – eventually, they became quasi-owners of these lands after the fall of the Safavids. Furthermore, to marginalise Sufism, the Shi'a ulama forged close ties with the mercantile class of the bazaar;[10] the link that later reached to its full-fledged form based on mutual interests.

4.3. Free Trade Imperialism, Oil and the Institutionalisation of Modern State

The expanding military power of Russia as well as the decreasing importance of long-distance overland trade due to the domination of Asia-Europe trade routes by the Western capitalist powers through the sea sounded the death-knell of the tributary mode of production by the early to mid-eighteenth century. During the Qajar rule (1794-1925), the state officials gradually usurped large parts of state lands, converting them into 'de facto private property' that was 'inheritable and alienable by sale.'[11] This trend intensified by selling more crown and state lands after the launch of the *nizame jadid* reforms. This transformation not only generated a class of large landowners but also significantly subordinated the peasants to their will and intensified the rate of exploitation of the peasantry.[12]

After losing two major wars against Russia, which resulted in the loss of most of its northern territories following two humiliating post-war treaties of 1812 and 1828, the Qajar focus shifted towards western Afghanistan. But Iran's army was quickly defeated by Britain in 1856. To pay the indemnities of these wars, the Qajar monarchy accepted borrowing from the victors themselves. In return, Iran granted major commercial capitulations through lowering import duties, permitting both superpowers to open trading agencies everywhere in the country, and exempting their merchants from local laws and tariffs. The modernisation of the tribal army and the state took place within this context in order to halt the declining power of the Qajar state. Losing the tax revenue of the northern territories, made the financing of the project difficult. This necessitated an austerity programme through which state pensions to the courtiers, provincial elites and ulama

first during this ear. For Khomeini's interpretation of the Usuli School see: Abrahamian, E. (1991). Khomeini: Fundamentalist or populist?. *New Left Review*, 1/186, p. 103.

9 Sufism (tasawwuf) is an esoteric, non-scriptural and non-legalistic form of Islam in which 'Muslims seek to find the truth of divine love and knowledge through direct personal experience of God'. See Schimmel, A. 'Sufism'. *Encyclopaedia Britannica*.

10 Matin, K. (2013), pp. 41-2.

11 Lambton, A. (1991a). *Landlord and peasant in Persia: A study of land tenure and land revenue administration*. London: I.B. Tauris & Co LTD, p. 139. See also: Lambton, A. (1991b). 'Land tenure and revenue administration in the nineteenth century'. In E. Avery, et al. (eds.). *The Cambridge History of Iran (Vol. 7)*. Cambridge: Cambridge University Press, pp. 476-79.

12 Karshenas, M. (1990a). *Oil, state and industrialisation in Iran*. Cambridge: Cambridge University Press, pp. 51-2.

were substantially reduced.[13] The backlash from these powerful groups compelled the state to pursue the intensification of the sale of the crown and state lands, titles and government offices. The failure of both policies to generate enough surplus to materialise the reforms forced the state to adopt a policy of selling commercial and economic concessions to Russian and British capitalists. Besides financing the reform, the concessions represented 'a strategy of "positive equilibrium" whereby the co-presence of significant economic interests of competing imperial powers was perceived to protect Iran from being formally colonised or annexed by individual imperial powers.'[14] One by-product of this was the facilitation of the ability to import a limited amount of Western technology and organisational/administrative initiatives. Although the approach prevented formal colonisation, the Iranian economy was compelled to integrate more into the global capitalist system under the liberal international regime of free trade, which was aggressively promoted by Britain from the mid-nineteenth and twentieth centuries onwards. To maintain its supremacy in the world, Britain employed a number of different strategies. Apart from direct colonisation, free trade was seen as a method to indirectly colonise foreign nations without the responsibility of governing them formally. Contrary to the liberal argument, rather than voluntarily adopt the free trade regime, the weaker states had been forced into unequal treaties through imposing externally determined low, flat rate tariffs. Accordingly, a combination of commercial expansion and political influence allowed Britain to command the economies of peripheral and semi-peripheral countries which could be made to best fit its own interests. As well as traditional colonisation, free trade imperialism was another strategy through which Britain exercised power over less developed societies, including Iran during the nineteenth century.[15]

The free trade regime restructured the Iranian economy with devastating implications. Accordingly, its foreign trade consisted of importing manufacturing commodities, predominantly cheap textiles, and exporting raw agricultural products. The incorporation commenced the peripheralisation of the Iranian economy and led to the obsolescence of traditional manufacturing. Karshenas notes that, 'while in 1844 more than 70 per cent of Iranian exports were composed of handicraft manufacturers, by 1910 the share of manufacturers, with the exception of carpets, was reduced to virtually nil.'[16] Although the forced free trade had had calamitous impacts on the sector,

13 Matin, K. (2012b). Democracy without Capitalism: Retheorizing Iran's Constitutional Revolution. *Middle East Critique*, 21(1), pp. 48-9; Matin, K. (2013), pp. 59-60.

14 Ibid, p. 60.

15 Kiely, R. (2010), pp. 42-52.

16 Karshenas, M. (1990a), p. 48.

it eventually managed to survive.[17] This jeopardised the interests of big merchants and exacerbated the living conditions of those who engaged in the handicraft industries including craftsmen, artisans, peddlers and the urban poor.[18] Dissatisfied with the change, some merchants invested in land and along with landlords they moved the agricultural sector towards the direction that its primary objective was to meet Britain's demands for cotton and opium. The adjustment resulted in the failure of the agricultural sector to provide the food self-sufficiency of the country. The famine of 1869-72 – the result of using more lands to cultivate opium – notably illustrated the impact of the integration into the world capitalist system.[19] Under these conditions, most of the merchant class along with other bazaari classes unified with the insurgent ulama against the state.

To conceive the interactive politics of the bazaar and Shi'a ulama in the modern history of Iran, some important points regarding the hierarchical social structure and politics of the bazaar and the class basis of Shi'a ulama need to be addressed. The bazaar was a bounded space in cities for the production and particularly exchange of specific commodities with its own value chain that generated a hierarchical class structure. At the top of the pyramid were big merchants who imported consumer and intermediate goods and exported handmade products, in particular hand-woven carpets. They had also some links with the countryside as some agricultural goods were exported by them. The multilayered wholesale class, mainly based on the Tehran Bazaar, distributed imported goods by big merchants through their networks across the country. In the middle of the pyramid, there were the owners of retail stores who directly sold goods to customers. These retailers/shopkeepers, with over 100 guild-like association as well as the headmen and the masters of artisans involving in traditional manufacturing productions, constituted the traditional petty bourgeoisie. At the bottom of the hierarchy, there were 'the masses of apprentices and footboys, with some marginal elements such as poor peddlers, dervishes and beggars at the lowest level.'[20] Due to the spatial concentration – the central bazaar was located in a single location in most cities – and trade specialisation, there was generally a strong sense of solidarity among the various classes of the bazaar.[21] Nevertheless, this did not generate a comprehensive class unity as the conflict of interests between merchants and the petty bourgeoisie of the bazaar existed

17 Issawi, C. (1991). 'European economic penetration, 1872-1921'. In E. Avery, et al. (eds.). *The Cambridge History of Iran (Vol. 7)*, Cambridge: Cambridge University Press, p. 598.

18 Matin, K. (2013), p. 61.

19 Keddie, N. (2003), *Modern Iran: Roots and results of revolution*. New Haven: Yale University Press, p. 26.

20 Ashraf, A. (1989). 'Bazaar iii'. *Encyclopaedia Iranica*. Keshavarzian, A. (2007). *Bazaar and state in Iran: The politics of the Thran marketplace*. Cambridge: Cambridge University Press, pp. 78-84.

21 Parsa, M. (1994). 'Mosque of last resort: State reform and social conflict in the early 1960s'. In V. Moghadam and J. Foran (eds.). *A century of revolution: Social movements in Iran*. Minneapolis: University of Minnesota Press, p. 147.

throughout history.[22] Whilst some influential ulama were part of the land-owning class through controlling endowment lands, the others were in an instrumental relationship with the powerful classes of the bazaar. For the merchants and traditional petty bourgeoisie paid a substantial amount of the income of this faction of clergy through religious taxes (*khoms va zakaat*) and contribution to charitable funds. In return, this wing of ulama defended the interests of the bazaar against foreign economic interests and the urban poor.[23] Again, it should be noted that this was an instrumental relationship and not a permanent alliance since the bazaari classes or at least some sections of them sporadically departed from the clergy and united with other classes such as the national bourgeoisie. Accordingly, the ulama did not constitute a class, but different segments of them had allied with powerful classes of the society; a trend that has continued until today. As Moaddel notes:

> The ulama have politically been a heterogeneous category consisting of various factions. These factions tended to ally with the "feudal" landowners, merchants, and the traditional petty bourgeoisie. That is to say, the ulama tended to act as the political representatives of each, or a combination of some or all, of these classes. The unity of politically diverse factions among the ulama has historically been associated with the convergence of the interests of, and political unity among, the members of the classes – "feudal" landowners, the merchants, and the traditional petty bourgeoisie - they were representing.[24]

The reform of the educational and judicial system as part of the modernisation process spawned new strata of the administrative staff of the state and a relatively small but influential stratum of the modern intelligentsia, who denounced the Qajars' arbitrary rule for the 'backwardness' of the country.[25] Among those affected, however, were the ulama who lost their privileged position in the judiciary and the educational system. Despite this attack and loss in their revenue due to the economic deterioration of the bazaar, the Shi'a ulama did not unanimously back the growing hostility of the bazaar towards the state since some influential figures provided ideological justification for the court and the land-owning ruling class.

Throughout this period, modern industrial activities were not developed until the early twentieth century due to the growing commercial relations with the West. At the beginning of the century, apart from some Russian and German entrepreneurs, a small stratum of Iranian merchants came to engage their capital with modern industry through establishing small-scale modern workshops and medium-sized factories. The main difference, however, was made by large

22 As will be explained in detail shortly, a good example of this disunity manifested itself in the opposition of the petty bourgeoisie of the bazaar against the government in 1963 while merchants avoided confrontation against the state.

23 Moaddel, M. (1986). The Shi'i ulama and the state in Iran. *Theory and Society*, 15(4), p. 524. See also: Ashraf, A. (1988). Bazaar-mosque alliance: The social basis of revolts and revolutions. *International Journal of Politics, Culture, and Society,* 1(4), p. 542.

24 Moaddel, M. (1986), pp. 520-1.

25 Ashraf, A. (1981). The roots of emerging dual class structure in nineteenth-century Iran. *Iranian Studies*, 14(1-2), p. 22.

British and Russian firms that invested in 'the fisheries, lumber industry, railway construction, and oil industries.'[26] Together, these developments in the early twentieth century led to the emergence of an industrial working class of approximately 12,000, i.e. one-tenth of the total non-agricultural labour force, of whom only 4 per cent were employed by the burgeoning national bourgeoisie.[27] At the same time, a considerable number of peasants and urban poor migrated to the trans-Caspian regions in order to work in modern industries due to the worsening of economic conditions at home. These immigrant workers imported working class revolutionary ideas which were influential in the politicisation of the working class during the Constitutional Revolution of 1906-09.[28]

By the late nineteenth century and early twentieth century, the changes in the mode of production as a result of the capitalist expansion created precarious socio-political conditions in Iran. Eventually, the deterioration of the economic situation and the disturbance of the balance of class forces crystallised themselves in a series of protests and revolts between 1890 and 1914.[29] These unrests, particularly the Constitutional Revolution, were attempts by classes of the bazaar and their allies and to some degree the nascent capitalist classes and their intellectual forces to establish a constitutional monarchy and a modern state. After a period of uncertainty and chaos following the Revolution, two important events, the discovery of oil and the October Revolution of 1917, paved the way for the intensification of reforms from above to establish a modern centralised state after 1921 to which I now turn.

Due to the impacts of the First World War, Iranian foreign trade dramatically declined. However, in the 1920s, as a producer of petroleum, the expansion of international trade resumed, resulting yet again in the conditionality of the internal socio-political changes to the development of the global capitalist system. Alerted by an article of a French geologist regarding oil seepages in Iran, William D'Arcy secured 'a sixty-year concession for the exploration, exploitation, and export of petroleum' from Iran by the help of the British authority in 1901.[30] The discovery of oil in 1908 in southern Iran led to the establishment of the Anglo-Persian Oil Company (APOC)[31] in 1909, the first shipment of oil in 1912, and a dramatic increase in the output of oil by the beginning of

[26] Ibid, p. 20.

[27] Ibid, p. 21.

[28] Keddie, N. (2003), p 69.

[29] Keddie, N. (1991). 'Iran under the late Qajars, 1848-1992'. In E. Avery, et al. (eds.). *The Cambridge History of Iran (Vol. 7)*, Cambridge: Cambridge University Press, pp. 192-212.

[30] Issawi, C. (1991), p. 606. See also: Stork, J. (1975). *Middle East oil and the energy crisis*. New York: Monthly Review Press, P. 8.

[31] The company was renamed AIOC in 1935, and after three years of conflict over the nationalisation of the oil with the Iranian government at the beginning of the 1950s, the company was renamed British Petroleum Company (BP) in 1953. See Business: The Company File from Anglo-Persian Oil to BP Amoco (1998). *BBC*.

the 1920s.[32] The company initially supported and cooperated with the local rulers in the absence of a powerful centralised authority following the revolutionary turmoil. The management of the company eventually realised the necessity of the formation of a modern centralised state in order to protect wells, rigs, pipelines and installations against unrests in the countryside and to provide trained domestic personnel. As explicitly stressed by a senior member of the management of the APOC: 'our salvation lies in a strong Central Government…it is our common interest [the company and the Iranian ruling class] to assist a proper central government.'[33] To this end, Britain entered into negotiations with the Iranian cabinet, resulting in the notorious 1919 Agreement in which the Iranian government accepted a loan and the employment of British military and civil advisers to modernise its army and state administration. The failure of the government to ratify the agreement in the newly established Parliament (*Majles*) – owing to the fact that the Constitutionalists and religious leaders feared the country would have become a British protectorate, the commander of the British force in Persia, General Ironside – orchestrated the coup of 1921 by picking an Anglophile journalist, Saayed Zai Tabatabai, and an army officer, Reza Khan, whose 'personal and material qualities' impressed him, as the agents of the coup.[34] While the prime ministerial era of the former lasted less than one hundred days, the latter who was initially appointed as the minister of war, eventually became king (Shah) by the Majles in 1925.[35] It is worth emphasising that the 1917 October Revolution had a dual influence on the plot. On the one hand, it intensified the British desire to stabilise Iran to safeguard the production of oil. On the other hand, the protection of the country from the diffusion of the Bolshevik creeds that might have galvanised the peasants, urban poor and working class, unified the old and new fractions of the ruling class around the idea of the formation of a strong centralised modern state.[36] Since one of the objectives of the Constitutional Revolution was to form a modern state, it was also popular among the majority of the constitutionalist leaders, some of whom loathed Britain.[37] The new king did not disappoint as his state-centralisation programme shrewdly managed the balance of the external and internal social class forces.

During the 1920s, Reza Shah initiated a series of reforms with the aims of creating a centralised and unified national army, rationalising the state administration, modernising the

32 Issawi, C. (1991), p. 607.

33 Quoted by Ferrier, R (1991). 'The Iranian oil industry'. In E. Avery, et al. (eds.). *The Cambridge History of Iran (Vol. 7)*. Cambridge: Cambridge University Press, p. 643.

34 Katouzian, H. (1981). *The political economy of modern Iran: Despotism and pseudo-modernism, 1926-1979*. London: The Macmillan Press LTD, pp. 77-80.

35 Arjomand, S.A. (1988). *The turban for the crown: The Islamic Revolution in Iran*. Oxford: Oxford University Press, pp. 59-62.

36 Katouzian, H. (1981), p. 77.

37 Arjomand, S.A. (1988), p. 62.

judicial and educational systems and constructing modern means of transportation. Regarding the role of the state in the economy, this phase marked with the continuation of the *laissez-faire* economic policies, which were still dominant in the counties, formally or informally, under the political-administrative control of Britain despite the rise of protectionist policies at the international level. By violently disarming the tribes who constituted around 25 per cent of the population in 1920, the legitimate use of coercion was monopolised by the new state, leading to the destruction of the highly socio-economic organisation of the nomadic tribes. Subsequently, the policy of forced sedentarisation, which dropped the tribal population to around 8 per cent in the 1930s and abolished the land assignments altogether. That is to say, the process that started at the beginning of the nineteenth century finally completed and provided a modern tax administration for the central government.[38] The integration of nomadic tribes into the modern order was closely linked to the transformation of the multi-ethnic Qajar Empire into 'a unified state with one people, one nation, one language and one culture',[39] reflecting the popular idea of the construction of a nation-state. Contrary to Reza Shah's anti-tribal policy, by introducing successive land and property laws and regulations, 'a variety of conditional, de facto and tribal – often communal – holdings' was converted into 'unconditionally held private property', i.e. the creation of a homogenous class of large private landlords.[40] Accordingly, throughout this period, landlords constituted a powerful bloc in the Majles.[41] Above all, the confiscation of a significant amount of land converted the Shah into the biggest single absentee landlord of the country by the time of his abdication in 1941. Consequently, during his reign, Reza Shah had virtually precluded any attempts to facilitate an agrarian reform[42] and transferred 'the agricultural taxes from the shoulders of the landowners to those of the peasant cultivators.'[43]

In the second phase of Reza Shah's reign from 1931 to 1941, the state intervened strongly in the economy and introduced a series of measures to protect the national economy, signifying a departure from the *laissez-faire* policies of the first period and reflecting the dominance of the protectionist era of the world economy in the interwar period. The Great Depression of 1929 caused a slump in the foreign trade and the devaluation of the currency, the Kran, because of the drop in the price of silver. This forced the government to monopolise the right of all foreign trade

38 Ibid, pp. 63-64 and p. 69.

39 Abrahamian, E. (1982). *Iran between two revolutions*. Princeton: Princeton University Press, p. 142.

40 Arjomand, S.A. (1988), pp. 70-1

41 Ashraf, A. (1970). 'Historical obstacle to the development of bourgeoisie in Iran'. In M. A. Cook (ed.). *Studies on the Economic History of the Middle East*. London: Oxford University Press, p. 330.

42 Hooglund, E. J. (1982). *Land and revolution in Iran, 1960–1980*. Austin: University of Texas Press, P. 40.

43 Abrahamian, E. (1982), p. 149.

of valuable agricultural products including cotton, tobacco, opium, tea, sugar, and dried fruits in 1931.[44] Relatedly, the government unveiled a system of high tariffs on importing cheap manufacturing goods. Furthermore, the D'Arcy concession for oil exploration and extraction was cancelled by Reza Shah in 1932. The government, however, under threat of the confiscation of its foreign assets signed a new agreement with the APOC in the following year that merely increased Iran's share of the annual profits by 4 percentage points, from 16 to 20 per cent, in return for the extension of the concession to an additional thirty-two years to 1993.[45] After the degree of control in trade and output, and the modest increase in the oil revenue, the state intensified its expenditure on the modern transport system and directly invested in industry.[46] The construction of the Trans-Iranian Railway, the building of 12,000 miles of highway, investing in ports and establishing a new national bank as well as other banks for agriculture, industry and mortgages led to the creation of a national market.[47] Another major part of the investment was the industry in which the government contributed approximately half of £58m investment in the sector. Thanks to the subsidising measures to promote the growth of industry in the form of tariff exemption, preferential exchange premium, and exemption of transport fees for imported machinery and the high level of protection of the home market from international competition, private investment in manufacturing became highly profitable. Accordingly, by the end of the 1930s, there were more than 260 private and public industrial plants in textile, sugar, cement, chemicals, and so forth,[48] which contributed to the enlargement of the Iranian industrial working class.

The state control of foreign trade and its disregard for the demands of the already-at-knifepoint traditional manufacturers at the expense of the modern manufacturing sectors infuriated the traditional petty *bourgeoisie* of the bazaar and some ulama.[49] In addition, apart from introducing a secular system of national primary and secondary schools and founding the first modern university (the University of Tehran), the reform of the legal system had a significant implication for the ulama. The first aspect of the reform as explained above ripened large private landlordism into the dominant form of land ownership. Based on the second element, the use of the French civil codes instead of Shari'a Law brought more non-clerical members to the judiciary.[50] The establishment of the Ministry of *Awqaf* (Endowment) deprived the ulama from a considerable

44 McLachlan, K. S. (1991). 'Economic development, 1921-1979'. In E. Avery, et al. (eds.). *The Cambridge History of Iran (Vol. 7)*. Cambridge: Cambridge University Press, pp. 608-38.

45 Abrahamian, E. (1982), p. 144. See also Ferrier, R. (1991), p. 645; Stork, J. (1975), pp. 11-12.

46 Halliday, F. (1979). *Iran: Dictatorship and development*. Harmondsworth: Penguin Books Ltd, p. 148.

47 McLachlan, K. S. (1991), pp. 611-12.

48 Karshenas, M. (1990a), p. 76; Ashraf, A. (1970), pp. 329-30.

49 Moaddel, M. (1986), p. 536.

50 Matin, K. (2013), p. 87.

amount of religious tax income. Nonetheless, the lucrative relationship of some influential clerics with the landlords led only to 'some minor ulama-led political protests' in defence of the interests of the bazaar between 1927 and 1935.[51]

Hence, the class basis of the 'modern' state was a contradictory alliance of the landed aristocracy, the [comprador] *bourgeoisie*, and the young national *bourgeoisie*, illustrating the combined form of its development. On the one hand, ending all talk of land reform, which was triggered during the Constitutional Revolution, strengthened the position of the landowners. In other words, the low degree of the effects of capitalist social relations on the Iranian countryside, which comprised still 80 per cent of the population, meant a state within the state as 'some big landlords…would not even let government agents enter their villages.'[52] On the other hand, the modernisation of infrastructure and transportation and a modest investment in national industry satisfied both comprador and national capitalist classes.[53] Needless to say, the abolishment of the tribal nomadism and the unification of the country based on the forced policy of 'one nation, one language and one culture' appeased all the modern social class forces, in particular the embryonic middle class, which composed of the small-numbered but resolute Western-influenced *intelligentsia* and the growing state bureaucratic middlemen.

Linking back to the theoretical discussion of Chapter 3 about transformations and revolutions, how should we conceptualise this process of expansion of capitalism and modern state formation in Iran? The universal law of unevenness, which manifested itself in the hostile pressure from Russia and particularly Britain, had compelled Iran to modernise the state and its army from the middle of the nineteenth century onwards. While generating socio-political upheavals, the reforms had continued to carry out at the beginning of the twentieth century, ultimately leading to the completion of the constitution of the modern state during the reign of Reza Shah. Recalling the criteria of passive revolution outlined in Chapter 3, the global transformations had demanded a specific state formation in Iran to facilitate the transition to a capitalist mode of production. This externally induced transformation was nevertheless carried out in a particular national context with a specific relation of political forces in which the ruling class was not hegemonic, and the subaltern classes failed to develop a radical political project throughout this period. Substituting for its lacking hegemony, the ruling class therefore heavily relied on state power to implement socioeconomic reforms. As well as responding to external pressure, these

51 Moaddel, M. (1986), p. 536.

52 Ajami, I. (1973). Land reform and modernisation of the farming structure in Iran. *Oxford Agrarian Studies*, 2(2), p. 121.

53 Moaddel, M. (1986), p. 535.

prolonged and top-down social and political reforms had also been implemented with the objective of pacifying the role and initiatives of masses during the wave of revolts and uprisings, especially from the late nineteenth century to the early twentieth century. More to the point, the Amir Kabir reform programme of the middle of the nineteenth century and the first phase of Reza Shah's modernization reforms in the 1920s should be understood in the context of the British imperial order. The import of agricultural goods from, and export of manufacturing products to, Iran until the early twentieth century defined Britain's policy towards Iran, i.e. keeping the county in the global commercial system. In the early twentieth century, Britain facilitated the domestic coalition of modern and pre-modern class forces with the support of influential members of the Iranian ruling class, who were terrified by a radical alternative socio-economic order from below in the context of continual rebellions that had been energised after the October Revolution to accelerate the modernisation of the state to speed up the production of the petroleum for its industrial demands. In other words, this intensification of constructing modern institutions and the building of the infrastructure (e.g. roads, railway, ports, and modern governmental administrative) by the state served to reorganise Iran's integration into the world economy through the extraction of crude oil. Relatedly, another central objective of the modernisation program was the preservation of the structure of the ruling class. Implemented gradually and from above, the reforms to some degree displaced and partially fulfilled the demands of urban subaltern classes and gained the support of the nascent middle class. All in all, I conceptualise this molecular, top-down process of change as an instance of passive revolution in the sense of social revolution through which the modern state with a commitment to capital accumulation at the global level was established. Based on a compromise among the exploiting classes, these reforms had further expedited the expansion of capitalist relations and the development of the national market while not diminishing the power of the landlords. The process of the modern state formation in Iran was therefore a successful attempt by the 'incumbent elites to promote capitalism without allowing the *bourgeoisie* to gain control of this transformation.'[54] As a bastard rather than an integral state, it represented the condition of dictatorship without hegemony. Noticeably, although the dialectics of the international and internal, i.e. the interaction of the global dynamics and the particularity of the local class structure, led to the institutionalisation of the modern state and expansion of capitalist relations of production, it had brought about a combined form of development. Returning to the conceptual discussion in Chapter 3 concerning institution and capitalist restructuring in new territories, the institutionalisation of modern state and consolidation of capitalist relations of

[54] Lacher, H. and Germann, J. (2012). Before hegemony: Britain, free trade, and nineteenth-century world order revisited. *International Studies Review*, 14(1), p. 118.

production in Iran from the mid-nineteenth century to the early twentieth century is an instance of the complementary use of the idea of UCD and the concept of passive revolution.

4.4. Pax Americana, Land Reform and Rapid Industrialisation

Due to the protectionist economic policies and, more importantly, the flirtation of Reza Shah with Nazi-Germany to counterbalance Britain, the country was occupied, and his son was crowned by the Allies in 1941. With regards to the economic and domestic politics, the five-year occupation resulted in the redirection of the economy towards the needs of the war and the opening up of spaces of resistance in the absence of an authoritarian state respectively. Apart from the formation of two autonomous republics in Azerbaijan and Kurdistan, the Soviet-oriented Tudeh Party, which was formed shortly after the abdication of Reza Shah, became highly influential among urban organised labour and the educated young and intellectuals.[55] After the war, the new agreements between US companies and Venezuela and Saudi Arabia on the base of 50-50 sharing profits and the post-war anti-colonial atmosphere emboldened the national *bourgeoisie* to pursue the nationalisation of oil. Equally important, the abortive endeavour of the state centralisation programme of the 1930s and 1940s to overcome the so-called Iranian 'backwardness' precipitated the anti-colonial struggles of the 1950s for the nationalisation of the oil industry. The principle objective of the movement – under the name of National Front and the leadership of Mohammed Musaddiq (Prime Minister between 1951-53) – was to utilise the revenue of the oil industry to establish the basis for a durable industrialisation and the creation of an independent democratic state. The National Front was a loose alliance of 'various progressive, moderate, conservative, and even some reactionary political groups',[56] mobilised by the national *bourgeoisie*. The Musaddiq project was part of the wave of nationalist movements that took place in the wake of decolonisation after the Second World War. The new national elites pursued a strategy of mobilising the subaltern classes, but there was a sustained belief that only they could lead the process of developmental catch up. Almost everywhere that the anti-colonial struggles succeeded, the subaltern elements were excluded, repressed and totally marginalised from the processes. In the Iranian case, while the urban subaltern classes were incorporated into the movement, the peasants were completely omitted from the struggle. Because the nationalisation of the oil industry movement was an attempt at industrialisation of the country through oil revenues without a radical change in the socio-economic composition of the Iranian countryside. In other words, the

55 Katouzian, H. (1999). *Musaddiq and the Struggle for Power in Iran*. London: IB Tauris, pp. 39-50.

56 Hooglund, E. J. (1982), p. 44.

movement was even less radical than most of the other anti-colonial movements across the developing world since the privileged position of the landlords was largely intact.

In the meantime, consciousness of the diminishing British supremacy and shifting towards a new global order following the Second World War, Musaddiq signalled his inclination to the US by appealing for a loan of $120 million in order to discharge Britain from the control of Iran's oil. As a result, Washington initially held a 'neutral' position regarding the oil dispute between Iran and Britain.[57] Assured by the required domestic and international backing, the pro-National Front Majles ratified the bill of nationalisation in 1951, leading to a British-enforced boycott of Iranian petroleum. Under the severe financial deficit, the government proposed the policy of the 'non-oil economy', which eventually broke down the already loose alliance of the National Front. In particular, the government attempted to tighten the control of foreign trade and two decrees to implement a modest land reform in 1952 which alienated the mercantile class, the big landlords and their allies, the Shi'a ulama.[58] The disunity and the imminent collapse of the coalition provided an ideal situation for overthrowing of the Musaddiq's government through another coup organised by MI6 and CIA on 19 August 1953.[59] Musaddiq's shifting alliances with the Tudeh Party – a communist party with close connections to Stalin's Soviet Union – and the right and the resentment of the national bourgeoisie towards the comprador bourgeoisie made him an undesirable and ultimately unreliable agent of change in Iran for the US. This conclusion thus convinced the Eisenhower administration to cooperate with Britain in the toppling of Musaddiq.[60] Following the coup, the new oil agreement led to the loss of the BP monopoly position in favour of a new US consortium.[61] The growing role of the US in Iran, which was further consolidated through aid and loans, compelled the Shah to launch a radical agrarian reform effort and a programme of rapid industrialisation at the beginning of the 1960s.

Despite various half-hearted attempts to reform the semi-feudal social relations of production in Iranian agriculture, they remained largely intact up until 1962. Among political parties, the Tudeh Party and several small socialist parties (*niruy-i sevvom*) had demanded a land reform after the abdication of Reza Shah, albeit without putting forward a concrete programme. It is not absurd, however, to suppose that the 1952 decrees of the Musaddiq government and the

57 Alamdari, K. (2005). *Why the Middle East lagged behind: The case of Iran*. Maryland: University Press of America, p. 207.

58 Matin, K. (2013), pp. 91-2; Hooglund, E. J. (1982), pp. 43-4.

59 Katouzian, H. (1999), pp. 177-94; Katouzian, H. (1981), pp. 171-79.

60 Alamdari, K. (2005), p. 208.

61 Halliday, F. (1979), p. 142.

Shah's panic act to distribute a small part of the crown lands among some villagers in 1951[62] were attempts to counter the propaganda of the left rather than honest bids. While the decrees aimed to increase the share of peasants in the output slightly, they were amended two years later after the coup in favour of the landlords.[63] Meanwhile, the US economic aid and military grant aid to Iran reached $366.8 and $133.9 million between 1953 and 1957 respectively in order to stabilise the discontented population and rekindle economic growth since Iran was considered as a strategic part of the world capitalist bloc against the threat of communism. Notably, these figures even increased under the Second Seven-year Plan (1955-62), which aimed to restructure the Iranian economy under the direction of the Plan Organisation. The Organisation 'assembled some of Iran's best trained personnel and hired additional foreign advisors financed by the Ford Foundation' to allocate $1.2 billion budget of the Second Plan – a combination of mostly US aid and loan, World Bank loan, and the oil revenue – for the construction of 'dams, roads, telecommunications, power plants and a large-scale irrigation project.'[64] The plan was the second phase of a comprehensive national scheme advised by the Americans and the World Bank officials after the Second World War that 'aimed at increasing the degree of integration between the foreign-financed export orientated sector and the rest of the economy.'[65] By the late 1950s, although the Iranian Point IV Programme was 'one of the largest in the world' and despite the boom of the mid 1950s, the economy was in a severe crisis due to the combination of easy credit, the exhaustion of country's foreign exchange caused by unrestricted imports, and rising prices in the absence of purchasing power of the population.[66] In line with the IMF and the World Bank prescription to mitigate the crisis, the government implemented an unsuccessful stabilising programme including the ban on importing luxury goods, restriction on bank credit and the sale of foreign exchange.[67] Following Kennedy's victory in 1961, the new administration made it clear that its economic and political support for the Shah depended on the launch of a reform programme with a particular emphasis on the overhaul of the Iranian countryside.[68] The threat became real when the Ford Foundation removed its advisory group from the Plan Organisation. Following the departure of its best trained local personnel, the Economic Bureau of the Organisation practically collapsed.[69]

62 King, R. (1977). *Land Reform: A world survey*. London: G. Bell & Sons Ltd, p. 405.

63 Katouzian, M. A. (1974). Land reform in Iran a case study in the political economy of social engineering. *The Journal of Peasant Studies,* 1(2), pp. 223-24.

64 Richards, H. (1975). America's Shah Shahanshah's Iran. *MERIP Reports*, no. 40, pp. 7-10.

65 Afshar, H. (1981). An assessment of agricultural development policies in Iran. *World Development*, 9(11/12), p. 1098.

66 Ibid, pp. 10-11.

67 Parsa, M. (2009). State, class, and ideology in the Iranian Revolution. *Comparative Studies of South Asia, Africa and the Middle East*, 29(1) p.6.

68 Halliday, F. (1979), pp. 26-7.

69 Richards, H. (1975), p. 10.

The socio-political conditions of the region following the July 1958 revolution in neighbouring Iraq and the Soviet Union's propaganda regarding the readiness of Iranian social conditions for revolution aided the US to increase the pressure on the Shah to accept the reforms.

In 1960, two reform bills, drafted by American advisers, were never ratified by the landowner-dominated Majles and Senate nor enforced because of a coordinated campaign of sabotage from the landlords.[70] The combination of the economic crisis of the late 1950s, which led to urban political unrest, and external political pressure finally obliged the Shah to revise the alliance between the Pahlavi dynasty and the big landowners. In May 1961, the Shah was forced to appoint Ali Amini, who was ambassador to the US from 1956 to 1958 and was admired by Washington, to materialise the land reform programme.[71] Anticipating the threat against the new government from the representatives of big landlords in the Majles, the Shah dissolved the 20th Parliament to signal the sincerity of the reform. In the absence of a Majles, Amini and his enthusiastic anti-landowner Minster of Agriculture, Arsanjani, proposed much tougher legislation.[72] The reform, therefore, launched officially in January 1962 with six provisions: 'land reform, nationalisation of forests, sale of public enterprises, profit-sharing schemes involving workers, female suffrage, and foundation of literacy corps.' Following the dismissal of Amini and Arsanjani in July 1962, the programme went under the direction of the Shah and was renamed 'the White Revolution of the Shah and the People', extending to 12 points subsequently and 17 points in the late 1970s.[73]

As mentioned above, the most important component of the project was land reform with two fundamental objectives of expanding capitalist social relations of production to outlying urban and rural areas and neutralising any possible peasant revolt.[74] With respect to the first objective, the proponents of the reform envisaged the new capitalist agricultural sector as a source of surplus as well as labour supply which was essential for the development of national industries.[75] In addition to obeying the US order, the Shah gradually recognised that the land reform not only made his regime popular among the peasantry by dismantling the power base of the landlords but also negated the political agenda of the leftist groups and the National Front.[76] To mitigate the

70 Yeganeh, C. (1985). The agrarian structure of Iran: From land reform to revolution, *State, Culture, and Society* 1(3), p. 75.

71 Hooglund, E (1982), pp. 47-8.

72 Ansari, A. M. (2001). The myth of the White Revolution: Mohammad Reza Shah, 'modernization' and the consolidation of power. *Middle Eastern Studies*, 37(3), pp.7-8.

73 Ansari, A. M. (2014). *Modern Iran: The Pahlavis and after*. London: Routledge, pp. 192-98.

74 Alamdari, K. (2005), p. 228.

75 Najmabadi, A. (1987). *Land reform and social change in Iran*. Salt Lake City: University of Utah Press, pp. 9-10.

76 Ashraf, A. (1991). 'State and agrarian relations before and after the Iranian Revolution, 1960-1990'. In F. Kazemi and J. Waterbury (eds.). *Peasants and politics in the modern Middle East*. Miami: Florida International University Press, p. 282.

landlords' backlash, two strategies were employed. First, the Shah encouraged them to invest their capitals gained from selling their lands in what he called 'Persia's expanding industry and commerce' for 'quicker returns' since 'landowning as such no longer commands quite so much profit or prestige/value as formerly',[77] i.e. joining the capitalist class. Second, it seems that the idea that a land reform is necessary to prevent an 'impending peasant revolution' and to resist against the 'menace of communist encroachment' convinced some landlords to cooperate and seize the new opportunities. Due to a number of factors, above all the class structure of Iranian villages that will be explained shortly, the emergence of a coherent peasant community capable of overthrowing the regime was somewhat of a myth. Historically, the Iranian peasantry was not revolutionary, nor a significant socio-political movement.[78] But their so-called imminent threat, created by the political conjuncture of the Cold War, convinced the ruling class that the restructuring of the Iranian economy along the new lines of global capitalism was the only viable option for their survival. In other words, the severity of the threat of an Iranian peasant revolution was deduced from the victory of the Chinese Revolution a decade earlier and the Cuban Revolution in 1959, as well as several soviet-backed peasant movements in the region rather than the history of the peasant movement in Iran.

The land reform was a crucial stage in the expansion of capitalist social relations of production in Iran. It had resulted in the total abolishment of the pre-capitalist relations in the countryside more than one hundred years after the initiation of the modernisation project in the mid-eighteenth century. Due to its significance, before examining its phases and outcomes, it is essential to explore the land tenure system and social relations of production in the countryside until 1962 to conceive the gravity of the agrarian changes. There were five types of landholding before the land reform: large-scale private landed estates, state lands, crown lands, endowment lands, and peasant proprietorship. The owners of the first – including absentee landlords (majority), settled nomadic tribal leaders, and clergy – owned around 69 per cent of all lands. Approximately 6 per cent of lands belonged to the government while 8 per cent of all agricultural lands were those confiscated by Reza Shah and named crown lands. Endowment lands with two forms of general and special lands donated to religious institutions for personal and mostly charitable purposes and controlled by administrators. It should be noted that social relations of production in endowment and private lands were identical and therefore the exploitation of peasants was similar to the latter, if not even more severe. It has been estimated that 12 per cent

[77] M. R. Pahlavi, Shah. (1980). *Answer to history*. New York: Stein and Day, p. 204.

[78] Ashraf, A. (1991), pp. 278-80; Kazemi, F. and Abrahamian, E. (1978). The nonrevolutionary peasantry of modern Iran. *Iranian Studies*, 11(1-4), pp. 259-304.

of lands were categorised as endowment lands. The small proprietors owned roughly around 5 per cent of lands, which means that only 7 per cent of the Iranian peasants owned more than three hectares of land before the land reform of the 1960s.[79] The owners of the last type constituted the middle peasants, who cultivated their lands with the help of family labour and generally had little impact on the village economy. However, the remaining 93 per cent of the Iranian peasants were either cultivating right holders (*nasaqdars*) or agricultural and non-agricultural labourers.[80] Whilst the former had the customary right of cultivation on particular lands (*nasaq*), the agricultural workers without this right provided peak-season labour and non-agricultural labourers engaged in service activities of the village including barbering, blacksmithing, shoemaking, etc. There was another small but wealthy group in the villages including merchants, shopkeepers, and moneylenders, who controlled the most portion of agricultural credit. These village tradesmen together with the agricultural and non-agricultural labourers constituted *khoshneshins* (literally comfort-seeking people) whose common status was only landlessness. According to Hooglund, around 80 per cent of *khoshneshins* were agricultural labourers who did not have any regular work and constituted the poorest of all villagers.[81] Although there is no precise data, most studies concur that agricultural labourers constituted approximately 40 per cent of all inhabitants of villages, and *khoshneshins* made up to 50 per cent of the total population of the countryside.[82] There was hostility between the *nasaq*-holders and the agricultural workers mainly because of the conflict of economic interests, which resulted in the exclusion of the latter from membership of 'the elected village and rural tribunals' as well as the discouragement of social relationships such as marriages between the two.[83] This practically hindered the formation of a coherent peasant community as well as an organised peasant movement that was capable of jeopardising the interests of landowners.

The dominant form of social relations of production between peasants and landlords was sharecropping agreements (*muzara'eh*), and the organisation of productive activity was based on a number of collective units known as *buneh*. Hierarchically, the *buneh* head was the most experienced and eligible peasant who administered the unit and received a larger share of land. The crop was divided between the landlords and *bunehs* into five equal shares, dependent on providing five necessary agricultural components: land, water, seeds, oxen, and labour. The share could differ place to place based on the input of each party, but most of the time landlords provided at least

79 Alamdari, K. (2005), pp. 188-95.

80 Kazemi, F. (1980). *Poverty and revolution in Iran*. New York: New York University Press, pp. 32-3.

81 Hooglund, E. J. (1973). The khwushnishin population of Iran. *Iranian Studies*, 6(4), p. 229-45.

82 Katouzian, M. A. (1974). pp. 26-7. Hooglund (1973, p. 230) estimated that *khoshneshins* constituted '40 to 50 per cent of all inhabitants in villages'. See also Alamdari, K. (2005), p. 197.

83 Hooglund, E. J. (1973), p. 238.

land, seeds and water. Whilst theoretically the *nasaq*-holders could receive 4/5ths of the harvest, in reality, besides the three above elements often provided by landlords, a part of labour given by the agricultural workers and in some regions of the country a third person (*gavband*) usually provided draught animals.[84] There was another form of production relation when a peasant preferred to pay a fixed rent instead of sharecropping. Despite being less exploitative, peasant tenancy was not common 'since most peasants usually did not own all the productive elements.' Accordingly, 'they were compelled to pay for these elements with some of their products in addition to the fixed rent.'[85]

Let us now turn to the various phases of the land reforms. The first stage aimed at transferring the arable lands to the cultivating peasant householders (*nasaqdars*). The state through the Agricultural Bank paid the landlords and arranged annual instalments for farmers to repay. Overall, it is estimated that in this stage around 17 per cent of the ownership of total villages were transferred. The second phase, began in 1963, under the direction of the Shah was less radical, allowing the landowners who were not affected by the first round to hold 30 to 150 hectares of their non-mechanised lands in return for managing their lands based on a number of given options. Their favourite method was renting their properties to the *nasaq*-holders for 30 years based on the average income of the preceding three years.[86] The government pre-conditioned membership in newly introduced cooperatives for receiving lands under phases one and two. It was envisaged that these cooperatives would replace *bunehs* but in reality they were managed by a government body under the control of the Agricultural Bank which lent money to the richer peasants.[87] The outcome was the creation of 'a considerable number of the middle landlords', whose economic activity was lending money to poorer farmers and the *khoshneshins*. These *buneh* heads cum middle landlords along with the *khoshneshins* tradesmen constituted a new rural petty *bourgeoisie* with a close link to the urban bazaar.[88]

While the first phase challenged the big landowners and the second stage expanded peasant tenancy to discreetly preserve the large-scale land ownership, the third and fourth stage, started after 1968, were actions 'against tenancy, new tenants, and the remaining old relationship between landlords and peasants – in favour of expansion of capitalist relations of productions' through formation of three different agricultural companies: joint-stock agricultural companies, farm

84 Katouzian, M. A. (1974), p. 227. See also Kazemi, F. (1980), p. 33; Alamdari, K. (2005), pp. 177-78.

85 Alamdari, K. (2005), p. 196.

86 Ajami, I. (1973), pp. 123-25.

87 Halliday, F. (1979), p. 121.

88 Matin, K. (2013), p. 111.

corporations, and large agro-industrial complexes.[89] To justify, the government stressed that the establishment of larger and mechanised units of farming is more productive than the breaking down of farms into smaller parcels.[90] Hence, nearly half of those 1.3 million peasants who received lands in the 30-years agreement of the second stage lost their rights and became landless labourers.[91] In the joint-stock agricultural companies with the average size of 2,000 hectares, peasants as members received wages and dividends. Despite the fact that 600 villages among 60,000 villages were chosen among the best lands and received 400 times more capital and credit than the cooperatives, 85 per cent of these enterprises lost money.[92] The second form was farm corporations in which some former landlords and the state elites including several members of the Royal family either purchased numerous fertile large farms from peasants cheaply or even used force to expel them from their lands. Some high-ranking officials who were given barren lands instead received a tremendous amount of low-interest loans by the government through the Agricultural Development Bank of Iran. In addition, several thousand private commercial farms and orchards, which were exempt from the land re-distribution as they were categorised as highly mechanised lands, were among the farm corporations. The creation of several 5,000 to 25,000-hectar farms as 'agro-businesses' was at the centre of the state's plans. Some of them were owned by the government, some were run by the private sector and the rest were joint ventures between foreign, mainly American, and Iranian firms that could be either private or state-owned. Apart from the direct investment, foreign capital was also invested in other activities related to agriculture, e.g. dam construction, building of irrigation systems, etc.[93]

The land reform successfully abolished the remaining pre-capitalist social relations and expanded capitalist relations of production to the very vast areas of the countryside through creating rural bourgeoisie and proletariat, converting land to a commodity, alerting production for the market rather than for subsistence, and expanding exchange relations between the cities and the countryside. Despite the government propaganda of improving productivity in agriculture, the value of the agricultural export dropped by 36 per cent in 1976 and Iran's food import increased by more than three and half times between 1970 and 1975.[94] The real shock, however, was in the socio-economic conditions of the peasants. The Shah claimed that the reform would have created

89 Alamdari, K. (2005), p. 251; Yeganeh, C. (1985), p. 78.

90 Carey, J. P. C. and Carey, A. G. (1976). Iranian agriculture and its development: 1952–1973. *International Journal of Middle East Studies*, 7(03), p. 364.

91 Alamdari, K. (2005), p. 252

92 Katouzian, M. A. (1978). Oil versus agriculture a case of dual resource depletion in Iran. *The Journal of Peasant Studies*, 5(3), pp. 358-59; Weinbaum, M. G. (1977). Agricultural policy and development politics in Iran. *Middle East Journal*, 31(4), p. 438.

93 Weinbaum, M. G. (1977), pp. 438-39; Alamdari, K. (2005), pp. 271-82.

94 Weinbaum, M. G. (1977), p. 445.

a large class of small capitalist farmers loyal to the regime but ironically only 27 per cent of peasants with cultivating rights received seven hectares of properties, which was the minimum amount of land that a peasant household required to provide their means of subsistence. Most importantly, all agricultural workers without cultivating rights had not received land as the government used the pre-existing *nasaq* arrangement in the land re-distribution programme. This meant that nearly 40 per cent of Iranian villagers were not eligible to receive land at all even before the start of the reform.[95] By the mid-1970s, the army of dispossessed peasants reached more than 60 per cent of the rural population, forming an enormous impoverished rural proletariat due to two key determinants. First, the mechanisation of farming exacerbated their economic situations since it led to a sizable decline of employment in the agricultural sector.[96] Secondly, the small size of peasant holdings after the reform eliminated opportunities for the landless workers to cultivate as agricultural labourers on those lands. The combination of the two factors forced them to migrate to the urban areas where, as a result of the industrialisation programme that was initiated simultaneously with the programme of the agrarian reform, the urban industrial sectors unceasingly demanded a substantial 'reserve army of labour'. As an example, it is estimated that rural immigrants formed approximately 14 per cent of the urban population (four million) in 1972. Accordingly, the continuation of the immigration of a substantial number of peasants to the major cities had become a well-established trend throughout the decade.[97]

The complete dispossession of the peasants was the final step of the Iranian primitive accumulation through which a new agrarian capitalist class emerged. Furthermore, a large number of the landlords invested the compensation for their lands in the newly established agro-business sector while the others became part of the financial and industrial bourgeois. Besides dispossessing of the peasants' lands, the significant amount of capital of this new class came from the oil revenue. The new oil agreement of the post-1953 coup increased Iran's share slightly, but a fundamental change took place after joining the OPEC in the early 1970s. Not only did the revenue precipitate the state investment in industry, but it also provided the funds for the augmentation of the industrial capitalist class. Furthermore, fiscally, the government imposed high rates of duty on imports to promote domestic production with the aim of protecting and nurturing this class.[98] This set of polices known as the ISI strategy widely adopted by the so-called Third World states linked

95 Afshar, H. (1981), p. 1103; Matin, K (2013), p. 110.

96 Karshenas, M. (1990b), Oil income, industrialisation bias, and the agricultural squeeze hypothesis: New evidence on the experience of Iran. *The Journal of Peasant Studies*, 17(2). p. 261.

97 Bayat, A. (1987). *Workers and revolution in Iran*. London: Zed Books Ltd, p. 33

98 Halliday, F. (1979), pp. 142-50.

to the Western Bloc.[99] The industrialisation project was carried out in a series of development plans: the third (1962-68), the fourth (1968-73), and the fifth (1973-78) plans. A fundamental development was the formation of influential industrial finance banks including the Industrial Credit Bank and the Industrial and Mining Development Bank of Iran (IMDBI). The former was specialised in small to middle sized loans and provided approximately 30 per cent of the funds for the private sector throughout the 1960s and the 1970s. The latter was created by the Iranian government and the World Bank capital in 1959 and was the largest supplier of funds for the private sector. Additionally, it played crucial functions in the formulation of the government industrial policies and the promotion of new investment projects and an intermediary role between the state, domestic and foreign capital. As Karshenas points out, 'the structure of capital and ownership of IMDBI highlights one of the salient features of the post-1953 capitalist development in Iran, namely the emergence of a small group of businessmen with clientelistic ties to the state, who, by virtue of their monopoly access to the state funds and close collaboration with foreign capital, managed to multiply their capital in a hothouse manner.'[100] The role of large Western firms was to provide technology, managerial skills and finance capital in return for forging profitable partnerships with the local industrial bourgeois to access to the domestic market with a minimum competition.[101] Hence, with the average annual industrial growth of 15 per cent between 1965 and 1975, it is estimated that 6,000 manufacturing units with more than ten employees were established by 1977. Many of them major plants in the petrochemical sector, steel sector, car truck and bus industry as well as machine-tool factories and electronic assembly plants.[102] In the same year, there were 1.7 million modern industrial proletariat and 700,000 agricultural labourers, while still nearly half a million worked in traditional manufacturing units. This means that wage labourers became the largest group of the economically active population for the first time in the history of Iran.[103]

The question one may ask is why these fundamental transformations occurred in this given period of history. To be specific, in Iran, capitalist modernity, which led to the creation of the modern state, started more than a hundred years before the land reform and the rapid industrialisation programme of the Shah, but the capitalist social relations of production had prevailed in all corners of the country only after World War II. At first, after the Great Depression

99 Nasr, V. (2000). Politics within the Late-Pahlavi State: The Ministry of Economy and industrial policy 1963-69. *International Journal of Middle East Studies*, 32(1), pp. 101-2.

100 Karshenas, M. (1990a), p. 101.

101 Pesaran, M. H. (1982). The system of dependent capitalism in pre-and post-revolutionary Iran. *International Journal of Middle East Studies*, 14(4), pp.510-11.

102 Halliday, F. (1979), p. 148.

103 Abrahamian, E. (1980). Structural causes of the Iranian revolution. *Merip Reports*, no. 87, p. 22.

and the subsequent devastating Second World War, the international context of uneven development fostered the ISI model of development for the periphery by breaking from the nineteenth-century model of the international market. This went hand in hand with the change in the configuration of global hegemony from Pax Britannica to Pax Americana. In contrast to Britain's strategy of integrating the peripheral states into the gold market through raw materials for its industrial needs, the US was promoting the industrial productive relations linked to Fordism. Accordingly, the shakeup of global capitalism and the shift in power from Britain to America in the international political economy laid the foundation for the restructuring of capitalism and the reorganisation of the state form in the developing states linked to the Western Bloc. Furthermore, the threat of the Soviet Union and the fear of peasant revolt was vital in the trajectories of change in these countries. This does not mean, however, that the structural conditions of the international system unconditionally determined the outcome of the reforms in these societies. Of equally importance was the domestic class structure and the relation of political forces which resulted in different outcomes in these societies.

In Iran, the central agencies of the US government and the international institutions, in particular the World Bank, functioned to accommodate domestic social tensions with the requirements of the global economy by providing financial and advisory assistance as well as apparent elements of political pressure whenever required. Akin to the US position in Latin America, it was stressed that land reform and simultaneous rapid industrialisation to create labour-intensive production plants could only undercut the revolutionary threat from the Iranian pro-western state. Accordingly, the pre-modern agrarian relations were abolished, and industries with the help of oil revenues and the global finance capital through the ISI were built and protected, placing Iran among the only eight developing countries that produced roughly two-thirds of the increase in the value of Third World manufacturing between 1966 and 1975.[104] The inability of the weak Iranian bourgeoisie to promote capitalist development necessitated the leading role of the state in the process of managed transformation. As a result, the reforms from above restructured Iranian capitalism and generated the new protected capitalist class of around 2,000 families with close ties to the foreign capital – among those were many ex-landlords – who controlled the whole apparatus of the state. Nonetheless, the most influential faction of this class was the Pahlavis including 'sixty-three princes, princesses, and cousins of the royal family' who 'controlled one-fifth of the private assets of Iran, with shares in 207 companies involved in agriculture, housing, hotels,

[104] McMichael, P. (2014). *Development and social change: A global perspective*. London: Sage, p. 64.

autos, textiles, insurance, and publishing companies, among others.'[105] It is not unreasonable, therefore, to use 'monarcho-bourgeoisie' to describe this small 'modern' capitalist class.[106]

Unquestionably, the White Revolution to a great degree reorganised and revolutionised the social relations of production through which the old ruling class continued to restore its domination in the state. Nonetheless, as extensively explained above, unlike many developing countries involved in wars of national liberation and nation-building process, the imminent threat of a peasant revolution in Iran was a myth generated in the context of the Cold War. It was based upon the experiences of few countries with a different balance of class forces, rather than the reality of the class structure of the Iranian countryside. Nor were there weak or weakly organised subaltern classes with a programme whatsoever to claim that they failed to materialise a viable radical alternative. What is more, while the White Revolution was successful in restructuring and transforming the social relations of production, it miserably failed to partially incorporate and realise the demands of the peasantry despite the deafening propaganda of the Shah that the land reform would give peasants a prosperous future and increase his popularity among them. Conversely, as it will be shown below, the top-down reforms of the second Pahlavi state spawned a highly uneven development that induced absolute growth inequality and poverty in the society by engendering a colossal class of urban poor and worsening the socio-economic conditions of the working class, the middle class and the traditional petty bourgeoisie. Not only did the White Revolution alienate the powerful tradition mercantile class of the bazaar, the land reform and the rapid industrialisation based on the ISI strategy also precipitated the forging of a coalition among all social classes against the 'monarcho-bourgeoisie'. Considering the criteria discussed in Chapter 3, I would argue that the White Revolution can best be conceptualised as capitalist restructuring from above rather than an instance of passive revolution. It should be noted that it is a question of empirical inquiry on a case-by-case basis to find out whether the post-World War Two reforms in other pro-Western countries of the Global South qualify as an example of passive revolution or not.

As an example of state capitalism, the Shah's modernisation geared towards building up a heavy industrial base. Due to the inability of the state to mobilise from within its own borders the financial and technological resources and machinery for the creation of modern industries, particularly the heavy industries, the project heavily relied on the United States and to some extent

[105] Foran, J. (1994). 'The Iranian Revolution of 1977-79: A challenge for social theory'. In J. Foran (ed.). *A century of revolution: Social movements in Iran*. Minneapolis: University of Minnesota Press, p. 169

[106] The term 'monarcho-bourgeoisie' quoted by Matin (2013, p. 117) from Ahmad, A. (2008). Islam, Islamism, and the West. *Socialist Register*, 44(44), pp. 1-37. However, Ahmad notes that the term has been used for the first time by Ervand Abrahamian in *Iran between Two Revolutions* (1982).

other advanced Western states. Apart from the financial support of the U.S. and the investments of some large American firms, the large foreign reserves of the country thanks to the oil revenues, especially in the beginning of the 1970s, crucially aided the financing of the imports of machinery, components, and other inputs needed to build up the country's industrial base. This ISI state-led development to a large degree remained intact in the decade following the popular revolution of 1979 that ended the reign of the monarchy. There were nevertheless two major differences. First, the strategy continued against the backdrop of the unfavourable international environment, in particular the U.S. hostility towards the new revolutionary state. Second, instead of hailing the development of capitalism and capitalist class as an imperative factor for 'progress', the new revolutionary state framed the top-down state-led development as the act of national liberation of the 'downtrodden', i.e. workers and the poor against domestic 'exploitative capitalists and landowners' and 'their American masters'. Before examining the expansion of state capitalism in the first decade of the revolution, which has played an indispensable role in the process of neoliberalisation of the following decades, let's first look at the context of Shah's reforms from above.

4.5. Revolution from Below against the 'White Revolution'

The reforms immensely expanded modern industries and produced agro-capitalist relations, generated an influential bourgeois class and an increased urban blue-collar proletariat. It also led to the growth in the modern service sectors with 1.25 million white-collar workers, of whom 68 per cent were employed in the state sector thanks to the expansion of the state bureaucracy.[107] Due to the implementation of economic policies in favour of the upper class and destroying of labour unions, professional associations and political parties after the 1953 coup, the two factions of the working class antagonised by the Pahlavi state's policies. In view of that, the level of income inequality made Iran 'one of the most inegalitarian societies in the world' as stated by an unpublished report of International Labour Office in 1972. According to Abrahamian, the urban inequality even aggravated a year later as 'the top 20 per cent of urban families accounted for as much as 55.5 per cent of the total expenditures' while 'the bottom 20 per cent for as little as 3.7 per cent.'[108]

[107] Bayat, A. (1987), pp. 26-7.

[108] Abrahamian, E. (1980), p. 23; Walton, T. (1980). Economic development and revolutionary upheavals in Iran. *Cambridge Journal of Economics*, 4(3), p. 283.

The massive influx of new wage labourers to the cities because of the immigration of the landless peasants was provisionally absorbed by the construction sector. The sudden bust of the construction sector caused by the mid-1970s crisis eventually enforced all these generally religious new urban workers to seek employment in the bazaar as day-labourers, small-shopkeepers and street pedlars. The bazaar had the capacity to absorb the new workers because the transformation of the structure of the economy through developing large-scale industrialisation unintentionally boosted the medium-sized units and small-scale workshops linked to the bazaar. According to one estimate, there were 200,000 small workshops with less than ten workers, compared with 830 factories with 500 or more employees in 1977.[109] A small number of these small-scale units utilised machines and modern methods of work as the majority of them used craft techniques and employed mostly migrant workers in poor conditions of work and low wages with little job security.[110] The economic boom and the growth of urban population partially aided the medium-sized enterprises and in particular small-scale units to flourish since the modern industrial firms could not cover all traditional productions. As explained earlier, traditionally, the bazaar was not just a site for commerce but also a site for production. Due to the Reza Shah's modernisation in the 1930s, artisanal and small-scale manufacturing located in the bazaar started to decline. The second Pahlavi's reconstruction of the economy forced the remaining traditional production lines to move away from the Tehran Bazaar to the other part of the city where the production of goods was less costly.[111] However, the merchants and moneylenders of the bazaar kept their links with not just small manufacturing workshops but also medium-sized plants through financing them because most of them were not eligible to access the subsidised credits of the state-owned commercial and development banks as the government prioritised the large industries. The big businesses enjoyed from 6 per cent interest rate loans of the state-subsidized banks while the small ones borrowed from private moneylenders of the bazaar at very high-interest rates, sometimes 40 per cent per month. As a result, the internal credit system of the bazaar flourished throughout the 1960s and 1970s as 'in 1963, the bazaaris in Iran were estimated to loan as much as all the commercial banks put together. In 1975, the Tehran Bazaar was estimated to control 20 per cent of the official market volume, or $3 billion in foreign exchange and $2.1 billion in loans outstanding.'[112] One may argue that the astronomical interest rates of these loans compared to the official banks' loans could create discord between the national bourgeoisie and the artisanal wing of the traditional petty bourgeoisie and the bazaari merchants and lenders. Nevertheless, it was a

109 Matin, K. (2013), p. 112.

110 Bayat, A. (1987), pp.31-32.

111 Keshavarzian, A. (2007), pp. 45-46.

112 Ibid, p. 86.

win-win for both sides during the economic boom and when the economic conditions exacerbated in the mid-1970s, their repugnance towards the protected foreign-affiliated large industries unified them. Secondly, while the bazaar lost its direct control over traditional manufacturing, the ISI strategy strengthened their commercial activities. One major problem of the ISI strategy in countries like Turkey was the shortage of foreign exchange which was absent in Iran owing to the accessibility of external sources of revenue, in particular oil revenues. Not forcing to put stringent limits on imports, unlike most middle-income counties associated with the ISI, resulted in a substantial increase of imports during the 1960s and 1970s. This is due to a combination of various factors such as the rise of incomes, growth of population, high levels of liquidity due to the 1970s oil boom and the fetishisation of Western goods. Accordingly, the import of consumer goods and intermediate goods, which were the prime activities of the bazaar, witnessed a steady rise in the early stage of the industrialisation and an astonishing fivefold increase from 1973 to 1978.[113] Due to the geographical unevenness of the industrialisation and urbanisation, Tehran absorbed most of the national investment (60 per cent of all industrial investment) and employment in retail and wholesale activities. While new business districts and modern shopping centres outside the Tehran Bazaar were constructed, they were still dependent on its wholesalers and merchants. Therefore, 'the Tehran Bazaar maintained its commercial supremacy' not only because of the increase in imports but also 'because of its historical and locational advantages.'[114] All in all, despite the government's economic policies that were suitable for large entrepreneurs, the bazaar benefited enormously from the economic boom of the mid-1960s to mid-1970s. Tellingly, they still managed to control a third of imports and as much as two-thirds of the retail trade of the country.[115]

It is indeed a well-known fact that the class structure of the state until 1962 was a conservative coalition that the big landlords and the bazaar were the conspicuous parts of it. Despite the fact that the land reform directly attacked the interests of the class of big landowners, the gradual inclusion of the ex-landlords in the new capitalist class to a large extent neutralised their extortions. But an influential faction of the ulama, as part of the landowning class, denounced the White Revolution, which resulted in the June 1963 uprising under the leadership of Khomeini and the subsequent vicious suppression by the state.[116] On the other hand, another faction of the ulama with the close bond to the class of mercantile and the petty bourgeoisie of the bazaar did

113 Ibid, pp. 138

114 Ibid, pp. 144-45.

115 Abrahamian, E, (2008). *A modern history of Iran*. Cambridge: Cambridge University Press, p. 138; Abrahamian, E. (1980), p. 24

116 The opposition of Boroujerdi, the Iranian Grand Ayatollah (*marja taghlid*) to the land reform was an important obstacle for the lunching of the programme. His death in March 1961 facilitated the Shah's manoeuvre to start the White Revolution. See Parsa, M. (1994), p. 149.

not join the revolt at least until the Shah, in defence of the modern industrial class, endeavoured to eradicate the bazaar economy after the economic crisis of the mid-1970s. An enormous increase in the oil price after the OPEC meetings in 1973 generated huge revenue for the Shah's ambitious industrial modernisation, inducing rising wages and new employment opportunities that encouraged overrapid migration as well as shortages in housing and other goods and services, i.e. an escalating inflation.[117] OPEC's decision in September 1975 to decrease oil price upsurges caused a massive decline in foreign exchange receipts and thus a major drop in revenue that threw many workers out of employment. Together with the hasty rise in the costs of production and labour that jeopardised the non-oil exports, Iran was on the verge of bankruptcy.[118] Desperate to find a scapegoat, the Shah viciously targeted the longstanding autonomous bazaar as he acknowledged in his memoir: 'The bazaaris are a fanatic lot, highly resistant to change because their locations afford a lucrative monopoly. Moving against the bazaaris was typical of political and social risks I had to take in my drive for modernisation.'[119]

It is worth noting that before attempting to destroy the bazaar completely, the government economic policies paved the way for the hostile attitude of its traditional petty bourgeoisie towards the state. Apart from discriminatory commercial regulations and tax laws, their exclusion from the generous credit schemes and loans of the government already discontented them throughout the 1960s and the early 1970s. Despite this discrimination, the bazaaris tolerated the government because, as explained above, they unexpectedly benefited from the reforms in the short-term. More importantly, the regime pursued the policy of 'let sleeping dogs lie' towards the bazaar prior to the crisis whereby a direct intervention in its economic and political structures was not encouraged.[120] Believing in a simple linear development embedded in the dominant idea of 'high modernism' of the post-World War II era, the Shah assumed that the construction of modern banks, industries, supermarkets and shopping stores would replace the traditional credit system and moneylending, destroy small-scale manufacturing and oust the bazaar-located retail stores in a natural process of progression. Hence, despite the disdain of the monarchy and the high-ranking officials of the state for the bazaaris, the government intentionally ignored to meddle in the bazaar, regulate their activities or directly restructure it.[121] However, unable to control the economic crisis, the Shah first declared a one-party system with two options of joining the newly formed *Rastakhiz*

117 Skocpol, T. (1982). Rentier state and Shi'a Islam in the Iranian revolution. *Theory and Society*, 11(3), p. 270; Keddie, N. (2003), p. 163.

118 Afshar, H. (1981), p. 1104.

119 M. R. Pahlavi, Shah. (1980), p. 156. It should be noted that the memoir was published a year after the revolution.

120 Abrahamian, E. (1980), pp.24-25.

121 Keshavarzian, A. (2007), pp. 133-34.

(Resurgence) Party; or leaving the country in 1975 in an attempt to tightening the state control over the urban working classes and terminating the autonomy of the bazaar through opening branches of the party in bazaars across the country and replacing the traditional High Councils of Guilds with the government-tightly-controlled Chambers of Guilds. Moreover, as the bazaaris were accused of hoarding and price-fixing practices that triggered and intensified the inflation, the government launched an anti-price-gouging campaign, which led to the imprisonment of 8,000, and exile of another 23,000, and the fining of as many as 200,000 of businessmen, shopkeepers, and peddlers of the bazaar in several stages.[122] The relentlessness of the onslaught that targeted all classes of the bazaar augmented their solidarity against the state to the highest level. It could be argued that the campaign was 'one of the most decisive factors in instigating the bazaaris to join the revolution of 1977-79'.[123]

Not only did the White Revolution turn the whole bazaar against the Shah, but it also united the two wings of ulama for the first time, namely those clerics having the intimate linkage with the mercantile class of the bazaar and those having the landowning tendency. Needless to say, contrary to the Shah's assertion that the land reform engendered small capitalist farmers loyal to the regime, it placed the growing poor rural proletariat directly against the regime since it brought about the destruction of the socio-political structure of rural communities where the relationship between the state and peasants was mediated by the landlords. Together with the dissatisfied urban working classes and the urban poor of shanty towns, they forged an unwritten alliance with only one objective; that is the overthrowing of the Shah's regime whose class basis abridged to the bourgeoning industrial bourgeois class that was unconditionally supported by the metropolitan capital. In a sharp contrast with the conditions of the integral state and in the presence of the 'primordial' and 'gelatinous' civil society incapable of producing a protective buffer to taper class struggle,[124] the rentier capitalist state of the second Pahlavi state was accused of all social tensions spawning from the creation and distribution of material wealth, i.e. the whole society against the small 'monarcho- bourgeoisie.' Recalling Chapter 3, it is important to note that the economic positions of these classes did not automatically determine their class identities and strategies against

122 Skocpol, T. (1982), p. 272; Abrahamian, E. (1982), pp. 242-433; Abrahamian, E. (1980), pp. 24-25; Moaddel, M. (1996). The social bases and discursive context of the rise of Islamic fundamentalism: The cases of Iran and Syria. *Sociological Inquiry*, 66(3), p.337. For a detailed account of various stages of the attack on the bazaar from 1975 to 1977, see Smith, B. (2004). 'Collective action with and without Islam: Mobilizing the Bazaar in Iran'. In Q. Wiktorowicz (ed.). *Islamic activism: A social movement theory approach*. Indiana University Press, pp. 195-98.

123 Ashraf, A. (1988), p. 557; See also, Moghadam, V. (1987). Socialism or anti-imperialism: The Left and revolution in Iran. *New Left Review,* 1/166, p. 11. In an interview with the *New York Times*, one shopkeeper revealed the bazaar's level of hostility towards the government: 'If we let him, the Shah will destroy us. The banks are taking over. The big stores are undermining our livelihoods. And the government will flatten our bazaars to make room for state offices'. Cited in Abrahamian, E. (1980), pp. 25.

124 Gramsci, A. (2003). *Selection from the Person Notebooks*. Edited and translated by Hoare, Q. and Nowell-Smith, G. London: Lawrence and Wishart Ltd, p. 238.

the regime as ideas have their own conditions of existence, which are not simply reducible to the economic. In other words, although due to the uneven nature of the modernization these classes identified points of antagonistic interest with a common enemy, their mobilisation required an oppositionist discourse to form and transform their identities. Ultimately, throughout the revolutionary upheaval, the victory of the revolution and its immediate aftermath, a particular interpretation of Islam successfully provided such an ideology to confront the late Pahlavi state.

While Ali Shariati's radical Islamist discourse camouflaged Marxist concepts in Islamic vocabulary to advocate a utopian classless Muslim community ruled by enlightened thinkers, Khomeini's militant Islamic discourse was an amalgamation of using certain modern vocabulary such as 'colonialism', 'the West', 'the Third World', and 'Westoxification' and substituting of the others such as 'proletariat' and the 'bourgeoisie' with *mostazafin* (the downtrodden) and *mostakberin* (the oppressors) to fight for a just Islamic state ruled by the Shia clerics.[125] Despite the land reform and the large-scale industrialisation, the industrial proletariats amenable to secular left politics were relatively small compare to the wage-labourers employed in the bazaar who were 'generally exposed and amenable to the Islamists' ideological appeal.'[126] Likewise, these radical widespread readings of Shi'a doctrine resonated with a significant proportion of white-collar workers as well as the unemployed urban poor of shanty towns. Apart from these two popular discourses, small segments of the various classes predisposed towards the liberal-nationalist interpretation of Islam with emphasis on the compatibility of Islam and democracy or the traditional variant that yearned for the past order.[127] While the situation was ripe for revolution, the new policy of the Carter administration in which the US allies in the Third World were pressured to respect human rights in order to combat communism in the Cold War actually triggered the outbreak of the revolutionary crisis. For the political opening in 1977 led to the denunciation of the Rastakhiz Party by numerous political parties and professional associations and the initiation of the first wave of the revolutionary protests.[128] As explained, the revolution made by a wide-ranging alliance of social class forces. Up to the victory of the revolution alongside the Islamic groups, particularly those that adopted the dominant discourse of the militant Islam of Khomeini, the secular left parties and organisations played an indispensable role in the toppling down of the Shah's regime through various revolutionary waves between 1977 and 1979. Nonetheless, the followers of

125 Matin, pp. 130-141.

126 Ibid, p. 118.

127 Ashraf, A. and Banuazizi, A. (1985). The state, classes and modes of mobilization in the Iranian revolution. *State, Culture, and Society*, 1(3), pp. 30-31.

128 It is reported that the Shah reacted to the victory of Carter in November 1976 by saying that 'it looks like we are not going to be around much longer.' Cited in Ashraf, A. and Banuazizi, A. (1985), p. 4.

Khomeini successfully destroyed and marginalised all secular rivals after several years of an enormous level of violence and terror following the revolution and established the Islamic state based on the Shia notion of *velayate faghih* (the guardianship of the jurisconsult). In the next section, I shall explore the economic policies, class structure and the form of the revolutionary state in the first decade of the revolution.

4.6. Extensive Nationalisation and War: The Volatile First Decade of the Revolution

The revolution and the class struggle in the immediate aftermath of it profoundly changed the underlying structures of the economy and overwhelmingly reshaped the class forces in the society and the state. At the early stage, a combination of internal and external factors – the widespread confiscation and nationalisation of big industries, banks, mines and real estate, and the trade sanctions and freezing of Iranian assets by the US following the hostage crisis[129] – jeopardised the security of capital and private property and effusively disturbed the accumulation process. Followed by the costly and protracted war with Iraq, the crisis of production due to rising inflation, increasing foreign indebtedness on an unprecedented scale, growing rent-seeking activities at the expense of productive enterprise, and shrinking of capital stock put the country on the verge of bankruptcy at the end of the 1980s.[130]

Soon after the revolution, not only had many foreign firms affiliated with the Iranian industrial capitalist class pulled out from Iran, but also a few members of the old ruling class succeeded in fleeing the country with their capital and assets.[131] The Revolutionary Council and the Revolutionary Islamic Courts, however, confiscated most of the property of the monarcho-bourgeoisie through two distinct forms of state ownership, so-called 'government' and 'public'.[132] In the first form, all private banks, insurance companies, and all heavy industries went under the control of the government. In the initial round of the seizure of the banking sector twenty-three

129 Iran hostage crisis was an international crisis in which 66 American diplomats were seized at the US embassy in Tehran by a group of revolutionary Iranian students on 4 November 1979. After releasing 14 of them, the remaining 52 hostages kept held for 444 days until 21 January 1981, the inauguration day of Ronald Ragan. Not only did the crisis have a profound impact on the Iranian economy, but it also caused the resignation of the provisional government after the Revolution and vanished the prospect of Jimmy Carter's second term according to many historians. See for example: 'Iran Hostage Crisis'. *Encyclopaedia Britannica*; 'Iran Hostage Crisis'. *History*.

130 Karshenas, M. and Pesaran, H. (1995). Economic reform and the reconstruction of the Iranian economy. *The Middle East Journal*, 49(1), p. 89.

131 The estimation for capital flight during this period is 'in the rage of $30 to $40 billion'. See Maloney, S. (2015). *Iran's political economy since the revolution*. Cambridge: Cambridge University Press, p. 114.

132 In the Persian language, 'state' is translated to '*dolat*' while in the Iranian political structure and the public realm '*dolat*' generally refers to 'government'. For this reason, the correct translation of 'state' is '*hakemiat*'. This is crucial in the argument because I consider both government ownership and public ownership as two forms of state ownership. Accordingly, government-own enterprises (GOEs) and publicly-owned enterprises (POEs) will be categorised as two types of state-owned enterprises (SOEs).

private banks (around half of them owned by foreign firms) were nationalised in June 1979, followed by the nationalisation of the remaining thirty-six financial institutions in October of the same year. Consequently, the nationalisation of the entire banking sector led to the creation of nine government-owned commercial and specialised banks. In July 1979, the nationalisation of the heavy industries including mining, petrochemical, metals, shipbuilding, automobile and aircraft manufacturing was justified by the Revolutionary Council on the basis that these industries were strategic and vital to the revolutionary state.[133] Furthermore, the provisional government nationalised those industrial firms of which their owners and managers had fled the country as well as those companies that owed more than half of their assets to the banks and were on the verge of bankruptcy.[134] In order to supervise all industrial activities, the Council approved the establishment of four ministries, namely the Ministry of Petroleum, Ministry of Mines and Metals, Ministry of Heavy Industry, and Ministry of Industry (controlled industries involved in food processing, textiles, and pharmaceuticals).[135] The nationalisation was seen as a process to realise one of the primary aims of the revolution, namely the political and economic independence from the West and in particular the US to accomplish 'true economic self-reliance'.

To materialise the redistribution of wealth and income among the 'downtrodden' as another principal aim of the revolution, non-profit para-governmental foundations (*bonyads*) were created. To fund these new revolutionary organisations, the assets of the royal family and its close associates, who were considered as 'corrupt on earth', were expropriated by the revolutionary Islamic courts and categorised as public properties, separated from government properties.[136] According to Islamic Law, this means that they were at the disposal of the *Imam* despite the intertwining of political and religious authority in post-revolutionary Iran. The *bonyads* were considered invaluable vehicles by the Islamic revolutionary forces as they maintained the hegemony of the Khomeini conception of just governance over the subordinated classes and the urban poor. Besides the Pahlavi Foundation holdings, the substantial assets of those industrialists who were owned by the industrial complexes of the country[137] were transferred to these newly created foundations, in particular the Foundation for the Oppressed and Self-Sacrificed (*bonyad-e*

133 Maloney, S. (2015), pp. 117-18.

134 Ehteshami, A. (1995). *After Khomeini: The Iranian second republic*. London: Routledge, pp. 86.

135 Maloney, S. (2015), pp. 118.

136 Behdad, S. (1996). 'The post-revolutionary economic crisis'. In S. Rahanema and S. Behdad (eds.). *Iran after the revolution*. London: I.B. Tauris, p. 101.

137 According to Ehteshami these industrial complexes were mainly the assets of the country's major 51 major industrialists. To check the name and the business activities of these industrialists before the revolution see a table provided by Ehteshami, A. (1995), pp. 85-85.

mostazafan and janbazan)[138] and Martyrs' Foundation (*bonyad-e Shahid*). Equally important was the establishment of the Imam Khomeini Relief Committee (IKRC) (*komiteh-ye emdad-e imam Khomeini*) to provide 'medical, educational, and social assistance to the rural poor, women, and orphaned children.'[139] In addition to these public foundations, some endowment foundations were also formed with akin goals. Similar to public *bonyads* and based on *Sharia* law, religious endowments are under the control of the Imam and outside the government authority and regulation. Despite the presence of this type of *bonyad* before the revolution, they grew dramatically in terms of economic power and political influence after the revolution. The Imam Reza Shrine Foundation (IRSF) (*bonyad-e astan-e qods razavi*), which was formed decades before the revolution, is the exemplar of this kind of foundation. After the revolution, the most significant endowment foundation was the Fifteen Khordad Foundation, which was established in memory of the Khomeini-led 1963 uprising against the White Revolution and was closely associated with the Supreme Leader.[140] Whilst the *bonyads* were paramount actors in the first two years of the Islamic Republic, the eight-year war with Iraq even increased their importance and power as it had pushed them into the front line of relief and reconstruction work. In short, in the name of supporting and promoting the 'downtrodden', these organizations claimed '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'.[141] It has been claimed that millions of low-income Iranians, families of martyrs, those made disabled by the war and those who were loyal to the Islamic revolutionary ideas have benefitted from the charitable activities of the *bonyads* since the revolution.

Although the initial assets of *bonyads* came from the confiscation of the properties of the royal family and the bourgeois who fled the country after the revolution, in the subsequent years, due to the expansion of their economic activities by controlling hundreds of companies across dozen of industries, these revolutionary foundations were transformed into giant semi-private monopolies without any governmental discretion over their firms and enterprises. According to Behdad, the holdings of the Mostazafan Foundation 'in 1982 consisted of 203 mining and

138 Later the name of the foundation was shortened to *bonyad mostazafan*, and hence we refer to it as Mostazafan Foundation.

139 The Housing Foundation of the Islamic Revolution (*bonyad-e maskan-e inghlab-e eslami*) with the aim of providing housing for the poor and the Reconstruction Crusade (*jahad-e sazandegi*) to promote grassroots economic development projects in the countryside were also created. However, these organisations were eventually elevated to full government ministries in the middle of the 1980s. See Maloney, S. (2015), pp. 123-4.

140 Amirahmadi, H. (1995). 'Bunyad'. In J. L. Esposito (ed.). *Encyclopaedia of the Modern Islamic World* (*Vol.1)*. New York: Oxford University Press, p. 235.

141 Saeidi, A. (2004). The Accountability of para-governmental organizations (bonyads): The case of Iranian foundations. *Iranian Studies*, 37(3), p. 488.

manufacturing enterprises, 472 commercial farms, 101 construction companies, 238 trading and other service enterprises, and 2,786 real estate properties.'[142] A year later, the director of the foundation admitted that his organisation 'is one of the largest conglomerates in the world and the largest Islamic entity in Iran.'[143] Similarly, while the Martyrs' Foundation was initially funded through the post-revolutionary confiscation, it soon became involved in economic activities. The foundation always claimed that it provides basic needs, housing, medical insurance, student admission to higher educational institutions, and employment through its subsidiaries for the families of the martyrs of the revolution and the war as well as disabled Iran-Iraq war veterans. It is reported that in 1985, 'the total number of firms and factories under its control included 68 industrial units, 75 commercial companies and agencies, 21 construction companies, and 17 agricultural units.' In addition to more than 6,000 units of real estate in Tehran, this *bonyad* also controlled 140 orchards and plots of land.[144] As well as receiving direct funds from the annual budget, the Imam Khomeini's Relief Committee also became engaged in economic activities and owned a considerable amount of property and land holdings. A decade after the revolution, approximately 4 million poor Iranian were under the support of the committee.[145] The IRSF was financed in large part on the basis of donations from pilgrims to the tomb of the Eighth Imam of Shiites before the revolution. However, its annual budget from the state and its economic activities increased drastically as a result of the revolution. Similarly to other foundations, the *bonyad* owned a large amount of properties and controlled numerous trading companies, industrial units and social service delivery centres several years after the establishment of the Islamic Republic.[146] It is worth mentioning that along with the public and endowment foundations, private bonyads were also established predominately by the bazaari merchants to utilise private funds for non-profit purposes. Needless to say, similar to other foundations, the Islamic Economic Organisation (*sajman-e Eghtesad-e eslami*), Interest-Free Loan Fund (*Sandouq-e garzul hasaneh*), Eternal Foundation (*bonyad-e javid*), Foundation for Growth of Islamic Republic (*bonyad-e raja*), and Welfare Foundation (*bonyad-e refah*) had become important economic institutions and were involved in profit-making activities in the following years.[147] To notify the prominence of this form of *bonyad*, the example of the Islamic Economic Organisation may be illuminating. In 1987, according to Amirahmadi,

142 Behdad, S. (1989). Winners and losers of the Iranian revolution: A study in income distribution. *International Journal of Middle East Studies*, 21 (3), pp. 328-29.

143 Amirahmadi, H. (1995), p. 236.

144 Ibid, p. 237.

145 Maloney, S. (2015), p. 123.

146 Amirahmadi, H. (1995), p. 235.

147 Moaddel, M. (1993). *Class, politics, and ideology in the Iranian Revolution*. New York: Columbia University Press, p 248; See also Amirahmadi, H. (1995), p. 235.

the loanable fund of the Islamic Economic Organisation 'stood at 50 billion Iranian rials, roughly equal to 5 per cent of the country's total liquidity'.[148] Most of all three forms of *bonyad* have been involved not only in the domestic production, but also imports, distribution of goods and services, and banking and credit.[149] Despite being under pressure at certain stages since the establishment of the Islamic Republic, the para-governmental foundations to a large extent have resisted the scrutiny from the parliament and financial control of the government. More importantly, they have been largely exempted from the taxation.[150]

Controlling large industrial units by the government and the revolutionary *bonyads* did not occur without a fierce class struggle from the labour movement. The strike from the oil industry workers was a crucial factor in the overthrowing of the Shah in the final stage of the revolution.[151] By recognising the significance of the position of the modern industrial sector in the economic and political realm of the country, the Common Syndicate of Employees of the Iranian Oil Industry coordinated the constitution of workers' councils (*shurahaye karegari*) in numerous industrial units across the country immediately after the revolution. For several months, the management of factories by the workers' councils had led to the reduction in working hours, increase in wages, improvement in working conditions, control over production process and creation of the independent labour unions and organisations.[152] Concerned with the increasing role of the labour movement and the secular left, the Islamists who were consolidating their position in the new state attacked and purged the workers' councils in summer of 1979. After the suppression of the labour movement, the government-sponsored workers' Islamic associations (*anjomanhaye eslami-e karegari*) were formed to replace the independent workers' councils.[153] Out of around three hundred workers' councils at the beginning of the revolution, only a few of them remained somewhat still active in 1983 due to the enormous pressure from the Islamic state and Islamic militias.[154]

Another major issue of class struggle was the land reform in which not only did peasants start seizing lands of the old ruling class who fled the country, but also some ex-landlords reclaimed

148 Amirahmadi, H. (1995), p. 235.

149 Farzin, H. (1996). 'The political economy of foreign exchange reform'. In S. Rahanema and S. Behdad (eds.). *Iran after the revolution*. London: I.B. Tauris, p. 177.

150 Mazarei, A. (1996). The Iranian economy under the Islamic Republic: Institutional change and macroeconomic performance (1979-1990). *Cambridge Journal of Economics*, 20(3), p. 299.

151 Fesharaki, F. (1985). 'Iran's Petroleum policy: How does the oil industry function in revolutionary Iran?'. In H. Afshar (ed.). *Iran: A revolution in turmoil*. London: Palgrave Macmillan, p. 99.

152 Moaddel, M. (1991). Class struggle in post-revolutionary Iran. *International Journal of Middle East Studies*, 23(3), pp. 323-24; Moaddel, M. (1993), pp. 233-34.

153 Maloney, S. (2015), pp. 125.26.

154 Moaddel, M. (1991), p. 327.

lands they had lost as a result of the White Revolution. To nullify the leftist forces who advocated redistribution of all lands among peasants, over 15,000 Islamic Associations were formed by the Islamists who had the support of some prominent ulama for the redistribution of lands. Despite backing from the influential figures inside the Revolutionary Council, other powerful clerics and their allies in the Majles fundamentally opposed the reform as they ascribed to the Islamic law in which only endowment administrators – clerical landholders – can determine asset disposition. Regardless of the sabotage from the ex-landlords and the conservative ulama, the Centre for the Transfer and Revitalisation of Land, heartened by the Revolutionary Council, distributed 150,000 hectares of barren land and 35,000 hectares of arable land among small holding peasants and landless peasants in November 1980. As well as transferring 60,000 hectares of barren land for the creation of the rural productive cooperatives, 850 hectares of disputed lands were also leased to farmers on a temporary basis.[155] Under attack from the traditional clerics, Khomeini finally found the outbreak of the Iran-Iraq war as a justifiable excuse to halt the redistribution of lands. Accordingly, the given or seized lands were reclaimed not by the ex-landlords but by the government and the *bonyads*.[156]

The defeat of the workers and peasants struggles and the ruthless suppression of secular organisation that represented their interests by the embryonic Islamic ruling class transferred the vertical struggle towards a horizontal class struggle inside the state. In other words, after purging anti-Islamic militant organisations and consolidating their power, the new state became the area of a perpetual struggle between two emerging ruling fractions with rather different views about private property and the role of the state. The post-revolutionary land reform demonstrated strikingly this intra-class struggle. The labour law was another area of conflict where the two wings had a major disagreement regarding a new labour law despite agreeably opposing the workers' councils and the leftist organisations. A draft bill proposed by the Labour Minister, Ahmad Tavakkoli, in 1982 based on the freedom of contract in Islam dismissed the government's right to interfere in the labour market and rejected altogether workers' collective bargaining, job security and right to strike. Faced with vehement resistance from the Islamist statist MPs, who had the majority in the Majles, the bill was scrapped and Tavakkoli was forced to resign. Nevertheless, the unwillingness of the Guardian Council to ratify a revised bill by the Majles halted the draft law for

155 Ibid, pp. 320-23.

156 Maloney, S. (2015), p. 157.

several years until 1987 when Khomeini issued a *fatwa* endorsing the right of the government to intervene in the labour market.[157]

Probably the most intense intra-class struggle inside the Islamic revolutionary state manifested itself in the bill of the nationalisation of foreign trade. A first version of the legislation that demanded complete nationalisation of foreign trade in six days was passed by the Majles in March 1980. Rejected by the Guardian Council as un-Islamic, the final draft of the bill was eventually ratified by the Council in 1984, producing 'a mixed system of foreign trade in which the public sector [government's enterprises and *bonyads*] imported necessary goods and the private sector [big merchants of the bazaar] all other goods.'[158] A year before the bill became law, the merchants controlled 90 per cent of commercial activities, and their share in imports was approximately 65 per cent in the first three years of the Islamic Republic.[159] Although the bill reduced the enormous power of the merchants in trade, they still had a substantial share in import throughout the remaining years of the 1980s. While the National Iranian Industrial Organisation and trade units within various ministries controlling the government-owned industrial enterprises managed to secure the import of raw materials and capital goods for their enterprises, merchants continued to import through acquiring licences issued by the Ministry of Commerce. Besides licensed merchants of the bazaar, the largest trading firms under the control of the Ministry of Commerce was also run by bazaari-affiliated officials. Furthermore, some state organs, in particular *bonyads*, had access to 'special licenses' for which they could freely import, therefore were able to bypass bans on the imports of specific goods.[160] Above all, the *bonyads* and merchants had benefited from one of the unavoidable government economic policies: the system of multiple exchange rates. The demand for foreign exchange in the first year of the revolution increased hugely due to the capital flight, the freezing of Iran's foreign assets in the West as well as the summary repayment of the country's foreign debt. The shortage of foreign exchange exacerbated in the mid-1980s as a result of a sharp decrease in oil revenue caused by the worldwide oil glut at the time of military imports in the middle of the Iran-Iraq war. To manage the acute shortage, the government introduced a system of multiple exchange rates, the controlled official exchange rate and the black-market rate, and institutionalised the rationing of available foreign exchange.[161] This caused a substantial wedge between the two rates as 'the premium on the black-market rate, which increased

157 Ibid, p 160.

158 Valibeigi, M. (1994) p. 5.

159 Mozaffari, M. (1991), p. 386.

160 Keshavarzian, A. (2007), pp. 165-68.

161 Mazarei, M. (1996), pp. 294-95; Lautenschlager, W. (1986). The effects of an overvalued exchanged rate on the Iranian economy, 1979-84. *International Journal of Middle East Studies*, 18(1), p. 32.

rapidly from low levels at the time of the revolution from 200 to 300 per cent by the early 1980s and 500 to 600 per cent by the mid-1980s, reached phenomenal rates of over 2,000 per cent by 1989.'[162] The primary beneficiaries of the system were those who had access to the official exchange rate, namely licensed bazaari merchants and the para-governmental organisations. The goods that were imported at the official exchange rate directly by merchants and the revolutionary foundations were sold later at the market price, realising 'a rare return of between 2,140% and 3,140% per item.'[163] The government had attempted to increase its direct intervention in the operation of trade and the market, particularly at the peak of the Iran-Iraq war, through the introduction of a system of rationing and direct subsidies for a number of commodities to mitigate the impacts of the soaring inflation. However, the bazaari merchants and their allies maintained their influences on the economy throughout the 1980s. As such, by the end of the decade, they still had a significant 37 per cent share of import.[164] It should be emphasised that import licenses, official foreign exchange rates, and tax and duty shelters were not available for all bazaaris but specific merchants with clientelistic ties to the revolutionary state.[165] This important factor together with the rise of the power of the *bonyads* in international trade as well as domestic trade and distribution restructured the institutional and physical settings of the bazaar. As large-scale commercial activities had become limited to well-positioned merchants and the *bonyads*, the traditional network of commerce, wholesale and retail of the bazaar (particularly Tehran bazaar) has lost its monopoly, resulting in the marginalisation of the network and irrelevance of its historical and locational advantages.

So, who were these two fractions of the ruling class of the revolutionary state in the first decade of the Revolution? What were their class locations and ideological basis? And how do we conceptualise the Revolution and the new economic structure? The first fraction advocated a radical statist approach towards the economy, emphasising the egalitarian aspects of Islamic religion and downgrading individual right to private property. They managed the government-owned enterprises (GOEs) and most of the government bureaucracy during the first decade of the revolution. With the political support of the powerful Revolutionary Council and some junior Ayatollahs, they forged an influential power bloc that can be called *the strata of government managers*. Considering their weight and influence within the state and Khomeini's subtle disposition towards them, the strata of government managers was the dominant fraction throughout these years. The

162 Karshenas, M. and Pesaran, H. (1995), p. 98.

163 Ghafari, R. (1995). The economic consequences of Islamic fundamentalism in Iran: The political economy of Islamic Republic of Iran 1979-1994, *Capital & Class*, 19(2), p. 95.

164 Valibeigi, M. (1994), p. 5.

165 Keshavarzian, A. (2007), p. 166.

main actors of the second wing were revolutionary foundations that controlled publicly-owned enterprises (POEs) under the guidance of the Supreme Leader and exempted from the government's regulation. Despite the fading importance of the traditional network of the bazaar, some merchants with clientelistic ties with the state had increased their power and influence and became the members of the second fraction of the new ruling class. By controlling revolutionary foundations, few government ministries – including the Ministry of Trade and Commerce, the Ministry of Labour, and the Ministry of Education – and the influential Guardian Council (*shoraye negahban*), this bloc of power inside the state was in favour of a conservative interpretation of Islamic Law, contesting the growing interference of the government with the market and its direct involvement in economic activities.[166] Importantly, there was a close link between merchants and the newly created *bonyads*. Most of the directors and high-profile figures of the *bonyads* came from the bazaar, signifying the clear interrelationship between the traditional merchants and the para-governmental organisations and the infiltration of the bazaar in the new state. The first director of the Mostazafan Foundation was Mohandes Khamoushi whose brother headed the Committee on Guild Affairs.[167] When Khamoushi was forced to resign a couple of years later due to a massive corruption scandal inside the *bonyad*, Mohsen Rafigh-Doust, a wealthy bazaari from Tehran and one of the founders of the IRGC, was appointed the head of the foundation. The second commander of the IRGC from 1981 to 1997, Mohsen Rezai, also came from the bazaar circles.[168] Although the IRGC was not involved in economic activities at the early stage of the Islamic Republic, it has become, as will be scrutinised in the next chapter in detail, one of the most influential economic actors after the end of the war with Iraq with a vibrant connection with the foundation. Furthermore, for many years after the revolution, the head the Imam Khomeini's Relief Committee was Habibollah Asgar-Owladi. He was the leader of the Islamic Coalition Party (*hezb-e motalef-e elami*), established in 1963 to defend the interests of the bazaar, in particular the Tehran Bazaar, and the Minister of Trade and Commerce from 1980 to 1984.[169] The affiliation between the bazaari merchants and the conglomerate network of the revolutionary foundations should not, however, be perceived solely through the social class origins of the heavyweight figures in these revolutionary organisations. Above this, what is crucial is that the interconnection between them represents 'the articulation of the synergy between the structure, activities, methods of

166 Valibeigi, M. (1994). The private sector in Iran's post-revolutionary economy. *Journal of South Asian and Middle Eastern Studies*, 17(3), pp. 2-4.

167 The Committee on Guild Affairs was formed in 1979 in order to defend the interests of the bazaar. It had a close connection with the Islamic Republic Party (IRP).

168 Mozaffari, M. (1991). Why the bazar rebels. *Journal of Peace Research*, 28 (4), p. 388.

169 Maloney, S. (2015), p. 123.

operation, and interests of the bazaar with those of the *bonyads*.'[170] Hence, the second main product of the reorganisation of the mode of production after the revolution was the emergence of this new class inside the state, which I call the bonyad-bazaar nexus. Despite a leading role in the establishment of an Islamic state, the clerics, very much like before the revolution, were not politically homogenous, nor constituted a class, but different segments of them had become part of these two powerful fractions of the new ruling class. The role of Khomeini was, however, slightly different as the Supreme Leader. Whilst largely acting as a conciliator between the two during his reign, he had often backed the position of the strata of government managers when it came to crucial decisions.[171]

In terms of the class base of the new state, while eradicating the monarcho-bourgeoisie of the old regime, the Revolution had led to the reconstruction of a new oligopoly dominated by these two new oligarchies. With regards to the changes in the production process, the revolution did not fundamentally alter the second Pahlavi state's industrialisation policy. As explained in the previous section, Iran's industrial policy during the reign of the Shah was the ISI strategy. Import substitution had taken place to some extent in the case of non-durable consumer goods, including food, beverages, tobacco, textiles, etc. However, Iran was still massively reliant on imported technology, materials and machinery for the production of intermediate goods and durable and capital goods such as electrical and non-electrical machinery and transport equipment before the revolution. The revolutionary state markedly continued to pursue the Shah's Industrial policies since the manufacturing sector was still dominated by domestic orientated, consumer-goods-producing industries and relied on imported inputs and technology.[172] Comparing data in the industrial import from 1977 to 1987 reveals the continuity of the pre-revolutionary and the post-revolutionary industrial policies.[173]

All in all, the Revolution strengthened state capitalism and generated two state-linked fractions of the ruling class. While certainly not disputing the importance of a range of measures taken by the revolutionary state to improve living standards and address many of the deprivations that the (rural/urban) poor and the working class had encountered under the Pahlavi state, the provision of food and other subsidies to the poorest layers of the population and job security in government-owned and publicly-owned enterprises were secondary to the interests of the new

170 Maloney, S. (2000a). 'Agents or obstacles? Parastatal foundations and challenges for Iranian development'. In P. Alizadeh (ed.). *The Economy of Iran: Dilemmas of an Islamic state*. London: I.B. Tauris Publisher, pp. 159-60.

171 Valibeigi, M. (1994), p. 4.

172 Rahnema, S. (1996). 'Continuity and change in industrial policy'. In S. Rahanema and S. Behdad (eds.). *Iran after the revolution*. London: I.B. Tauris, pp. 129-142.

173 Ehteshami, A. (1995), p. 90.

ruling class. Utilising these measures alongside the anti-capitalist and anti-imperialist rhetoric of the Islamic revolutionary state had to some degree garnered mass support despite the presence of political repression and the lack of real democratic participation or control of the subaltern classes. This suggests that the 1979 Revolution could be conceptualised as a political revolution since it represents the changes in the state power without destroying the socioeconomic foundation of the society, i.e. the class power in capitalism. This is because the Iranian revolution only replaced the old ruling class with the new one while thwarting and blocking the initiatives from below with the objective of creating a new economic foundation for the society.

These radical changes ultimately proved to be disastrous for the economic development of the country since the domestic disturbance and international antagonism towards the revolutionary state, the war with Iraq, and the sharp decline in the oil revenues in the mid-1980s engendered an existential crisis for the new order. Throughout the decade, private and state investment declined dramatically. For example, the private and state investment in production in 1981 were 52 per cent and 61 per cent of the 1977 level respectively. The continuity of this trend had dropped the rate of capacity utilisation in the manufacturing industry to around 30 per cent. The most destructive effect of these internal and external factors on modern industrial growth was a substantial decline in the foreign exchange reserves. This was the major difference between the Shah's and the Islamic Republic states' ISI strategy. The setting of production quotas on various branches of industry was the government's solution for the utilisation of the foreign exchange shortage. As a result, for example, the foreign-exchange quota decreased from $4000 million in 1983 to $310 million in 1988 for industries under the control of the Ministry of Industry. The Ministry of Heavy Industry faced a similar trend as its foreign-exchange quota declined from $2400 million in 1983 to only $110 million in 1988. The purge of non-Islamic managers and skilled technical workers and the continuous exodus of professional personnel added to the acute problems of the production process.[174] Furthermore, the political uncertainty and ongoing legislative changes, as well as the rise of Islamic banking and the unavailability of credit, contributed to the reluctance of the private sector to invest.[175] Overall, in all branches of industries, the production index pointed to a sharp decline. Although the deteriorating production index in the immediate aftermath of the revolution showed a slight recovery in 1982 and 1983, the crisis of the mid-1980s exacerbated the situation to the extent that the production index of heavy industries fell to 47 per cent of the 1977 level.[176] The primary losers of the disruption in productive activities were the medium-sized firms. But, at

174 Rahnema, S. (1996), p. 139.

175 Mazarei, M. (1996), pp. 302-4.

176 Rahnema, S. (1996), pp. 140-41.

the same times, as data illustrates, the GOEs and POEs even with monopolistic access to scarce foreign exchange and imported industrial inputs only managed to keep their share in the market without increasing their productivity.

In terms of changes in the composition of the working class, the number of industrial working class employed by the private sector declined by 43 per cent between 1976 and 1986 while there was a dramatic increase in the number of workers in the government-owned enterprises and the *bonyad*-owned firms. Yet, as Behdad and Nomani correctly note, the increase in the number of workers in various state-owned enterprises did not offset the dramatic decline of the working class in the private sector.[177] The most eye-catching change among this class was the almost 50 per cent increase in the number of those engaged 'in the legislative, executive, and judicial branches of the government, including, most importantly, the military and paramilitary.' Added to this was an upsurge in the number of those working in the education and health sector. Therefore, in 1986, these public sector workers constituted 16.8 per cent of the employed labour force in comparison to 8.3 per cent during the second Pahlavi state.[178] Likewise, the rise in the role of the government in the economy 'such as widespread price controls, and the massively distorted prices and incentive system', especially during the war, was the principal reason for the expansion of self-employed service activities and the informal sectors.[179] Another major transformation in the class structure of the society was an absolute increase in the size of the petty-bourgeoisie. Astonishingly, the number of small workshops rose by 100 per cent, resulting in a 62 per cent upsurge in the number of self-employed workers in manufacturing.[180] As a result, the petty bourgeoisie superseded the working class as the largest social class.

The turmoil of the revolution and the unfavourable international conditions eventually resulted in a major crisis in which the investment and gross domestic product (GDP) strikingly shrank and the inflation rose dramatically. In 1986, despite a 47 per cent increase in the population, the non-oil gross domestic product was just 5 per cent more than in 1977. The agricultural output was stagnant, and the industrial production was inefficient and underutilised. Furthermore, during the same period, although the service sector expanded, its value-added had fallen by 9 per cent.[181] In 1989, 'real GDP per capita had dropped to only 54 per cent of its peak in 1976' and the per

177 Behdad, S. and Nomani, F. (2002). Workers, peasant, peddlers: A study of labour stratification in the post-revolutionary Iran. *International Journal of Middle East Studies*, 34(4), p. 678-79.

178 Behdad, S. and Nomani, F. (2006). *Class and labour in Iran*. New York: Syracuse University Press, pp.106-7.

179 Mazarei, M. (1996), p. 304.

180 Behdad, S. and Nomani, F. (2006), p. 44. See also Behdad, S. and Nomani, F. (2002), p. 679.

181 Halliday, F. (1987). The Iranian revolution and its implications. *New Left Review*, 1/166, p. 32; Behdad, S. and Nomani, F. (2006), pp. 39-40.

capita income was behind many developing countries (for example, it was 25 per cent below that of Turkey).[182] The most staggering fact about the economic development of the country during this period is an absolute increase in unemployment. Between 1977/78 and 1990/91, the population grew about 62 per cent, adding 4.3 million workers to the economically active labour force. The official data indicated that rural and urban unemployment increased to 15 per cent. Considering a large number of employed labourers who were part-time workers, street vendors, hustlers, panhandlers, or underemployed service personnel, Amuzegar points out that the total number of unemployed and underemployed civilians might have been 'perhaps as high as 30 per cent.'[183] Hence, the increase in poverty had become a widespread phenomenon especially from the mid-1980s onwards. Without the government's attempts to provide a safety net to the poorer strata, the impact of poverty on the rural and urban poor could have been even worse.[184] The severity of the crisis necessitated a structural change towards the reconstitution of social relations of production and the restoration of the accumulation process. The acceptance of the UN ceasefire Resolution 598 paved the way for a major shift in the economic policy. The crisis of Iranian production coincided with the disintegration of the Soviet Union and the expansion of neoliberal restructuring in the newly independent ex-Soviet Union states, the Eastern and Central European countries as well as most developing states. The domestic crisis and the revolutionary transformations around the world finally compelled the first post-Iran-Iraq-war government to initiate neoliberal economic reforms, yet again from above, to rejuvenate the process of capital accumulation.

4.7. Conclusion

This chapter set out to provide a coherent narration of the development of the capitalist mode of production in Iran over the *longue durée*, attesting the centrality of the dialectical relations between the international and the national, the global and the local and structure and agency. After a brief sketch of the demise of the tributary mode of production in the late eightieth century and the early nineteenth century due to a combination of internal and external determinants, the introduction of a series of reforms to modernise the army and state administration under severe geopolitical pressure and domestic crisis during the global order of Pax Britannica was elucidated. This post

182 Esfahani, H. S. and Pesaran, M. H. (2009). The Iranian economy in the Twentieth Century: A global perspective. *Iranian Studies*, 42(2), p. 192.

183 Amuzegar, J. (1997). *Iran's economy under the Islamic Republic*. London: I.B. Tauris & Co Ltd, pp. 64-5.

184 Assadzadeh, A. and Paul, S. (2004). Poverty, growth, and redistribution: A study of Iran. *Review of Development Economics*, 8(4), p. 652.

mid- nineteenth century reform had led to the gradual spread of capitalist relations while simultaneously re-strengthening the power and influence of the landlords, therefore generating a wave of revolts that destabilised the state and society. The discovery of oil and the intensification of the struggles against the backdrop of the volatile international milieu, especially the diffusion of revolutionary ideas of Bolshevism, had necessitated the speeding up of efforts for the constitution of the modern state at the beginning of the twentieth century. Calling this long process of the modern state formation a passive revolution, the chapter argued that the expansion of capitalism in Iran did not eradicate pre-capitalist relations nor demote the authority of the land-owning class within the state. The interaction of the global and local dynamics contributed to the emergence of a combined form of development.

After the Second World War, the restructuring of the global economy under new lines imposed a radical land reform and a comprehensive industrialisation programme in Iran to encounter the so-called 'imminent peasant revolt' and integrate the economy into the US-led global economy since the country was considered a vital member of the Western Bloc. Although the successful agrarian reform and the rapid industrialisation based on the ISI strategy annihilated pre-capitalist social relations in the countryside and expanded capitalist social relations to every corner of the country, it exceedingly destabilised the balance of class forces and generated a united front against the Shah. Conceptualising the 1979 Revolution as a political revolution, the chapter maintained that the post-revolutionary Islamic state more or less retained the state-led ISI strategy despite the fundamental transformation in the political power. It further revealed that the augmentation of state capitalism in the context of the protracted war with Iraq had generated the strata of government managers and the bonyad-bazaar nexus as the two main fractions of the ruling class in the first decade of the revolution. The economic structure that developed during the second Pahlavi state and largely continued after the revolution and the abovementioned reconfiguration of the ruling class will be important factors in grasping the complex process of neoliberalisation in Iran since the late 1980s, which is the principal task of the following chapter.

Chapter Five

Neoliberalisation and Class Reconfiguration in Contemporary Iran

5.1. Introduction

Upholding the principles of the ISI strategy despite the conspicuous changes in the ownership of the means of production turned out to be a catastrophic experience. By the end of the war in August 1988, the economy was on the verge of collapse. In the same year, most of the industrial production, controlled by either the government or the bonyad-bazaar nexus, realised only between 20 to 40 per cent of their potential capacity.[1] By producing a staggering 58 per cent decline in real national income as the population grew at an increasing rate and unemployment rose astronomically, the transformation in the direction of the country's capital accumulation seemed to be inevitable. Additionally, the cost of the protracted war put the economy in an unmanageable situation as the final year of the war, for instance, consumed almost 70 per cent of the country's revenues. Although the ceasefire slightly alleviated the gravity of the predicament, the reconstruction of war-torn areas with an estimated $650 billion in damages was still seen highly challenging.[2] Both the accumulation strategy and management of the war heavily depended on the export price of oil. The war damage to the oil infrastructure weakened the capacity of the government to export to some extent but the fall in the Iranian crude oil price in 1989 to more than half of its value from 1986 could be argued as the principal cause of the aggravation of the malady of the already-crisis-prone accumulation strategy.[3] The unprofitability and inefficiency of most of the industrial units in the time of the rising financial needs of the government compelled many inside the state to contest the state ownership and intervention in the market as effective solutions to the malaise of the economy.[4]

Yet the urgent need for the reorganisation of production was not solely the product of a crisis caused by domestic determinants separated from global dynamics. As discussed in Chapter 3, there was the crisis of overaccumulation in the 1970s that hit the Global South in the 1980s and

1 Axworthy, M. (2013). *Revolutionary Iran: A history of the Islamic Republic*. London: Penguin Books, p. 297; Amirahmadi, H. (1990). *Revolution and economic transition in Iran*. Albany: State University of New York Press.

2 Ehsani, K. (1994). Tilt but don't spill: Iran's development and reconstruction dilemma. *Middle East Report*, no. 191, p. 17. Some estimations are even higher, for instance, Ehteshami, A. (1995, p. 93) claims the war damages were around $1 trillion.

3 Zangeneh, H. (2003). 'The Iranian economy and the globalisation process'. In A. Mohammadi (ed.). *Iran encountering globalisation*. London: Routledge, p. 111.

4 Khalatbari, F. (1994). 'The Tehran Stock Exchange and privatization of public sector enterprises in Iran'. In T. Coville (ed.). *The economy of Islamic Iran: Between state and market*. Paris: Peeters, P. 186.

the ISI was in the heart of this global recession, necessitating the involvement of both advanced capitalist states and developing countries in the reconstruction of the global economy to tackle the same pressures and crises tendencies. The implemented spatial fix was the transnationalisation of production and finance, which has led to the growing influence of TNCs-controlled GVCs and the instigation of the EOI strategy for the developing world. With huge unrealised production sites, a large pool of cheap labour power, colossal cheap inputs such as raw materials and a big market, Iran was seen by some bureaucrats in Tehran as a space for the absorption of surpluses in capital globally in productive capacity or money and commodity forms. 'Iran's need for capital' that necessitated lifting the ownership cap for foreign investors was explicitly expressed by the finance minister of the first post-Iran-Iraq-war government in the early 1990s.[5] Equally, the collapse of central planning in the USSR and Eastern Europe and the adaptation of neoliberal economic policies by the aforementioned states to be part of the restructuring of the global political economy had also strengthened the necessity of a fundamental reorganisation of the economy to revive growth.[6] A classified report by the Planning and Budget Organisation (PBO) a year after the start of the structural adjustment programme with reference to the 'abortive experience of the Eastern Bloc' illustrates the magnitude of influence of this global neoliberal restructuring: 'Principally, the economies of the counties of the world have inclined to a [new] type of the international division of labour in the present era …Therefore, developing countries are unable to prescribe another law of development that can fundamentally overcome their economic problems and achieve development and prosperity but the law of the free market, which is based on economic realities.'[7]

To recall a central theoretical claim made in Chapter 3, whilst this confirms that the project of economic restructuring in the immediate aftermath of the Iran-Iraq war has to be seen as part of the attempts for the rejuvenation of capital accumulation at the global level, it should be stressed that it proceeded amid a struggle inside the state. Concerning the first level of analysis of the thesis, this chapter will hence argue that, rather than resembling the neoliberalism of the centre, the process of neoliberalisation in Iran has been an evolutionary and unstable, proceeding as a result of the conflict of interests between different centres of political-economic power. The end product has been a new peculiar combined form of development. To be precise, the chapter first argues that the changes in the social relations of production – after the execution of the structural adjustment programme – have generated an internationally-oriented social class force, linked to

5 *New York Times*. (28 June 1992). Iran allows foreigners to buy its companies.

6 Momeni, F. (2014), p. 172.

7 Cited in Ibid, p. 241.

non-oil export sectors and downstream oil and gas industry, who are also keen to integrate into GVCs that are under the control of TNCs. Relatedly, rather than a smooth process, the neoliberal restructuring has also generated opposed incentives for closure, contributing to the constitution of the military-bonyad complex as a nationally-oriented social class force. Second, the peculiar form of combined development, which I call 'hybrid neoliberalism', is neither pure neoliberalism nor state capitalism, but both and more. As the starting point of a historical materialist analysis that examines the rearrangement of social relations of production and pinpoints the emergence of new social class forces, this chapter challenges the methodological nationalism embedded in the mainstream accounts criticised in Chapter 2 by articulating the peculiar form of the county's development as a product of the dialectical interaction of international and domestic determinants and global and local dynamics.

The remainder of this chapter is organised as follows. After discussing the bitter quarrel of the late 1980s between the fractions of the ruling class to initiate neoliberal reforms from above, the third section scrutinises the structural adjustment programme by looking at the development plans with the aim of implementing necessary neoliberal policies, followed by the first round of privatisation between 1991 and 2005. The section sheds light on why the neoliberal mechanism of accumulation has been excruciatingly lethargic despite some changes in the social relations of production and the emergence of a new capitalist class out of the strata of managers of the state. Subjected to resistance within the state from the bonyad-bazaar nexus, the neoliberal restructuring and, in particular, the process of privatisation had shifted towards an unexpected direction from 2005 to 2013. This second round of neoliberalisation, which brought about the reconfiguration of the structure of the nexus and resulted in the amplification of the power of the monopolistic fraction of capital, is examined in the fourth section. The focus of the following section is to unpack and to reflect upon the differences between accumulation strategies of the two fractions of capital. Section six surveys the marketization of the society and deregulation of the labour market. It demonstrates empirically how deregulation and commodification of every aspect of life have transformed and restructured other social class forces. Particular attention will be given to the constitution of the precariat, albeit not as a distinct class in its own right but as the largest segment of the Iranian working class. The final section recaps the key points of the chapter and sketches a roadmap for the next chapter.

5.2. Instigation of Post-Iran-Iraq-War Reforms from Above

The collapsing economy and its potential calamity for the ruling class had relatively lessened the intra-class struggle in the final year of the war and facilitated a dialogue between the strata of government managers and the bonyad-bazaar nexus around a reconstruction plan for the post-Iran-Iraq-war era. However, the debate regarding the direction and new form of development for the country had generated a division among the strata of government managers as the dominant wing of power in the first decade of the revolution. On the one hand, a group of this fraction advocated higher defence spending and reconstruction of the productive capacity and infrastructure through a policy of self-reliance. Believing in the necessity of the active role of the state in the economy, they still favoured price control, defended subsidies and rationing of basic necessities and rejected the benefits of the privatisation of SOEs. On the other hand, a powerful group within this fraction revised their position by arguing that 'the concentration of affairs within the state was a necessity during the war, a necessity which does not exist anymore.'[8] Detaching from the idea of the effectiveness of state intervention, they endorsed the idea that a free-market-centred plan that acknowledges the importance of the private sector could only engender economic growth. Although the debate initially settled around a mixed approach and resulted in a plan drafted by the then Prime Minister Mir-Hossein Mousavi, who was the leading figure of the statist group, the abolition of the post of prime minister in the new draft of the constitution after the war signalled the marginalisation of those who were in favour of the state-centred economic planning approach.[9] A new version of the plan drafted by the first post-war government, often referred to as the *Hashemi* plan, proposed 'a bolder, flexible, more open, and largely market-orientated plan' with a central role for a rejuvenated private sector in economic development.[10] This was a clear indication that the statist wing of the strata of government managers had lost the economic debate, resulting in the removal of its controversial figures from the cabinet. Some were also disqualified from running for the Majles or appointed to trivial positions in the state apparatus. Accordingly, many so-called Islamic leftist militants with revolutionary credentials were replaced by 'experts' in the administrative arenas. In view of that, the pro-liberalisation technocratic wing consolidated its position by occupying key ministries such as the Ministry of Economics and Finance, Industries, Heavy Industries, Mining and Metals, Commerce and Foreign Affairs.[11]

8 Hashemi A. K. (1988). Cited in Ehteshami, A. (1995), p. 101.

9 The next chapter, specifically section 6.3 will thoroughly examine the constitutional reform in 1898 and its relation with the process of neoliberalisation and transformation in the balance of class forces inside the state.

10 Amirahmadi, H. (1990), pp. 242-53; Axworthy, M. (2013), p. 309.

11 Siavoshi, S. (1992). Factionalism and Iranian politics: The post-Khomeini experience. *Iranian Studies*, 25(3/4), pp. 42-3.

This illustrates that there was not a comprehensive consensus regarding the new form of economic restructuring among the dominant fraction of the ruling class, nor a strategic class alliance between the neoliberal wing of the strata of government managers and the bonyad-bazaar nexus, let alone any national-popular base. As the new programme could open up fresh economic opportunities for the nexus and eased them from the previous constraints, it was nonetheless welcomed. Furthermore, the first development plan explicitly demanded the banking system to provide funds for 'non-government (public, private and cooperative) sectors' and precluded the privatisation of enterprises under the control of the nexus by prioritising the privatisation of GOEs.[12] Hence, jubilant with the direction of the first development plan, Mohsen Rafigh-Doust, the then-head of the Mostazafan Foundation, hailed the economic policies of the government, in particular, the policy of limiting government's control over industrial units, arguing that allowing producers to manage their affairs internally would stabilise the sector and increase its productivity.[13] Similarly, the then-head of the Iran Chamber of Commerce, Ali Naqi Khamoushi who represented the mercantile wing of the nexus, celebrated the fact that the first five-year development plan was designed to encourage the private sector to make more investments for the first time after the revolution.[14] However, as Momeni points out, the neoliberal wing of the strata of government managers as the leading force behind the reforms did not explicitly reveal their intentions for implementing a structural adjustment programme in line with the new direction of global capitalism. Even, the term 'structural adjustment programme' was only used in classified reports of the Central Bank of Iran (CBI), the PBO and few miniseries.[15] It could be thus argued that the fragile alliance between the neoliberal elites of the state and the bonyad-bazaar nexus was based on short-term gains. Because foreign loans, facilitating the conditions for foreign investments and some other microeconomic policies envisaged by the neoliberal state mangers that were against the long-term interests of the bonyad-bazaar nexus were not unequivocally spelled out in the first development plan.

Returning to the conceptual discussion of Chapter 3 regarding transitions within capitalism, I argue that the post-Iran-Iraq-war reorganisation of social relations of production rather than exemplifying a passive revolutionary road of capitalist transformation, it is simply another case of capitalist restructuring in the form of reforms from above in order to revive capital accumulation

12 Law on the First Five-Year Development Plan (in Persian). Islamic Parliament Research Center of the Islamic Republic of Iran.

13 *Hamshahri*. (20 June 1996). Interview with Mohsen Rafigh-Doust: Government economic policies, development and poverty alleviation.

14 Cited in Ehteshami, A. (1995), p. 102.

15 Momeni, F. (2014), pp. 237-42.

and redistribute wealth from the poor to the rich, similar to the Shah's White Revolution. There are several reasons for this claim based on the four constants in qualifying a transition within capitalism to be called a passive revolution, as introduced in Chapter 3. Again, it should be emphasised that all neoliberal restructurings around the world are not simply capitalist reforms from above. Subjected to empirical enquiries, some of them could be instances of passive revolution. With respect to the Iranian case, the international environment indeed necessitated neoliberalisation and state officials were instrumental in initiating and sustaining its conditions at the early stage of reforms in the absence of a real unity between the two fractions of the ruling class and their limited hegemony over the society. However, the driving impulse for this neoliberal restructuring of capitalist order was not to defeat and appropriate revolutionary pressures from below since there was not a revolutionary upheaval nor a radical political project from subaltern classes. Put differently, this furtherance of the role of the state in the renewal of the relations of production was not an attempt to tame and pacify the participation of masses in the process of social upheaval because a subaltern politics was largely non-existent due to two determining factors. First, the brutal post-revolutionary repression of the new state which had intensified during the war not only had outlawed any non-state-approved political organisation, but also it had violently forced remaining opposition political groups out of the country with minimal connections and links with subaltern classes. Second, the new state was to a certain degree successful in incorporating the economic interests of the rural and urban poor and the working class through anti-poverty distributive policies, as explained in the previous chapter. Of course, this by no means implies the total demise of scattered and sporadic actions of workers, but it points to the fact that there was not a radical socio-political project from below because of the non-existence of a subaltern class block, let alone a weak or weakly organised one. This could be attested by the lack of a real political agitation from below between mid and late-1980s despite the war and the severity of the economic conditions. Moreover, while the outcome of reforms has successfully brought about the reorganisation of the production process, it has not partially fulfilled the needs of the subaltern classes, as it will be elucidated shortly. Instead, it has further destabilised the post-revolutionary power bloc and contributed to the resurgence of struggles from below mainly by the increasingly restive working class.[16]

Under these conditions, reproducing neoliberalism inside Iran has been inherently antagonistic. In the following section, after explaining neoliberal reforms introduced through three development plans between 1998 and 2005, particular consideration is paid to the first phase of

[16] In this chapter, I mainly focus on intra-class struggles, but Chapter 7 will attempt to document the struggles of the Iranian working class in recent years.

privatisation, with two primary aims. First, to demonstrate how these reforms from above amid open-ended intra-class struggle reorganised social relations of production and the way production and accumulation of surplus value were set up in line with new development trajectory. Second, to reveal how these changes in the social relations of production engendered a new social class force.

5.3. Neoliberalisation I and the formation of the Internationalist Fraction (1990-2005)

After the end of the war, the government resumed its communication with the IMF and the World Bank and approached them for loans and technical assistance to proceed with a structural adjustment programme.[17] In June 1990, the joint IMF-World Bank mission testified Iran's determination for moving towards economic liberalisation by 'undergoing profound institutional and structural changes.'[18] However, unlike heavily indebted developing countries, Iran's foreign debt was virtually nil at the start of the restructuring programme.[19] A small amount of foreign borrowing was projected for financing a part of the first plan,[20] but this amount did not put the international institutions in a position to dictate the trajectory of the reforms. This was testified by the *Economist* when the magazine bewilderedly reported that 'Iran has voluntarily adopted the principle of IMF's restructuring rules, albeit without asking for IMF loans in return.'[21] The Iranian case thus casts doubt on the prevailing approaches that portray the materialisation of neoliberalism in the Global South inevitably as the imposition of structural adjustment policies 'from outside' by Western states and international institutions. Regardless of the positive or negative depiction of the global as a modernising or destructive force, these approaches do leave little or no room for the agency of domestic forces in the process.

In contrast, understanding neoliberal capitalism as an emergent totality based on the conceptual underpinning of the study implies that both advanced capitalist states and developing countries have been involved in the reconstruction of the global economy to tackle the same pressures and crises tendencies. In this framework, it is highly questionable to reduce neoliberalism to simply the dictation of certain pro-market ideas and policies by Western powers or international financial institutions on behalf of them to the Global South as it dismisses 'the ways in which local

17 Amirahmadi, H. (1990), p. 277.

18 Nomani, F. and Behdad, S. (2006), p. 47.

19 Sadeghi-Brojeni, K. (2011). *Neoliberalism in Critical View*. H&L Media Ltd (in Persian), pp. 29-30.

20 Salehi-Isfahani, D. (1999). Labour and the challenge of economic restructuring in Iran. *Middle East Report*, no. 210, pp. 34-35.

21 Cited in Dadkhah, K. (2003). 'Iran and the global financial markets'. In A. Mohammadi (ed.). *Iran Encountering Globalisation*. London: Routledge, p. 98.

trajectories of socioeconomic development, state power and class politics affect the implementation of neoliberal restructuring' in those societies.[22] Rather, encountering the economic crisis of the 1980s had convinced some state managers/officials to deploy neoliberalism as an alternative developmental strategy with the hope of reviving capital accumulation and stabilising/re-imposing class order. Nonetheless, subject to the particularity of domestic class structure and hence class struggles from above and below, the outcome of the process has been neither predetermined nor inevitable. The section aims to examine the process of the implementation of neoliberal policies in Iran from 1989 and 2005, documenting its relatively unsuccessful fate mainly due to the intra-class struggle within the state. It further illustrates how the first phase of neoliberalisation had led to the engendering of the new fraction of capital.

In June 1990, the Majles and the Guardian Council approved the First Five-Year Development Plan, which aimed to promote industrial growth through curtailing the role of the state in the economy, providing a favourable climate for domestic and foreign private investments, and creating a competitive environment to eliminate the corruption that could disturb free market mechanisms. To achieve these objectives, the government vowed to decontrol most domestic prices, liberalise the foreign exchange system, remove many nontariff trade barriers, lower income tax rates, eliminate bank credit ceilings, and privatise SOEs.[23] The approval of the plan was an important gesture regarding the change in the direction of the economy because capital accumulation and profit-making were publicly encouraged unlike the rhetoric of the first decade of the revolution. In a report published by the PBO about the first-year appraisal of the first development plan, it was asserted that 'in a healthy economic system, economic actors not only should not be prohibited but encouraged. In fact, profit is a tool whereby the level of economic performance should be assessed and obviously like any other tool it might be misused.'[24]

The underlying objective of the structural adjustment was a shift in the accumulation strategy from the ISI to an EOI. One of the main goals of the newly-adopted strategy was to boost non-oil exports in order to reduce the reliance of the country on oil revenues.[25] It was argued that due to the substantial population growth rate, the colossal cost of the extraction of crude oil, and probable fluctuations in the global oil market in the future that would make economic planning continuously tentative, a 'non-oil economy' had to become the national development strategy of

22 Tansel, C. B. (2017). 'Authoritarian neoliberalism: Towards a new research agenda'. In C. B. Tansel (ed.). *States of discipline: Authoritarian neoliberalism and the contested reproduction of capitalist order*. London: Rowman and Littlefield International, p. 8.

23 IMF. (April 1998). Islamic Republic of Iran: Recent economic developments. Staff Country Report. no. 98/27, p. 9.

24 Cited in Momeni, F. (2014), p. 240.

25 Nabavi, S. M. and Malayeri, M. H. (1996). An introduction to the industrial policymaking in Iran (in Persian). *Majles & Rahbord*, 21, p. 18.

the country. Accordingly, the bureaucratic machine of the government had aligned towards this grandiose plan and it was projected that non-oil exports would reach $48 billion by the year 2016, with an ambitious average annual growth rate of 12.2 per cent.[26] To encourage non-oil exports during the first plan, the banking system was obliged to provide the required credits of exporters 'for the importation of raw materials, machinery, and spare parts needed for export purposes.'[27] Thanks to the increase in the price of oil owing to the First Gulf War, the industrial sector, both domestic and export-oriented, had enjoyed a 538 per cent increase in access to banking facilities during this period.[28] As a result, while non-oil export was $1 billion in 1989, it reached $4.8 billion in 1994, with a striking five-fold growth in a short period of time.[29]

In the centre of the liberalisation policy of the government was the unification of exchange rates. Viewing the unrealistic value of the Rial as a barrier for the realisation of the EOI, the policy was regarded as an indispensable step towards the promotion of exports. Under the IMF's recommendation, the government adopted a 'gradual' approach by reducing the number of exchange rates to three from seven between January 1991 and March 1993: the basic rate at 70 Rials/$ applied to oil export receipts, the competitive rate at 600 Rials/$ applied to intermediate and capital goods imports, and the floating rate at 1542 Rials/$ applied to remaining transitions in the banking system. However, in March 1993, one year earlier than the targeted date advised by the IMF, in a radical move a unified rate of 1538 Rials per US dollar was introduced by the government. In practice, due to the pressure from the bonyad-bazaar nexus, the government still exempted $3,800 million for imports of necessary goods from the unified rate.[30] In December 1993, the official rate was fixed at 1750 Rials/$ but faced with a massive foreign exchange shortage and political lobbying, a few months later a new multiple system was reintroduced with two rates this time: the official rate and the export rate for non-oil exports and some imports in order to promote exports and discourage nonessential imports.[31] The government's attempts to reform the exchange rate system as the central component of the structural adjustment programme was unsurprisingly resisted by the bonyad-bazaar nexus. Nevertheless, it shows the commitment of the neoliberal wing of the strata of government managers to the EOI strategy. Despite the allocation

26 Kanovsky, E. (1998). 'Iran's sick economy: Prospects for change under Khatami'. In P. L. Clawson, et al. (eds.). *Iran under Khatami: A political, economic, and military assessment*. Washington: The Washington Institute for Near East Policy, p. 57.

27 Ghasimi, M. R. (1992). The Iranian economy after the revolution: An economic appraisal of the five-year plan. *International Journal of Middle East Studies*, 24(4), p. 609.

28 Nabavi, S. M and Malayeri, M. H. (1996), p. 18.

29 Trade Promotion Organisation of Iran (TPOI). Annual Reports.

30 Farzin, Y. H. (1995). Foreign exchange reform in Iran: Badly designed, badly managed. *World Development*, 23(6), pp. 987-994.

31 Celasun, O. (2003). Exchange rate regime considerations in an oil economy: the case of the Islamic Republic of Iran. IMF. Working Paper, no. WP/03/26, pp. 3-4.

of the largest amount of funds to the industrial and mining sectors from the $130 billion budget of the first plan, in the final year of the plan the share of non-oil industrial sector from the total GDP was still a mere 5 per cent while the oil industry, agricultural, and service sectors contributed 18.7 per cent, 21.3 per cent, and 42.7 per cent respectively. What is fascinating, however, was that the amount of foreign exchange allocated from the oil revenues to the non-oil exporters was ironically higher than the amount received from the non-oil export industries.[32]

The inability of the government despite its commitment to implement a unified exchange rate regime demonstrated the struggle inside the state as the bonyad-bazaar nexus was highly reluctant to retreat from its privileged position to access the official exchange rate. At the early stage, the nexus was in the side of the technocratic wing of the strata of government managers because the policy of the liberalisation of the foreign trade was in the heart of the plan, resulting in the upsurge of imports from almost $13 billion in 1989 to approximately $25 in 1991. Guaranteeing limited government interference in the market as part of the plan should not be also overlooked when other aspects of the reconciliation between the two are considered at the early stage of the programme. Much of the expansion of imports financed by foreign borrowings with relatively short-term payback periods. Whilst $3 billion borrowings were projected for the first plan, the country was confronted with a gigantic $20 billion short-term debt by early 1994.[33] The debt crisis was exacerbated as a result of lower than expected price of oil between 1993 and 1994, which diminished the oil revenues by 30 per cent. Consequently, the value of Rial fell sharply against the dollar in the currency markets despite the official devaluation through the policy of the liberalisation of the exchange rate to halt the trend. Imports and the servicing foreign debt had become expensive and domestic inflation mounted to 35.6 per cent in 1994 and as high as 49.2 per cent in 1995.[34] Unable to persuade European lenders to reschedule the payment of the debt, the government imposed restrictions on importing nonessential goods, leading to the fall in imports to around $12 billion in 1994 and 1995.[35] In the midst of the quarrel regarding the foreign trade, the government's attempt to unify the exchange rate alienated further the nexus that benefited from cheap foreign exchange quotas, consequently put them against the government after 1994. What is more, in the final year of the plan, the government opened a state-funded retail chain company, *sherkat-e froshgahaye zanger-ei refah*, which directly affected the interests of the

32 Delafrouz, M. T. (2014), pp. 115-16; Razaghi, E. (1997). *Acquaintance with Iran's economy* (in Persian). Tehran: Ney Press, pp. 248-50.

33 The total amount of foreign debt of the country is not entirely clear as various figures have been estimated. Keddie, N. (2003 p. 267) claims that Iran had $37 billion debt in 1993 and Momeni, F. (2014, p. 315) estimates that the total amount of debt by the end of the first development plan was above $40 billion.

34 IMF Data Mapper; Delafrouz, M. T. (2014), p. 115; Razaghi, E. (1997), p. 113.

35 TPOI. Annual Reports.

mercantile wing of the bonyad-bazaar nexus. The government holding shares of the *Refah* stores afterwards reduced to 35 per cent with the remaining shares sold off to the 'private' sector linked to the government. The privatisation initiative of the government, which will be explained shortly, was perceived by the nexus as a mechanism through which a new competing class out of the state elites would be created. Discontent with the direction of the adjustment programme, the nexus-dominated Majles passed a bill in August 1994 to cripple the privatisation by demanding that the government must offer an alternative itinerary for denationalisation, whose beneficiaries should be war veterans and paramilitary *Basijis*.[36]

The policy of the unification of the exchange rate coupled with the devaluation of the Rial led to higher prices and hence the exacerbation of the economic conditions of many, in particular the working class and the urban poor. Unprecedented in the last fifty years of the country, 'the wholesale price index increased by 78 per cent and the consumer price index by 96 per cent' in 1993 and 1994.[37] The widespread discontent of the urban poor over the calamitous impacts of the economic restructuring on their lives manifested itself in a series of protests and riots between August 1991 and August 1994 in various cities such as Mashhad, Eslamshaher, Qazvin, Shiraz, and Arak. The Mashhad riot, the most lethal, in May 1992 'had destroyed over one hundred buildings and stores and left an estimated total damage of 10 billion Rials. More than 300 people were arrested, six police officers killed, and four rioters hanged.'[38] The fear of a general mass resistance was a salient determinant in the deceleration of the restructuring programme. At the same time, this hostility towards the reforms, predominately by the poor, accommodated a pretext for the nexus to practically halt the Hashemi's structural adjustment. Although Hashemi was re-elected as president, his finance minister was rejected by the Majles for the second term and the head of the PBO forced to resign.[39] Furthermore, he handed over several important ministries including the Ministry of Trade and Commerce to the commercial wing of the nexus.[40] Above all, the Majles adjourned the approval of the Second Development Plan for more than a year until March 1995 by arguing that a thorough appraisal of the achievements of the first plan was needed.[41]

36 Behdad, S. (2000). 'From populism to economic liberalisation: The Iranian predicament'. In P. Alizadeh (ed.). *The economy of Iran*. London: I.B. Tauris, pp. 125-129; Axworthy, M. (2013), p. 321.

37 Nomani, F. and Behdad, S. (2006), p. 51; Razaghi, E. (1997), p. 114.

38 Bayat, A. (1994). Squatters and the state: Back street politics in the Islamic Republic. Middle East Report, no. 191, pp. 10-11; See also *BBC Persian.* (24 August 2005). The cost of opposing the most controversial figure of Ahmadinejad' government; Sharltouki, A. (31 August 2016). Mashhad: a mutiny that suppressed. *BBC Persian.*

39 Maloney, S. (2015), pp. 238-39.

40 Movasaghi, A. (2006). Political economy during the Islamic Republic Era. *Majaleh-e Daneshkadeh-e Hoghoogh & Oloome- Siasi* (in Persian), 71, p. 334.

41 Amuzegar, J. (2001). Iran's post-revolution planning: The second try. *Middle East Policy Council*, 3(1), p. 2.

The acrimonious intra-class struggle begot the heterogeneous Second Plan, with opposing components in favour of both fractions.[42] On the one hand, it re-accentuated the importance of the industrial development of the country. Special attention was given to the enlargement of the non-oil export sector by establishing the High Council of Non-Oil Export Promotion and obliging banks, particularly the Export Development Bank, to provide credit facilities with 'preferential rates' to exporters. The programme also demanded that the promotion of the FDI had to be a priority. On the other hand, faced with mounting pressure from the bonyad-bazaar nexus, a 'managed floating system of exchange rate' was prescribed for the country, abandoning a real unification of exchange rate, at least in the short term. All remaining GOEs under the control of National Iranian Industrial Organisation (NIIO) and the Iranian Industrial Development and Renovation Organisation (IIDRO) were selected for privatisation. But firms owned by the bonyads were excluded once again from the programme. In fact, the August 1994 Majles bill – demanding the sale of the shares of government-owned companies to the war veterans and *Basijis* – gave the impression that the nexus determined to transfer their ownership to its direct command rather than assigning its holdings. The promised labour market reform and the invigoration of the private sector, albeit with different interpretations, through increasing investments seemed to be in both camps' interests.

Thus, far from suggesting a compromised development strategy, the second plan hindered the government's advances in materialising a free market economy. According to an IMF report, in 1996/97, 33.5 per cent of the banking credits allocated to the industrial and mining sectors while the agricultural, construction and service sectors received 25 per cent, 29 per cent and 12.5 per cent of the credit respectively.[43] The non-oil export sector was awarded the highest amount of fund with the forecast of an annual growth rate of 8.4 per cent. Yet, the projected growth did not materialise in regards to either industrial or non-industrial export goods despite a visible rise in the value of the former in the total amount of the exports of the country. An in-depth examination of the composition of the non-oil export commodities during this period reveals that the large chunk of the exports belonged to the energy-consuming industries that were heavily subsidised by the government.[44] In other words, industrial non-oil exporters gained access to the international market because of rent rather than the rise of productivity. The share of the 'private sector' from the allocated banking resources was 55 per cent while the 'public sector' received 45 per cent in

42 Law on the second five-year development plan (in Persian). Islamic Parliament Research Center of the Islamic Republic of Iran.

43 IMF. (April 1998), p. 35. It should be noted that 1996/97 is equivalent to 1375 in the Iranian calendar.

44 Haadi-Zenouz, B. (2003). *The practice of industrial policies in Iran (1374-80)*. Tehran: The Islamic Parliament Research Centre Press, pp. 47-8.

1996/97. In the following year, the ratio of credit allocation was 60 per cent for the former and 40 per cent for the latter.[45] In spite of the attempts for the growth of the 'private sector', the 'state and public sector' still dominated the economy throughout the years of the second plan. Remarkably, the share of both GOEs and POEs in the country's budget for 1998 and 1999 increased.[46] All in all, a lack of the authoritative direction due to the intra-class struggle even frustrated the IMF as the organisation publicly expressed its dissatisfaction with the government's limited success reading the creation of auspicious conditions for the private sector.[47] Nevertheless, the Third Development Plan (2000-2005), implemented by the reformist government of Khatami, is considered as the most radical neoliberal programme because of its globalised orientation and systematic focus on the structural and institutional reforms to deepen liberalisation, deregulation and privatisation.

Khatami took office in May 1997 with a landslide victory by promising the promotion of the rule of law and the transformation of the country's 'chronically ill' economy. But these changes seemed to be unfeasible under the second plan and in the presence of the relatively-balanced fifth Majles and a sudden plummet in the crude oil price. Further, the disunity in his economic team between the so-called 'shock therapists' led by Nourbakhsh, the CBI governor, and the 'new institutionalists' led by Namazi, the Economic and Finance Minister, hampered any meaningful reforms in the economic sphere of the country.[48] The reformists pledged to break down public monopolies and reform the tax system by subjecting the bonyads, in particular the Mostazafan Foundation, to taxation and transparency.[49] A coordinated onslaught by the new government and its allies through labelling the bonyad as 'the biggest cartel of the Middle East',[50] led to the resignation of its director, Rafigh-Doust, in July 1999.[51] Despite the government push to separate the Foundation's charitable and economic activities and lift its tax exemption, the Guardian Council adamantly impeded the bills, arguing that all revolutionary foundations are outside the inspection of the government and the parliament and under the authority of the office of the Supreme Leader. Unsurprisingly, in the following year, the Majles refused to approve measures in the final draft of the Third Plan by the government regarding the management and taxation system

45 IMF. (April 1998), p. 35.

46 Parkhideh A. (2008). *Industry and the experience of industrial policymaking in Iran before and after the Islamic Revolution* (in Persian). Tehran: Islamic Revolution Documents Center Press, p. 173.

47 Cited in Nomani, F. and Behdad, S. (2006), p. 54.

48 Dinmore, G. (22 August 2000). Upturn in Iran may aid Khatami: The president is trying to move his country away from a command-led economy. *Financial Times*, p.10.

49 *Neshat.* (24 July 1999). Mostazafan Foundation and structural problems; Rostami, A. (7 September 1999). Political game regarding the Mostazafan Foundation. *Resalat.*

50 Afshari, B. (11 September 1999). The conundrum of bonyad's taxes. *Aria.*

51 History of the bonyad. Mostazafan Foundation website.

of the bonyads. Other components of the plan that demanded the reduction of subsidies and the elimination of price ceilings for essential commodities to reduce domestic consumption and decrease imports were also rejected.[52] The ratified Plan, however, proposed the reinvention of the government by reorganising the public administrative system to increase efficiency and competence, greater privatisation of SOEs and a far-reaching assistance for the private sector. The plan also sought to facilitate conditions for restructuring of the financial sector, price rationalisation and removal of energy subsidies, greater promotion of non-oil exports, trade liberalisation through replacing non-tariff barriers with tariffs and progressively reducing average tariff rates in line with the WTO rules, deregulation of the process of capital investment and legal reform to precipitate foreign direct investments.[53]

The plan reiterated the significance of the promotion of non-oil exports and offered a number of government-sponsored incentives to exporters including exemption of all exported goods and services from tax and customs duties, increasing in the capital of the Export Development Bank, providing low-rate credit and low-cost insurance services, guaranteeing exchange rate, and forming a new organisation to exclusively deal with exports, leading to the establishment of the Export Promotion Organisation in 2004.[54] Coupled with an extraordinary increase in the price of oil, accordingly, the non-oil exports had witnessed a steady expansion from $3.8 billion in 2000 to $10.5 billion in 2005.[55] Importantly, industrial goods constituted more than two-third of non-oil exported commodities.[56] In 2000, the Oil Stabilization Fund (OSF) was instituted in order to uphold budgetary public expenditures regardless of fluctuations in the oil market, maintain the fascial discipline, and prevent the depreciation of the Rial. Apart from these goals, and perhaps before all else, the November 2000 amendment to the original plan of the OSF 'stipulated that 50% of the Fund reserves should be set aside for lending to domestic private entrepreneurs – in foreign exchange, and at low-interest rates for "productive" investments in the third plan's priority sectors'[57] i.e. the non-oil exports sector. With the average length of eight years and very low annual interest rate, 'private firms' encouraged to borrow from the OSF. From the $30 billion assets of the Fund, however, the so-called private sector utilised a relatively small

52 Amuzegar, J. (2005b). Iran's third development plan: An appraisal. *Middle East Policy*, 12(3), p. 47; Maloney, S. (2015), p. 289.

53 Law on the third development plan (in Persian). Islamic Parliament Research Center of the Islamic Republic of Iran; See also Khajepour, B. (2000). Domestic political reforms and private sector activity in Iran. *Social Research*, 67(2), pp. 587-88; Amuzegar, J. (2005b), pp. 47-8; Delafrouz, M. T. (2014), p. 120.

54 Behkish, M. M. (2010). *Iranian economy in the context of globalisation* (in Persian).Tehran: Ney Press, pp. 280-281; Amuzegar, J. (2005b), pp. 51-2.

55 TPOI. Annual Reports.

56 Delafrouz, M. T. (2014), p. 121.

57 Amuzegar, J. (2005a). Iran's Oil Stabilization Fund: A misnomer. *Middle East Economic Survey*, 48(47), p. 28.

portion of it as the Majles withdrew nearly 60 per cent for public expenditure by circumventing the law.[58] What is more, unlike the Plan's projection, imports increased by around three times form $13.2 billion in the first year to $39.2 billion in the final year of the plan due to various factors such as the abundance of foreign exchange thanks to the boost in the oil revenues, lowering tariffs and the devaluation of the national currency.[59]

Considering the intensification of the intra-class struggle which is symbolised in Khatami's famous claim that his government had encountered 'a crisis [created by the nexus] every nine days',[60] the reformist government accomplished significant steps towards liberalisation and outward orientation of the economy. In July 1997, the Tehran Stock Exchange (TSE) rate was introduced alongside the official and export exchange rates. After taking serval measures during 1998 and 1999, the government successfully, in the following year, eliminated the export rate by making the TSE rate as the key market-determined exchange rate except for the imported basic commodities that still used the official rate.[61] Finally, the government's draft budget for fiscal 2002 removed the official rate by applying the TSE rate to all transactions.[62] The exchange rate unification that exclusively targeted the vested interests of the bonyad-bazaar nexus was in line with the antitrust law of the third plan to develop a 'competitive economy' and hailed 'as one of the most significant reforms' introduced by the reformist government of Khatami.[63] Reforming the financial sector by authorising the private banks and introducing changes in the state-owned banks was another fundamental neoliberal move as the then deputy governor of the CBI argued '[p]rivate banking is part of the reform of the finance system, along with the restructuring of the financial position of the state banks so that we will see more efficiency and competition.'[64] Accordingly, over the course of the third plan, the licenses of four private banks (*Bank-e Eghtesad-e Novin, Bank-e Saman, Bank-e Karafarin,* and *Bank-e Parsian*), two non-bank credit institutions, and two private insurance companies were authorised.[65] In May 2001, to expedite the process of the privatisation, which began after the approval of the first development plan, the Iranian Privatization Organisation (IPO) was established.[66] Above all neoliberal reforms implemented during the three development plans, privatisation of the SOEs was the most substantial legislative

58 Ibid, p. 29.

59 TPOI, Annual Reports.

60 Nikfar, M. (6 June 2001). A government with a crisis in every nine days. *Hambastegi.*

61 Celasun, O. (2003), pp. 4-5.

62 Dinmore, G. (24 December 2001). Iran shifts to single rial exchange rate. *Financial Times*, p. 6.

63 Ibid, p. 6.

64 Cited in Dinmore, G. (5 September 2001). Private Iran bank gains licence. *Financial Times*, p.7.

65 Amuzegar, J. (2005b), p. 52; Maloney, S. (2015), p. 291.

66 IPO Website. History of the Iranian Privatisation Organisation.

act in the emergence of a new capitalist class which generated the most intense struggle between two fractions of the ruling class. I now turn to survey this process since this investigation helps us to identify new social class forces as the key collective actor as conceptualised in Chapter 3.

Table 5.1 Economic Indicators (1990-2005)

Year	1990	1992	1994	1995	1996	1998	2000	2002	2004	2005
Real GDP (%)	14.1	2.3	-1.3	2.3	4.7	2.2	5.8	7.4	4.4	5.3
Oil Exports (in $ bn)	16.7	15.6	11.9	13.5	16.9	10.0	22.9	17.3	32.2	48.1
Non-oil Exports (in $ bn)	1.3	3.0	4.8	3.3	3.2	3.1	3.8	4.6	6.9	10.5
Imports (in $ bn)	18.3	23.3	12.6	12.8	15.0	13.7	13.2	22.2	35.4	39.2
Inflations (%)	9.0	23.3	35.6	49.2	23.1	18.1	10.0	15.9	15.2	12.1
Unemployment (%)	14.2	10.0	10.0	10.0	9.1	13.6	16.0	12.2	10.3	11.5

Sources: IMF Data Mapper; World Bank, *World Development Indicators*; Central Bank of Islamic Republic of Iran, *Economic Time Series Database*, *Statistical Yearbook & Statistical Tables (various years)*; TPOI, *Annual Reports*

Nearly a year after the approval of the first plan, in May 1991, the process of the privatisation of the SOEs was instigated. In the absence of a designated organisation, a committee including the Economics and Finance, Industries, Heavy Industries, and Labour ministers as well as the governor of the CBI and the head of the PBO was formed to supervise the process. For the first plan, by excluding the POEs as mentioned earlier, the government had envisaged the sale of 391 poorly-performing government-owned enterprises after inspecting 1875 companies based on a two-stage plan. To facilitate the transfer of these enterprises to the 'private sector', the TSE was reactivated as the primary institution for privatisation and the preferred method of ownership transactions.[67] Although there was a legal constraint to denationalise enterprises involved in 'mother industries' such as steel, banking, insurance, shipping, and public utilities, the government paved the way for the privatisation of some companies under the control of the Ministry of Heavy Industries by reinterpreting Article 138 of the Constitution. Among a list of 248 companies of the first phase, 173 units belonged to the NIIO under the supervision of the Ministry of Industries and 56 companies managed by the IIDRO under the management of the Ministry of Heavy

[67] Bahmani, M. (Head of Investment Unit of the National Bank of Iran). (1998). Appraisal of the possibilities and methods of privatisation of companies under the control of banks in the Islamic banking system. pp. 394-95. Online.

Industry. In the second stage, 120 enterprises of the former and 17 plants of the latter were chosen. The remaining 25 units were selected among enterprises controlled by other ministries.[68] According to a study by the Ministry of Industries, during the First Development Plan around 60 per cent of the shares of the assigned companies were sold to the 'private sector', while the banking system and other organisations bought the rest of the stocks.[69]

A thorough analysis of the privatisation process over the course of the first plan exposes the lack of adequate legislation, personal connections and preferential treatment. In 1990, in order to accelerate the process, the CBI legalised the creation of investment companies of the banking system. Based on commercial law, these investment companies were considered private firms despite being run by government managers.[70] The result was the concentration of some profitable GOEs in the hands of new financial-industrial groups with dubious connections with the government such as the National Development Group Investment Co and the Social Security Investment Co, which are currently among the largest and most profitable corporations of the country. The latter possesses nine holding companies with over 200 subsidiaries. The case of the sale of the GOEs to the 'private sector' is worth particular attention. In the name of privatisation and under what is commonly known as the 'management buyout' method, these firms were sold off to the officials and well-placed individuals within the inner circle of the government, mostly the managers of given GOEs, with nominal prices because their values were calculated by the same people which bore little or no relation to their market prices.[71] In an interview with a newspaper, one of the middle-ranking elites of the Hashemi administration uncovers the corrupted nature of the transactions. Discussing the situation of government-run mines, Hamidi-Anaraki affirms that due to the lack of personal capital the new owners were given highly favourable instalments by the government to purchase the firms.[72] Additionally, to augment 'the faltering purchasing power of the state employees', Karbassian notes that 'the procurement department of a given ministry would function as a company, selling supplies acquired with the ministry's funds to the ministry, for profit. The profits were then distributed among shareholders, who were mostly the same ministry's

68 Habibi, A. and Khoshpour, H. (1996). Appraisal of the policy of privatisation of GOEs in Iran (in Persian). *Journal of Barnameh & Bodjeh*, 7, pp. 57-58; Khalatbari, F. (1994), pp. 188-9; The full list of the selected GOEs during the first development plan is available on the IPO website: http://www.ipo.ir/index.jsp?fkeyid=&siteid=1&pageid=143

69 Aarman, B. (1994). Privatisation; weary at the beginning (in Persian). *Majles and Pazhouhesh*, 7, pp.35-6.

70 Bahmani, M. (1998), p. 399 and p. 403.

71 Parkhideh, A. (2008), p. 177; Nabavi, S. M. and Malayeri, M. H. (1996), p. 21.

72 *Donyaye Eghtesad.* (20 June 2013). Hashemi's government and first steps of privatisation.

personnel.'[73] Through the mechanisms of this recycling of assets serval hundred new private enterprises were also created.

Alongside ownership transactions through the TSE, other suspicious mechanisms such as auction, direct negotiation and not-specified 'others' had been widely employed.[74] Interestingly, the favoured method, the TSE, was nothing but simply another ostensible means for the embezzlement of economic assets. In the end, because of the under-pricing mechanism and preferential treatments, the factory directors and government officials joined with some well-connected individuals within the state bureaucracy became new owners through highly nontransparent methods. On a related note, the government projected the rebuilding of the energy sector as the basis for the revival of the industrial sector. Due to the lack of legal framework and political resistance to reopening of the sector to foreign investors, a new type of contract was constructed, known as the buyback contacts with 'the relatively limited time frame and the cap of the rate of return.' Accordingly, the NIOC reached an agreement with few transnational oil companies for the development of the South Pars field. To handle the projects, the government facilitated the creation of the NIOC spin-off companies with public capital that operated as private firms. Apart from the Petropars, which was the largest company that was directly involved in the development of several South Pars phases, Pedec, IOEC, Pedco, OIEC, and the Naftiran Intertrade Co were among at least one hundred spin-off companies that created during Hashemi tenure and reached their pick throughout Khatami's presidency. Needless to say, these companies were handed over to officials and their relatives with a close tie with the Ministry of Petroleum.[75]

According to the second development plan, the ownership of all remaining companies under the control of the NIIO and the IIDRO must be transferred to the private sector.[76] However, because of the August 1994 Majles bill regarding the sale of the shares of GOEs to the war veterans and prisoners of war, families of martyrs, and Basijis, the privatisation practically, to a large degree, limited as the legitimate buyers who were not financially in a position to purchase them.[77] The bill admitted that the bonyads as their appropriate representatives would be permitted to buy GOEs[78] but, in reality the bill was mainly formulated by the bonyad-bazaar nexus to halt the process

73 Karbassian, A. (2000). Islamic revolution and the management of the Iranian economy. *Social Research*, 67(2), p. 637.

74 Bahmani, M. (1998), p. 396.

75 Maloney, S. (2015), pp. 394-96.

76 Parkhideh, A. (2008), p. 175.

77 Behkish, M. M. (2010), p. 118.

78 Rakel, E. (2007). 'Conglomerates in Iran: the political economy of Islamic Foundations'. In B. Hogenboom and A. E. F. Jilberto (eds.). *Big business and economic development: Conglomerates and economic groups in developing countries and transition economies under globalisation*. London: Routledge, p. 123

altogether at this stage. Taraghi, the then-head of the Imam Khomeini Relief Committee in Khorasan province, sheds light on the perception of the nexus about the new class: 'in the shadow of the government's economic policies, a 'nouveau riche' stratum was created…[who] made a substantial fortune and controlled almost the heartbeat of the economy. These hand-picked... technocrat supporters… seized all government-affiliated enterprises and occupied their board of directors.'[79] Fittingly, throughout the years of the second plan, the nexus and its media had condemned departure from the idea of justice as the fundamental objective of the revolution by prioritising 'economic growth' and glorifying consumerism and 'luxurism'.[80] Particular attention was given to the fight against the 'bonanza phenomenon' and the genesis of *aghazadehha*, which referred to high-ranking government officials and their sons who were involved in wealth accumulation and corruption i.e. the process of privatisation and the nascent capitalist class.[81] Notwithstanding, the victory of Khatami altered the balance of power, resulting in the approval of Amendment 35 in the budget law that granted the complete authority to the government to determine the ownership of the SOEs in 1998 and 1999.[82] Accordingly, the proceeds from the privatisation process in the last two years of the plan dramatically increased compared to the first three years. Altogether, during the first and second plans, the government generated revenues of 8,641 billion Rials ($ 6.1 billion) from the sale of mostly small and medium-sized government-run enterprises.[83]

It is worth noting that Khatami was an influential member of the statist wing of the strata of government managers, whose members were marginalised at the start of the first plan. The intensification of the conflict between the technocratic wing of this fraction and the bonyad-bazaar nexus after a short honeymoon, as illuminated above, led to the reunification of the two wings of the strata of government managers against the nexus. In 1992, in an interview with a newspaper, Mousavi Khoeiniha, a leading figure of the statist wing, laid out a foundation for the comeback and unambiguously explained their intellectual transformation regarding the economy:

> Production should be open to the private sector and necessary encouragement given to it . . . We are not averse to the argument that growth in productive capacity [policy of reconstruction] of the country

79 *Raja News*. (3 May 2015). Interview with H. R. Taraghi: Behind the scenes of the formation of the Executives of Construction Party.

80 *Resalat*. (14 May 1996). Preserving values, a fundamental principle; *Jomhori-e Eslami*. (5 August 1997). People are thirsty for social justice; *Resalat*. (10 July 1995). Economic discipline and the cliff of consumerism and luxurism.

81 *Jomhori-e Eslami*. (6, 7 and 9 August 1997). The necessity of serious fight against the bonanza phenomenon; *Resalat*. (24 February 1997). 'Construction' requires clean hands; *Resalat*. (16 March 1997). Avoiding luxurism; *Resalat*. (11 August 1997). Cost for the government, profit for individuals: This is not privatisation.

82 Behkish, M. M. (2010), p. 118.

83 Haghgoo, M. (2010). The bitter taste of privatisation (in Persian). *Goftogoo*, 56, p. 10; Ghalibaf-Asl, H. and Dargah, F. R. (2005). Appraisal of the impact of the form of ownership on the operation of firms: The experience of privatisation in Iran (in Persian). *Tahghighat Mali*, 19, p. 123.

> is the most important economic solution for the present situation . . . and that state monopoly in economic management will not lead to growth in production . . . [but] giving total freedom to the private sector and eliminating [the role of] the government [in the economy] is not the solution.[84]

This defensive, or to be precise, defeating, tone was not just a consequence of the collapse of the Soviet-style central planning and the triumph of neoliberal ideology, which undoubtedly played a role, but it was also due to the inclusion of its members in huge financial and business projects in oil and petrochemicals as in the case of Petro Pars. Furthermore, a dozen of newly privatized small and medium-sized GOEs was passed over to them.[85] Consequently, the statist wing accepted liberalisation and privatization but still emphasised on a pivotal role of institutions in shaping the form, direction and speed of the neoliberal economic restructuring. This line of argument initially generated a disagreement between the economic team of Khatami, but the approval of the third plan settled the issue in favour of the neoliberals, which brought about the most radical neoliberal reforms and precipitated the privatisation.

After appointing a committee to identify the potential SOEs, in April 1999 a list of 538 GOEs was published by the government for privatisation through the TSE or direct negotiation. Also, for the first time, the government intended to include more than 1,000 companies controlled by the bonyads to the list, but the resistance from the Guardian Council during the approval of the third plan impeded the government's manoeuvre.[86] According to the IPO annual data, the shares of only 339 GOEs were transferred to the 'private sector' over the period of the third plan. The privatisation proceeds, however, were nearly two and a half times more than the total value of transactions of the first two plans together, generating 20,730 billion Rials for the government.[87] Due to the lack of reliable data regarding the new owners, the only conclusion we might draw is that the buyers were handpicked from the inner circle of the government and influential individuals given the fact that non-insiders were prohibited and foreign investors were more and less excluded form biddings. Overall, by exploiting highly non-transparent methods, a new class of government-officials-cum-capitalists emerged predominately through the political nexus and nepotistic networks linked to key ministries. Put differently, during the first period of neoliberalisation, the strata of government managers transformed itself into what I call the *internationally-oriented fraction of capital* or simply the *internationalist fraction*. While consisting of some private capitalists, this fraction of capital should not be treated as 'private capital' in contrast to 'state capital'. This is

84 *Salaam*. (23 April 1992). Cited in Siavoshi, S. (1992), p. 31.

85 *Fras News Agency*. (11 March 2015). What is the Executives of Construction Party position on the economy?.

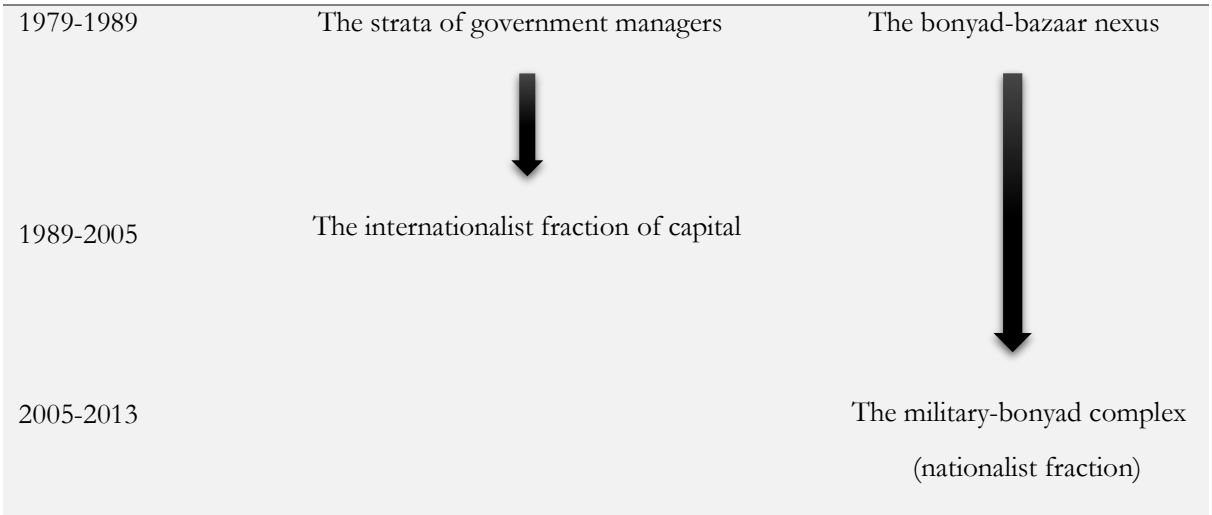
86 Khajepour, B. (2000), p. 590; Namazi, B. (2000). The legal aspects of doing business in Iran. *International Financial Law Review*, 19(2), p. 23.

87 IPO, Proceeds of Privatisation (Annual Reports).

because such a dichotomous reading discounts the fact that this fraction comprises of many allegedly 'private firms' that are in reality the subsidiaries of various government ministries and is inclusive of some state officials and their relatives. As one of the two dominant wings of power in contemporary Iran (Figure 5.1), its capital circuit and accumulation strategy will be explained in detail in the next section.

To recapitulate, in the wake of the Iranian economic crisis of the 1980s, some state managers facilitated the renovation of capitalism through a set of reforms from above. Unlike many other developing countries that experienced economic shock therapy, Iran's neoliberal economic restructuring was a gradual process right from the start. Furthermore, subjected to the heavy resistance from the bonyad-bazaar nexus due to the incompatibility of some of the proposed neoliberal reforms to their class interests, as well as some 'sporadic and incoherent rebelliousness' from below by the working class and particularly the urban poor, the neoliberal policies did not fully implement, nor insert the country into the new global division of labour. This being said, the fragmentary reorganisation of the production process, the privatisation of some formerly GOEs, and the formation of new privately-owned enterprises led to the emergence of a fraction of the capitalist class from the ranks of the state bureaucracy, advocating export-ordinated growth and a closer relation with the global political economy. As explained in Chapter 3, far from being a placid and harmonious process, the neoliberal restructuring also creates opposing incentives for disruption from incorporated into the world capitalist system. In view of this, the following section examines the way in which the bonyad-bazaar nexus exploited the process of privatisation by transferring large GOEs to its direct control under the name of public ownership.

Figure 5.1 Metamorphosis of the Ruling Class



5.4. Neoliberalisation II and the Emergence of the Military-Bonyad Complex (2005-2013)

In January 2005, the Majles approved the Fourth Development Plan with similar economic goals to the previous plans. It envisioned the stabilisation of a domestic business-friendly climate, improvement of human capital, technology and total-factor productivity, increase in non-oil exports, and enhancement of international competitiveness by projecting the growth of the foreign-direct-investment ratio to GDP from 0.6 per cent to 3 per cent by 2010. Rationalising the price of gasoline, electricity, gas, and water, reducing the number of government employees, reforming the budget by reducing the reliance on crude oil exports and increasing revenues from taxes were also among its primary objectives.[88] The plan was drafted by the Khatami government, but the unexpected triumph of Ahmadinejad in the June 2005 presidential election distorted its direction since the new administration merely committed to its goals and submitted only the first-year annual report of the plan's implementation.[89]

Meanwhile, to remove legal obstacles to privatisation, a revision to Article 44 of the Constitution ratified by the Supreme Leader for which the reformist government played an indispensable role in 2004. According to Article 44 of the 1979 Constitution, the economic system of the country comprised of primarily the state sector that allowed the government to directly control all economic activities with a mere role for the cooperative and private sectors. The new interpretation downgrades 'the role of government from direct ownership and management to business to a policy-making, supervisory, and advisory role.' Two years later, the complementary executive decree of the Supreme Leader permits investment, ownership, and management of 'public, non-governmental entities and organs, the cooperative and private sectors' in 80 per cent shares of large mines, large and 'mother' industries, government banks, government insurance companies, airlines and ship lines, energy companies, post and communications, and military and defence industries, albeit excluding few sensitive companies and services such as the NIOC and firms involved in the extraction and production of petroleum and gas, the primary electricity networks etc. Further, it suggested that sufficient measures must be taken to prevent the creation of monopolies and the domination of foreigners over the national economy.[90] Despite the optimism of the new capitalist class that the new interpretation would deepen liberalisation and strengthen their class footings, it provided a leeway for the reorganisation the nexus following Ahmadinejad's dark horse victory in 2005.

88 Amuzegar, J. (2010). Iran's fourth plan: A partial assessment. *Middle East Policy*, 17(4), pp. 114-16. See Full text here: Law on the Fourth Five-Year Development Plan (in Persian). Islamic Parliament Research Center of the Islamic Republic of Iran.

89 Delafrouz, M. T. (2014), p. 125.

90 *Iran Data Portal*. The general policies pertaining to Principle 44 of the Constitution of the Islamic Republic of Iran.

As a former Islamic Revolutionary Guard Corps commander, Ahmadinejad had a close tie with the IRGC and other revolutionary foundations and loathed the technocrats of the previous administrations. Unsurprisingly, his confidantes from the military and security forces comprised two-thirds of his first cabinet and former IRGC or Basij officers replaced a large segment of the technocracy in the government apparatuses.[91] The administration labelled itself as an anti-corruption government, calling for the upholding of the late Khomeini's revolutionary principles and demanding more economic support for the poor (*mostazafan*), who were adversely affected by the structural adjustment programme. The implementation of the structural adjustment programme – considered as a symbol of subservience to Western ideologies – of his predecessors, such as the first round of privatisation and price deregulation, was condemned as means for rewarding a small group of powerful businessmen, technocrats, and politicians. Ahmadinejad also famously pledged to 'bring the oil money to the tablecloth' of each Iranian.[92]

His anti-technocratic agenda required an expansionary fiscal policy and an unprecedented increase in the price of oil from around $17 per barrel in 2002 to more than $60 by the time Ahmadinejad took office, which generated more than $700 billion revenue during his first term,[93] helped to realise some of the administration's programmes. Among them were two initiatives, namely *sandogh-e mehr-e Imam Reza* (the Imam Reza Compassion Fund) and *tarh-e maskan-e mehr* (the Compassion Housing Project). While the former programme with $1.3 billion funds aimed to provide interest-free loans for youth marriage and education,[94] the latter with $10 billion funds was an affordable housing scheme with the intention of building housing units on unutilised lands for deprived people.[95] The Compassion Housing Project covered approximately 30 per cent of housing constructed between 2006 and 2016, building together around 2 million housing units.[96] According to the current Minister of Roads and Urban Development, however, the project increased house prices by 500 per cent in Tehran (nationally 50 per cent) and was barely successful in its goal as it only helped 5 per cent of the 19 million Iranian poor to get on the housing ladder.[97] In addition, some low-interest loans were given to farmers and rural residents for the development

91 Amuzegar, J. (2010), p. 126.

92 Habibi, N. (2014). The economic legacy of Mahmoud Ahmadinejad. Crown Centre for Middle East Studies. Working Paper, no. 5, pp. 2-3.

93 Maloney, S. (2015), pp. 321 and 329.

94 Ilias, S. (22 April 2010). Iran's economic conditions: US policy issues. Congressional Research Service Report for Congress, p. 7.

95 Maloney, S. (2015), p. 329.

96 Ranjipour, A. (22 November 2017). A calamity named the Compassion Housing Project. *BBC Persian.*

97 *ILNA News Agency.* (10 October 2017). Abbas Akhondi: The Compassion Housing Project increased house prices by 500 Per cent; See also Ranjipour, A. (22 November 2017).

of agriculture and industry.[98] Perhaps the most significant program was *saham-e edalat* (the Justice Shares) which facilitated by the 2004 revision of Article 44. Echoing the August 1994 bill, the government stressed that the previous form of privatisation had to be frozen in favour of a new privatisation scheme in which *mostazafan* became the primary beneficiaries of ownership rights of formerly SOEs.[99]

In his July 2006 executive order in line with the revision of the Article 44 for the privatisation of 80 per cent of large GOEs, the Supreme Leader claimed that 'ceding 80 per cent of the shares of large companies will serve to bring about economic development, social justice and elimination of poverty.'[100] Consequently, three methods were envisaged for offloading the GOEs for the second stage of privatisation: Justice Shares, Liabilities Clearance (*rad-e doyun*), and 'others'. Under the justice shares method, which commonly known as the voucher privatisation, the government pledged to distribute 40 per cent stocks of newly privatised companies among low-income households at favourable prices. The liabilities clearance was a privatisation method in which the government directly transferred its large enterprises to its lenders instead of generating proceeds from the offloading. Any other forms of the transition of ownership were categorised as 'others'.[101] According to the current head of the IPO, during two terms of Ahmadinejad presidency, $62 billion (2009 USD rate) worth of shares was transferred through the liabilities clearance and justice shares ($34 and $28 billion respectively). The privatisation proceeds under the 'others' method also valued around $32 billion.[102] The figures unveil the unprecedented pace of the privatisation process as the value of offloaded stocks from 2005 to 2013 was nearly fifty times more than the reformist government. Unsurprisingly, the majority of new owners were 'public, non-governmental entities and organs', i.e. the revolutionary foundations and the military forces, which eventually evolved the structure of the nexus to what I call the *military-bonyad complex*. Despite its advances, it is important to point out that the process had resisted by the nascent capitalist class because the Ahmadinejad government had issued 90 bills regarding the assignment of large GOEs through the liabilities clearance method with the value of $157 billion alone. But under objection from the IPO that challenged the credibility of the method, the Majles had dismissed most of the bills.[103]

98 Ilias, S. (22 April 2010), p. 7.

99 Ehteshami, A. and Zweiri, M. (2007). *Iran and the rise of its neoconservatives: The politics of Tehran's silent revolution*. London: I. B. Tauris, p. 88.

100 *Financial Times*. (3 July 2006). Iran to privatise but cling to big oil companies.

101 Sabouniha, A. (2017). 'Privatisation'. In M. Nili, et al. (eds.). *Which direction is Iran's economy moving?* (in Persian). Tehran: Donyaye Eghtesad Press, pp. 532-38.

102 *Etemad*. (17 May 2014). Interview with Pour Hosseini: Unusual intervention for halting the process of privatisation, P.7; *Donyaye Eghtesad*. (11 July 2017). The head of IOP stated: A new narrative from the ambiguous aspects of privatisation, p. 10.

103 Ibid.

The most popular method of privatisation was the liabilities clearance through which the majority of large GOEs were offloaded to the bonyads and investment companies affiliated with military forces. To justify the transactions, Ahmadvand, the then-head of the IPO, affirmed that 'since we are obliged by the law to tender all transfers competitively, in some cases, one unit has been offered several times [in the Tehran Stock Exchange].' Without biddings from the private sector, 'we were eventually forced to transfer the ownership of these enterprises to investment funds and other enterprises to pay off government's debts.'[104] This unwillingness of the so-called private sector to enter the competition despite its market liquidity was attributed to the preference of private investors to link with 'one of the power centres inside the state', i.e. the new capitalist class, because 'otherwise their purchasing power going nowhere.'[105] Likewise, through the 'others' method, the shares of a few giant companies were sold to 'some big parastatal, public organisations companies.'[106] Unquestionably, the most controversial and antagonistic form of privatisation was the justice shares through which the government insisted to allocate 40 per cent shares of some big industrial GOEs to low-income deciles of the population and state dependents at 50 per cent discount rate (in some cases without charge and as gifts), arguing that the legitimate buyers would repay their debts from companies' future profits over the course of ten years. Accordingly, 30 justice shares provincial investment companies were established and around 49 million people had been identified as appropriate receivers. Yet, as of today, 33 million people have received stocks and dividends from the programme.[107] Since the primary targets of the programme were the war veterans, the families of martyrs, Basijis, and low-income households who received support from various welfare agencies, the government mainly used the database of the bonyads such as the IKRC, the IRSF, the Mostazafan Foundation and the Basij Organisation for doling out shares. While 20 per cent shares of these firms kept in-house (government's shares), the remaining 40 per cent equities were predominately purchased again by the 'public, non-governmental organisations' on the grounds of lack of demands from the private sector. Although the fate of the justice shares is still an arena of spiteful struggle as the ownership status of people after the projected ten years has not been well-defined and they are not yet allowed to sell their shares, the disastrous experience of voucher privatisations is Russia and Czech Republic in the 1990s is likely to be the outcome. Similar to the case of the Czech Republic – where investment funds owned by domestic banks

104 *Etemad*. (22 January 2013). Interview with the head of IPO: If the economic transformation plan was implemented correctly, p. 5.

105 *Etemad*. (17 May 2014), P.7

106 Sabouniha, A. (2017), p. 538.

107 *Boors*. (August/September 2013). Eight-year appraisal of the justice shares. Official Report of the Justice Shares Affairs Office of the IPO (in Persian), no. 103, pp. 48-9; Ghadimi, A. (12 January 2018). What is the justice shares and how much is it worth?. *BBC Persian*.

with the state majority stake 'ended up owning large or controlling stakes in many firms privatized through vouchers, as citizens sought to limit their risk by transferring their vouchers into these funds'[108] – the investment companies of the bonyads and the military forces are well-positioned to own the 'people' stocks considering their ostensible goal of improving the conditions of the impoverished masses. In short, the heavy involvement of quasi-governmental firms in the biddings for formerly large GOEs in the presence of insufficient transparency and competition have enormously fortified the economic power of the bonyads and military forces. Apart from taking over of the GOEs, the government had protected their interests through other policies such as the supply of their foreign exchanges and expansion of their monopoly by averting the entrance of foreign competitors to the domestic market.[109]

Under Article 147 of the Constitution, which encourages the involvement of the military forces in the process of the reconstruction of the country during peace times, the IRGC was invited to participate in the rebuilding of war-torn areas by the Hashemi government.[110] As a result, an engineering firm named *gharargah-e sazandegi-e khatam-o-anbya* (Khatam-al Anbiya Construction Headquarter, referred often as Ghorb) was established immediately after the end of the war. The Revolutionary Guard's modest participation in economic activities, however, evolved significantly during the Ahmadinejad presidency. As of 2012, the U.S. Treasury Department stated that the IRGC was 'the most powerful economic actor, dominating many sectors of the economy, including energy, construction, and banking' through 'a complex web of front companies' that disguise its economic activities.[111] Rather than directly involved in the privatisation scheme, the Revolutionary Guard has purchased shares from the TSE through its financial arms, most notably the Sepah Cooperative Foundation and the Ansar Financial and Credit Institution. The former owns a dozen companies and investment groups such as Tose'e Etemad Mobin, and the latter has over six hundred branches across the country with around 6 million customers. In a controversial case in September 2009, the Tose'e Etemad Mobin became the majority shareholder of the Telecommunications Company of Iran on a no-bid basis by disqualifying the only competitor for security reasons, registering therefore 'the largest trade in the history of Tehran Stock Exchange,

108 Nellis, J. (1999). Time to rethink privatization in transition economies?. The World Bank. International Finance Corporation Discussion Paper, no. IFD 38, p. 11.

109 Chapter six thoroughly investigates the relationship between Ahmadinejad's aggressive foreign policy, in particular the nuclear programme, and the class interests of the complex.

110 *Shargh*. (22 July 2013). The spokesman of the IRGC in conversation with Shargh declares: Revisiting the IRGC relationships with the governments of Hashemi, Khatami, and Ahmadinejad.

111 U.S. Department of the Treasury. (24 September 2012). Treasury submits report to Congress on NIOC and NITC.

valued around $8 billion.'[112] Furthermore, among the biggest pension funds of the country is an IRGC-affiliated pension fund, the Armed Forces Social Welfare Organisation (SATA), which secured the ownership of numerous state-run enterprises as a result of the second stage of privatisation. In 2008, the ownership of the Ghadir Investment Company was transferred to the SATA.[113] Today, according to its admission, the Ghadir is 'the largest TSE listed investment company which, through its 7 holdings and its 140 subsidiaries, operates in various sectors such as oil, gas, petrochemicals, cement, building construction, mines and related industries, transportation, power and energy, financial and commercial activities as well as information technology and information communication technology.'[114] Likewise, the IRGC subordinate volunteer militia, *Sāzmān-e Basij-e Mostaz'afin* (The Organization for Mobilization of the Oppressed, referred to as Basij) has been active in economic activities. Its financial group, Mehr Eghtesad Bank (formerly called the Mehr Finance and Credit Institution) is the largest 'private' bank in Iran with over 700 branches. The main subsidiary of the institution, the Mehr-e Eghtesad-e Iranian Investment Company, has been trading on the TSE and is 'one of the largest purchasing entities owns stakes in a number of major Iranian companies.'[115]

According to Broujerdi, a prominent member of the Majles, the engineering arm of the Revolutionary Guard, the Ghorb, is now 'the biggest and the most capable economic and developmental group of the country.'[116] Apart from acquiring the control of large GOEs such as Iran's biggest marine industrial company, *Sadra*, during the Ahmadinejad presidency,[117] the Ghorb was granted lucrative contracts in various projects. Most notably, in response to the withdrawing of transnational corporations such as Shell and Total from Iran due to the nuclear-related international sanctions, the government had awarded the firm and its subsidiaries no-bid contracts for the development of several phases the South Pars field.[118] The appointment of the then-commander of the Ghorb to the Ministry of Oil in 2011 demonstrates the level of the IRGC's grip on the Country's most precious industry.[119] It is estimated that the Ghorb had granted oil projects

112 Alfoneh, A. (2010). The Revolutionary Guards' looting of Iran's economy. Middle East Outlook. American Enterprise Institute for Public Policy Research, no. 3, pp. 4-5.

113 *Iran Daily*. (27 July 2016). The obstacles to the effective presence of the private sector in the national economy.

114 Ghadir Investment Company Website: http://www.ghadir-group.com/Modules/CMS/CMSPages/showpage.aspx?MItemID=IwblIllI

115 Alfoneh, A. (2010), p. 4.

116 *Resalat*. (25 January 2017). Aladdin Broujerdi: The Ghorb is the most capable economic and developmental group in the Country.

117 *Etemad*. (12 July 2012). The Gradual death of profits after Assignments, p. 6.

118 *Etemad*. (12 October 2014). The commander of the Ghorb: The IRGC does not occupy the place of the private sector in developmental projects, p. 5.

119 *Shargh*. (21 February 2017). New campaign of Rostam, p. 7.

valued above $25 billion during this period.[120] Currently, the Ghorb has 170,000 employees and over its entire lifespan it has completed 2,500 projects, mostly after 2005,[121] including the construction of four thousand kilometres of oil and gas pipelines, sixty-one dams, hundred and sixty-three bridges, nearly two and half thousand kilometres of highways, four thousand kilometres of railway, six lines of metro in Tehran and other cities, one hundred and fifty kilometres of tunnels, twenty-three thousand fibre-optic networks, over a hundred hospitals, and various colossal agricultural projects among others.[122] Resembling the alleged key purpose of other bonyads, the Revolutionary Guard claims that Kosar Construction Headquarter, a subsidiary of the Ghorb, has completed over 10,000 anti-poverty projects across the country from the Ghorb's revenues prior to 2011.[123] Similarly, it is thus exempted from tax and excluded from the government scrutiny.[124] Some estimated that the Ghorb alone controlled more than 812 registered companies in 2010.[125] As a multi-layered organisation with a complex web of holding companies, front companies, and 'charitable foundations', however, it is difficult to pin down the exact number of its firms. To illuminate the financial power of the Revolutionary Guard, in 2015, its annual turnover was reported to be around $12 billion, counting for 'a sixth of Iran's declared GDP.'[126]

38 per cent stocks of the Tose'e Etemad Mobin held by another revolutionary foundation, *setad ejraiye farmane hazrate Emam* (the Headquarters for Executing the Order of the Imam, known as Setad). The name refers to a decree by Khomeini before his death to establish an organisation for managing abandoned properties and other assets as a result of the post-revolutionary mayhem.[127] In the name of supporting 'the families of the martyrs, veterans, the missing, prisoners of war and the downtrodden', Setad generated a substantial amount of funds by confiscating assets during the 1990s. Throughout his presidency, Khatami endeavoured to subject Setad to regular inspections but the Guardian Council had impeded attempts, issuing that the entity is beyond the Majles and government's oversight.[128] In 2000, by establishing an investment company, Tadbir Investment Co, Setad stretched its activities beyond properties. Again, the major expansion, however, occurred after the new review of Article 44 and the executive order of the Supreme

120 Omidvar, K. (28 May 2012). Does the IRGC confiscate the state assets?. *BBC Persian.*

121 *Sharq.* (8 July 2017). The Ghorb's reaction to the contract with the Total, p. 4.

122 *Kayhan.* (5 July 2017). Exclusive report: Government debt to the IRGC exceeded 230 trillion rials, p. 4.

123 *Kayhan.* (7 September 2011). The IRGC completed more than 10,000 anti-poverty projects in the country, p. 3.

124 *Sharq.* (31 December 2016). Everything about the Ghorb, p. 1.

125 Borger, J. and Tait, R, (15 February 2010). The financial power of the Revolutionary Guards. *The Guardian.*

126 Hafezi, P. and Charbonneau, L. (6 July 2015). Iranian nuclear deal set to make hardline Revolutionary Guards richer. *Reuters.*

127 Stecklow, S. et al. (11 November 2013). Assets of the Ayatollah I: Khamenei controls massive financial empire built on property seizures. *Reuters.*

128 Torati, Y. et al. (13 November 2013). Assets of the Ayatollah III: To expand Khamenei's grip on the economy, Iran stretched its laws. *Reuters.*

Leader for the privatisation of 80 per cent shares of large GOEs in 2006. A year later, Setad became the owner of a major bank called Parsian, purchased the shares of the Telecommunications of Iran in 2009, and acquired the control of the Rey Investment Company, which was valued about $40 billion by the US Treasury Department, through one of its subsidiaries in 2010. Currently, in the form of two financial arms, the Tadbir Economic Development Group and the Tose-e Eqhtesad-e Ayandesazan Company, Setad entirely and partially owns the shares of over 150 firms. Its third main unit, the Barakat Foundation (*bonyad barakat*), whose prime duty is to eliminate poverty and empower poor communities, now runs the Barakat Pharmaceutical Company with more than 20 subsidiaries. As an economic conglomerate, Setad has invested in everything from banks to ostrich farms, and together with its real estate empire, the Real Estate and Properties Organization, it is estimated to have assets worth about $95 billion.[129] Exempted from tax and government inspection, Setad justifies its economic involvement by asserting that its charitable foundation, *bonyad barakat,* has completed over 25,000 infrastructure and development projects in rural areas including the construction of more than 1,000 schools, approximately same numbers of cultural centres (mosques and other religious centres), nearly 200 hospitals and health clinics, and 11,000 housing units from the revenues of Setad since its establishment.[130]

Alongside Ghorb, other bonyads such as the IRSF and the Mostazafan Foundation were permitted to deal with various aspects of the wartime reconstruction as part of the class compromise of the post-war period.[131] Throughout the years of neoliberal restructuring under the Hashemi and Khatami administrations and despite enormous pressures after 1994, particularity following the victory of the reformists in the 1997 presidential election, which crystallised itself through policies such as the unification of exchange rate, unified social safety net, and privatisation of bonyads-owned firms, the revolutionary foundations increased their grip on the economy.[132] In the case of the Mostazafan Foundation, the hegemony of the discourse of modernising the economy, accessibility and accountability only led to the replacement of its head in 1999 without any concrete results. Two years before his forced resignation, Rafigh-Doust claimed that 'the bonyad is the biggest economic entity in Iran and the Middle East and perhaps the biggest in the world in terms of diversity [of its activities].'[133] Having said that, his successor acknowledged that

129 Dehghanpishesh, B. and Stecklow, S. (12 November 2013). Assets of Ayatollah II: Khamenei's conglomerate thrived as sanctions squeezed Iran. *Reuters*; Nowruzi, S. (5 October 2016). Will the knot of oil contracts be opened by the Setad?. *BBC Persian.*

130 *Mehr News Agency*. (21 December 2017). Story of ten years anti-deprivation effort of the Barakat Foundation in the country.

131 Amirahmadi, H. (1990), p. 267 and p. 272.

132 Saeidi, A. (2004), pp. 489-90.

133 Cited in *BBC Persian.* (22 July 2013). Mohammad Saidikia became the head of the Mostazafan Foundation.

80 per cent of its companies suffered from the lack of financial profitability and pledged to privatise 250 firms but only 37 out of 400-odd firms were offloaded, including those sold before the new head.[134] The absence of transparency makes it difficult to evaluate whether the new head's vow for privatisation reflected financial difficulties or a political trick to lessen the pressure. The foundation comprises of three divisions: economic, oppressed, and self-sacrificed. During this period, the expenses of the latter two mainly came from the annual budget while its revenues from economic activities as well as outstanding taxes more and less invested in new economic units.[135] It is, therefore, difficult to envisage anything but the expansion of its moneymaking power rather than financial loss. The *Economist* reported that the Mostazafan Foundation had 'holdings of $12 billion, second only to the state-owned National Iranian Oil Company.'[136] The *Financial Times* estimated that the bonyad employed 'some 5 per cent of the male workforce' in 1997.[137] As a result of the second round of privatisation, the foundation has undergone an economic transformation, offloading some small and medium-sized firms to the private sector but expanding the economic capacity of its large firms and investing in new lucrative territories such as oil and finance by founding the Sina Financial & Investment Company and the Sina Bank.[138] At present, according to the foundation's website, its economic operations includes a set of activities in service, industry and mining, energy, construction and agriculture with 5 specialized deputies, 8 independent units, and 20 holdings, altogether comprising 207 companies.[139] Based on the 2016 financial statement of the Foundation, its assets valued $14 billion, but taking into consideration the real value rather than nominal value, the value of its assets could be several times more than the stated figure. In the same year, the net profit of the Mostazafan Foundation was over $700 million, which illuminates a healthy financial balance sheet.[140]

Similarly, in 1998, the IRSF expanded its economic activities by establishing the Razavi Economic Organization as a subsidiary of the foundation.[141] This reflected the new policy of massive investments in agriculture and industry which was promised by the management of the

134 *Economist.* (19 July 2001). A mess: How not to build a private sector.

135 Farzin, M. R. (2004). A reflection on the place and role of the Mostazafan Foundation in the economic and social arenas (in Persian). *Goftogoo*, 39, pp. 76-9.

136 *Economist.* (18 January 1997). Dual control: So many ways of pulling strings; See also Maloney, S. (2000b). Foundations and Privatisation in Iran (in Persian). *Goftogoo*, 28, p. 93.

137 *Financial Times*. (17 July 1997). State foundations dominate economy.

138 Omidvar, K. (24 June 2008). The Mostazafan Foundation, new trader of oil. *BBC Persian.*

139 To find out more about its activities, See the Mostazafan Foundation website here: http://mfnews.ir/

140 Arazmi, A. (20 December 2017). Mostazafan Foundation from the beginning until now. *BBC Persian.*

141 IRSF Website. The history of the Razavi Economic Organization.

bonyad in order to strengthen its power bases and financial independence.[142] Before Ahmadinejad's presidency, the foundation acquired 90 per cent of the arable land of Khorasan province where the Shrine is located and owned 56 companies involved in diverse activities from soft drinks to automobile manufacturing,[143] accounting 'for 7.1% of Iran's gross domestic product.'[144] Currently, the foundation has shares in more than 70 firms, of which 36 are categorised as large companies,[145] in various business areas including pharmaceutical, food, textile, construction, agriculture and animal husbandry, oil and gas, information technology and investment, making the institution 'the largest economic holding in the east of the country.'[146] In addition, as the biggest endowment entity of the Islamic world, the IRSF possesses approximately 400,000 hectares of agricultural lands and orchards all around the country with the approximate value of $20 billion.[147]

In 1995, the Martyrs' Foundation established the 'Shahid Investment Company' to mobilise the savings of the families of martyrs in order to invest in diverse economic activities, resulting in the expansion of the activities of the investment company by controlling numerous firms without the disclosure of the accounts to its shareholders.[148] With a close connection to the Ahmadinejad administration, in addition to firms under the control of the Shahid Group, the foundation set up the Kowsar Economic Organisation that owns more than 30 subsidiaries active in agriculture, industry and mining, finance, engineering, health and transport. In recent years, the foundation launched its own bank, Day Bank, with over 90 branches throughout the country and 15 subsidiaries.[149] Although there are different estimations regarding the economic and financial power of the foundation, one commentator calculates that the Martyrs' Foundation altogether controls the possession of more than 250 enterprises.[150] Vital to their claim to provide financial help for low-income families and the urban and rural poor is the role of the IKRC. In 1995, approximately 3 million people just in rural areas received various forms of support under different

142 Hourcade, B. (2004). Endowment and modernity: Cultivation and industry of the Imam Reza Shrine Foundation (in Persian). *Goftogoo,* 39, p. 89. It should be noted that the original article was written in French and I use its Persian translation.

143 Katzman, K. (6 August 2006). Iran's bonyads: Economic strengths and weaknesses. Emirates Centre for Strategic Studies and Research.

144 Higgins, A. (2 June 2007). Inside Iran's holy money machine. *Wall Street Journal.*

145 *Iran Daily.* (9 May 2017). IRSF is not exempted from withholding and value-added taxes.

146 IRSF Website. The history of the Razavi Economic Organization.

147 *BBC Persian.* (6 March 2016). Astan Quds: What happens in the biggest endowment entity of the Islamic world?.

148 Rakel, E. (2007), p. 125; See also Saeidi, A. (2004), p. 488.

149 Sodaie, A. (25 May 2016). Why the Majles report regarding the Martyrs' Foundation corruption was not read?. *BBC Persian*; See also the Day Bank website for information about its subsidiaries: http://www.bank-day.ir/

150 Sedaghat, P. (December 2017). The political economy of income inequality in Iran (in Persian). *Journal of Critique of Political Economy,* 5, p. 12.

schemes such as *tarh-e shahid Raja'i* from the Relief Committee.[151] While in 2001 the IKRC provided financial support for nearly 4.5 million people,[152] currently, 6 per cent of Iran's population, which constitutes nearly 5 million, are directly covered by the organisation.[153] The IKRC generates some of its revenues from religious taxes and endowment properties and receives 'substantial amounts of budgetary transfer…with no governmental discretion over expenses, as well as massive amounts of resources in the form of implicit and explicit subsidies and transfers for financing other programs.'[154] Historically, the economic activities of the Committee were relatively little compared to other foundations. Nevertheless, apart from its real estate unit, the economic arm of the organisation, the Corporate Group of the Relief Committee, has four holding companies, consisting of 24 subsidiaries with little information about the value of its companies' shares.[155]

To summarise, the foundations stretched their power and significance during the first period of neoliberal economic reforms from 1991 to 2005 as it was estimated that their economic activities counted for one-third of Iran's total GDP.[156] But, more importantly, as a result of the second round of neoliberalisation from 2005 to 2013 the economic power of the bonyads and military forces had significantly increased. Taking to account this transformation and considering their exemption from taxation, the total market share of the military-bonyad complex could be estimated around 40 to 50 per cent of the country's GDP at current exchange rates.[157] It is worth emphasising that these figures should be treated with some caution due to the secretive nature of these institutions. Nevertheless, they are indicative of the profound role of the revolutionary foundations and the military forces in the economy.

Joined by the economic empire of the military forces and after the large-scale appropriation of economic assets during the second round of the privatisation, the nature of the nexus and its accumulation strategy has strikingly evolved and meaningfully shifted. As demonstrated in the previous chapter, the import licences, official foreign exchange rate and other rent-seeking concessions were granted to merchants with political connections to the revolutionary state in the first decade of the revolution. The ramifications of selecting individual merchants were the political

151 Saeidi, A. (2004), p. 498.

152 Raiesdana, F. (2004). Foundations from the perspective of welfare and protective responsibilities (in Persian). *Goftogoo*, 39, p. 64.

153 *Resalat.* (10 September 2017). Fatah (the head of Relief Committee): 6 per cent of the country's population is under the protection of the Relief Committee.

154 Saeidi, A. (2004), p. 498.

155 For information about the number of its subsidiaries see the Relief Committee website see here: http://emdadimam.ir/

156 Katzman, K. (6 August 2006); Eva Rakel (2007, p. 109) estimated the Islamic foundation counts for 35 per cent of Iran's total gross national product (GNP).

157 This figure is also speculated by some commentators and journalists, see for example *Etemad.* (11 May 2017). Interview with Asadollah Asgar-Owladi, p. 6.

disenfranchisement and economic marginalization of the self-governing traditional network of commerce, wholesale and retail of the bazaar as a whole due to the monopolisation of large-scale commercial activities by the well-positioned merchants and the bonyads. Despite the marginalisation of the network and the irrelevance of historical and locational advantages of the bazaar, because of the bazaari social class origins of many important figures of the bonyads, the similarity between the structure and methods of operation of the foundations and the bazaar, and the mutuality of economic interests of the post-revolutionary commercial elites and the foundations, I opted for the term bonyad-bazaar nexus to describe one fraction of the ruling class that emerged in the first decade of the revolution. After the initiation of the neoliberal reforms, the traditional bazaar as a commercial network had to large extent dismantled and become an irrelevant economic actor and a largely passive political player. The commercial wing of the bonyad-bazaar nexus, however, remained powerful and played a pivotal role in fostering the post-Iran-Iraq-war reforms. Nevertheless, the ascendancy of the military forces and revolutionary foundations in the economy since the presidency of Ahmadinejad with an anti-import rhetoric and policies in favour of national production and consumption has alienated the mercantile wing of the nexus. The fear of the re-emergence of a new powerful national industrial bourgeoisie, whose interests would be in conflict with commercial capitalism similar to the second Pahlavi era, put many merchants in an uncomfortable position. What is more, the use of the IRGC-controlled ports and airports for importing commodities without paying duty had fuelled the tension and exacerbated further the relationship between the two wings.[158] It is well documented that the political representative of this wing, the traditional right, supported Ahmadinejad initially, but soon after its political organisations and leading figures were criticised by the new political group linked to the IRGC and bonyads, named the *Osoulgaraian* (Principlists).[159] Another indication of the disintegration manifested itself in the escalation of the tensions between the Ahmadinejad administration and a powerful faction of the Majles representing the mercantile wing throughout its presidency.[160] Recognising the tension within the nexus and emboldened by the support from the Majles, the marginalised bazaar coordinated a few days strike in several cities for the first time after the revolution in 2008, opposing the 3 per cent value-added tax on importers and distributors.[161] After years of bewilderment and political zigzag, the mercantile wing finally detached itself from the Principlists and officially supported Rouhani' candidacy in the 2013

158 Rezaei, F. and Moshirabas, S. K. (2018). The Revolutionary Guards: from spoiler to accepter of the nuclear agreement. *British Journal of Middle Eastern Studies*, 45(2), p. 149.

159 Ehteshami, A. and Zweiri, M. (2007), p. 80.

160 Arjomand, S. A. (2009). *After Khomeini: Iran under His Successors*. Oxford: Oxford University Press, p.163.

161 Ibid, p. 123.

presidential election. That is to say, after years of gradual metamorphosis, the bonyad-bazaar nexus has transformed into the military-bonyad complex with the primary objective of the expansion of industrialisation through boosting national production and infrastructure, which is exhibited in the slogan of 'Support for Iranian Products' (Figure 5.1). While the formal, juridical ownership of their enterprises allegedly belongs to the 'downtrodden masses', the real economic owners are the heads of these institutions and directors of the enterprises, therefore constituting the military-bonyad complex as a fraction of the Iranian capitalist class.

So far, by focusing on the social relations of production, I demonstrated that the reorganisation of production in the last three decades has engendered two fractions of the capitalist class. That is to say, rather than a homogenous capitalist class, there are two fractions of capital inside the state with contesting interests, engendering from the neoliberalisation of the economy and in relation and response to the advance of the international and transnational movement of capital. To be more specific, the antagonism has been between a nationally-based capital, the military-bonyad complex, and an internationally-oriented fraction of capital spawning from the Hashemi and Khatami administrations' reforms, whose fundamental goal has been the deepening neoliberal restructuring of the national economy and its full integration into the global economy. In other words, the process of globalisation in Iran has enormous impacts on social class forces engendered by the national production as the former produces for the domestic market, while the latter aims to produce for external markets without integrating yet into GVCs. Because of their different orientations that consequently generated rather different class interests, each fraction has pursued a distinct accumulation strategy. What seems to be logical for each fraction has produced, however, a new highly unstable combined development trajectory by amalgamating the ISI strategy and the EOI strategy in the age of globalisation in Iran. The next section looks at conflicting accumulation strategies of these fractions of capital and the manifestation of what I call 'hybrid neoliberalism'.

5.5. The Case of Hybrid Neoliberalism

To unpack the current form of development, the circuit of capital and accumulation strategy of the internationalist fraction of capital and the military-bonyad complex have to be first observed.[162] Let's start with the internationalist fraction. During the first stage of privatisation from 1991 to 2005, most small and medium-sized and a few large SOEs were privatised as the amount of

[162] To articulate the circuit of the capital of two fractions of the Iranian ruling class, I inspired by Bryan, R. (1987). The state and the internationalisation of capital: An approach to analysis. *Journal of Contemporary Asia*, 17(3), pp. 253-75.

privatisation for this period was far lower than the second phase. Most importantly, besides the creation of over one hundred NIOC spin-off companies, rebuilding the energy sector and the steady increase in the oil and gas revenues throughout the period fuelled the development plans by channelling a substantial amount of the oil incomes towards the industrial sector. Additionally, as elucidated earlier, in line with the priority of the development plans, the government had offered extra incentives to encourage non-oil exports by providing low-rate credit primarily through the Export Development Bank, tax exemptions as well as setting up the Export Promotion Organisation. This set of policies, therefore, stimulated the establishment of more medium-sized (export-oriented) firms. Accordingly, while the number of small firms (10-99 employees) and medium-sized firms (100-499 employees) in the manufacturing sector were 3,894 and 630 in 1991, their quantity witnessed 260 per cent and 170 per cent increase in 2005, reaching 14,036 and 1,704 companies respectively. In contrast, the number of large industrial firms with over 500 employees slightly decreased during this period from 285 firms in 1991 to 278 firms in 2005 (Table 5.2).[163] Two initial points regarding the changes in the mode of production in this period should be emphasised here. First, the composition of industrial products indicates a shift in favour of intermediate goods and against consumer commodities along the lines of the adopted development strategy of EOI. A closer look at the composition of exported mining and industrial goods illuminates a similar trend[164] even though the share of high value-added goods constituted less than five per cent of the total exports.[165] Second, it could be argued that this was a fundamental transformation because the liberalisation led to a conspicuous decline in the petty-commodity activities in favour of modern capitalist social relations of production. Contra the first decade of the revolution, these small and medium-sized firms widely employed an administrative and professional division of labour associated with neoliberalism.

163 To calculate the number of manufacturing firms, I check the statistical yearbooks for various year published by the Statistical Centre of Iran (SCI) with the help of other sources. Generally, the SCI surveys manufacturing units by putting them into three categories based on the number of their workforce: small (10-49 workers), medium (50-99 workers) and large (more than 100 workers). As my measurement for the size of companies differs from the SCI, I use another source, Razaghi, E (1997: p. 312) and to calculate the number of small, medium, and large companies. See Razaghi, E. (1997), p. 312; Islamic Parliament Research Center of The Islamic Republic of Iran. (August/September 2017). An Analysis of the Employment Pattern in the Iranian Industrial Sector. Report no. 15521, p. 13.

164 Delafrouz, M. T. (2014), pp. 135-136.

165 Momeni, F. and Naeb, S. (2017). *Technological transformation and the future of development in Iran* (in Persian). Tehran: Nahadgara Press, p. 95.

Table 5.2 Number of Manufacturing Enterprises with 10 Workers and More

Year	All	10-99 Employees (Small)	100-499 Employees (Medium)	+500 Employees (Large)
1991	4,809	3,894	630	285
2005	16,018	14,036	1,704	278
2014	14,452	11,904	2,162	386

Sources: Statistical Centre of Iran and Parliamentary Reports

The circuit of productive capital of this fraction of the capitalist class indicates an increased level of internationalisation since all production still occurs within Iran, outputs to a large extent are aimed to sell internationally and the realised money capital is reinvested in production within the country. In other words, rather than integrating into the global economy at the level of production, this fraction of capital increased links with the global economy at the level of exchange. It is crucial to bear in mind that the international realisation of products does not, however, mean that all goods are exported since a large number of products are still sold for domestic consumption.

Two observations are worth making in relation to the nature and structure of this fraction of the capitalist class. First, the government intervention has been central for ensuring its accumulation process because not only does their existence depend on the expropriation of public assets either through the privatisation mechanism or appropriation of oil revenues, but also their export-oriented enterprises have become competitive in the global market due to the various forms of assistance provided by the government such as low-cost loans and cheap energy rather than the improvement in their productivity.[166] Put differently, most of the so-called private firms and spin-off companies linked to this fraction of the capitalist class have remained attached to various institutions and ministries to utilise rent out of government resources. It is not difficult to observe that capturing the government through presidential elections has always been the main priority and perhaps the only realistic hope of this crony-capitalist class to endure their rent-seeking behaviour in order to survive.[167]

166 Nili, M. et al. (2012). *The productivity of industry in Iran* (in Persian). Tehran: Donyaye Eghtesad Press, pp. 165-66.

167 In the next chapter, which deals with the form of state and struggles for hegemony in the society, the institutional setup of the state and the link between various institutions and different fractions of capital will be examined at length.

Second, despite controlling the vast majority of small and medium-sized enterprises (SMEs), over 65 per cent of value-added in industrial sector was produced by large firms in 2007,[168] of which almost all were still not privatised or were under the control of the bonyads, thanks to the resistance against large-scale privatisation from powerful revolutionary institutions and foundations. During Ahmadinejad tenure, striking attention given to the creation of large firms by absorbing oil revenues and granting lucrative government contracts at the expense of small-sized firms. Whilst in the industrial sector, for example, the number of small-sized companies decreased by 15 per cent, the number of large firms reached 386 with a 45 per cent growth in 2014.[169] As well as creating more complex-owned mega firms, the shares of many large GOEs were also transferred to the military-bonyad complex. This composition of ownership is not merely limited to the manufacturing sector as it is a common phenomenon in the service sector, commerce, banking and agriculture. According to research conducted by *Shargh,* among 100 top companies in 2017, at least 44 firms belonged to the complex, 43 companies are still categorised as GOEs, and the rest controlled by the 'private sector'.[170] Given the fact that some GOEs in the study are subsidiaries of the National Development Group Investment Co and the Social Security Investment Co that born out of the first phase of privatisation, the number of large firms under the control of the internationalist fraction of capital class could potentially increase to 20, leaving around 35 enterprises owned still by the government. To highlight the prominence of the military-bonyad complex, it is worth noting that more than two-thirds of the top 20 corporations that account for 70 per cent of the TSE market are owned by the complex.[171] Hence, to compete against the monopoly of the complex and enlarge its international market share, the internationalist fraction has historically endeavoured to implement FDI-friendly policies and desperately pursued inward investments from outside. Therefore, I opted for the term 'internationally-oriented' to describe this fraction of capital not because of its market orientation, but also because its long-term survival is deeply dependent on the process of transnationalisation of production and partnership with foreign capital, which I now turn to examine their efforts in this regard.

During the first two development plans, the government aimed to attract Western capital and technology mainly for the energy sector by legislating some forms of foreign *indirect* investment in the framework of Buy Back and Project Financing contracts with relative success. In 1992, in an attempt to attract direct investments from foreign companies, the High Council for Investments

168 Nili, M. et al. (2012), p. 147.

169 Parliamentary Report. (August/September 2017), p. 13.

170 *Shargh*. (21 November 2017). Empire of 'Khosoolatiha', p. 1.

171 Momeni, F. and Naeb, S. (2017), pp. 115-16; *Shargh*. (21 November 2017).

at the Finance Ministry lifted the 49 per cent ownership cap for foreign investors, which dated back to the 1955 Law of Attraction and Protection of Foreign Investment (LAPFI).[172] However, the attempt was ferociously resisted by the complex as in the case of a franchising agreement between Coca-Cola and an Iranian company in 1993. The Mostazafan Foundation labelled the agreement a sign of the infiltration of the Western culture, vowing to 'drive all foreign Coca-Cola plants out of Iran' with God willing.[173] Faced with difficulties to invite foreign investors in the mainland, the government turned to established special economic zones with their own laws and regulations as envisaged in Article 19 of the First Development Plan. Initially, three coastal Free Trade-Industrial Zones (FTZs) of Kish, Qeshm, and Chahbahar were founded in September 1993. This was followed up by the creation of a further three FTZs of Aras, Anzali, and Arvand under the auspices of the Third Development Plan to invite FDI as well as domestic investment to boost non-oil manufacturing exports. Operating under the 'Law on the Administration of Free-Industrial Zones', the government offered full protection and guarantees to foreign investors, twenty-years' tax exemption, and flexible labour laws for hiring and firing workers.[174] At odds with its intentions, the FTZs had become import rather than export platforms during the 1990s. Whilst, the ratio of imports to exports in the following years declined[175] and consequently total exports have surpassed total imports in recent years,[176] the overall amount of FDI have reminded modest in the zones. The total FDI invested in the six FTZs was a mere $2.8 billion between 1993 and 2004.[177] Despite adding another free trade-industrial zone (Maku), overall inward FDI in all these zoned combined together remained constant, amounting to a total of $2.6 billion from 2006 to 2015.[178] Even though the free zones were governed by a special legal framework and special labour laws from the start, the restrictive 1955 LAPFI was seen by internationalist class forces as the major obstacle for the attraction of foreign investors. Prioritising the reform of the legal platform during Khatami's presidency had, therefore, invited a bitter struggle.

172 *New York Times*. (28 June 1992).

173 Head of the Mostazafan Foundation. Cited in Maloney, S. (2015), p. 233.

174 Hakimian, H. (2011). Iran's Free trade zones: Back doors to the international economy?. *Iranian Studies*, 44(6), pp. 855-62.

175 Ibid, p. 863.

176 Deputy for Economic Affairs, Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA) (October/November 2016). Free trade and special economic zones, conditions and requirements, challenges and solutions. Official Report, pp. 20-22.

177 Hakimian, H. (2011), p. 864.

178 ICCIMA Report (October/November 2016), p. 23. In 2016, the Majles gave the go-ahead to the government for the establishment of another 7 Free Trade-Industrial Zones and further 12 Special Economic Zones, reflecting the sanguinity of the internationally-oriented fraction of capital after the nuclear deal. See I*ran Daily*. (15 August 2016). Majles' initial agreement with the creation of 19 free and special economic zones.

In 2001, the reformist-dominated Majles approved a new legal framework for the promotion of FDI but it was vetoed by the Guardian Council based upon the argument that it would 'pave the way for foreign domination of the economy.' The second and third attempts from the Parliament faced the same fate. Amid objections from the Guardian Council, the bill sent to the Expediency Council and finally ratified in May 2002.[179] The Foreign Investment Promotion and Protection Act (FIPPA) eliminates the ownership restriction, guarantees full protections and rights for foreign investors equal to their Iranian counterparts, and assures that investments 'shall not be subjected to expropriation or nationalisation.' Yet, Note (d) of Article 2 of the FIPPA attests the defiance of the bonyads to preserve their monopoly over the national market by applying ceiling on the share of foreign companies in the domestic market. According to the Note, '[t]he ratio of the value of the goods and services produced by Foreign Investments…shall not exceed 25 per cent in each economic sector and 35 per cent in each sub-sector (field).' In line with the interests of the internationalist fraction, it adds that '[f]oreign investment for the production of goods and services for export purposes, other than crude oil, shall be exempted from the aforementioned ratios.'[180] The law complemented by an enormous reduction in corporate tax 'from a high of 68 per cent to a single rate of 25 per cent' in the tax reforms of 2002/03. On a related note and in the hope of becoming a member of the WTO, the Khatami government had taken several other measures to liberalise foreign trade including eliminating all non-tariff barriers and reducing tariffs between 2000 and 2004.[181] Iran's first unsuccessful official application to join the WTO was kept secret at home for fear of opposition from the complex.[182] Two years later, the second bid for accession to the WTO agreement was put aside until 2001 but Iran officially became an observer member in 2005 after the accession process was blocked 21 times by the US during these years.[183] Alongside the unification of exchange rate and financial markets reform, the IMF labelled Khatami's neoliberal reforms as 'progress in streamlining regulations on foreign trade and investment' while still unsatisfied by the slow progress on 'privatisation, subsidy reform, and labour market reform.'[184]

179 Dinmore, G. (5 June 2002). Iran finally passes law on outside investment economic reforms. *Financial Times*. p. 10.

180 See the full text of the FIPPA here: https://www.investiniran.ir/en/ebook

181 Hakimian, H. (2008). Institutional change, policy challenges, and macroeconomic performance: case study of the Islamic Republic of Iran (1979-2004). *World Bank Working Paper*, no. 26, p. 21.

182 *Financial Times*. (31 October 1996). Iran's secret bid to join the WTO, p. 4.

183 Arjomandy, D. (2014). Iranian membership in the World Trade Organization: An unclear future. *Iranian Studies*, 47(6), pp. 939-40

184 IMF. (April 2006). Islamic Republic of Iran: 2005 Article IV Consultation. Country Report, no. 06/154, p.7.

Expecting good years ahead, a German corporation, Henkel, bought 60 per cent stocks of an Iranian company for the first time in 2002.[185] Optimism, however, vanished quickly as other successful bids from foreign investors were blocked by the Seventh Majles in the following years. To build and operate facilities of the newly constructed Imam Khomeini Airport, a Turkish company, Tape-Akfen Vie (TAV), won the tender among 16 foreign and 15 domestic firms including the Ghorb in 2004. A day after its opening by Khatami, the IRGC closed down the airport, declaring that it would not be opened until the Turkish company leaves the Imam Khomeini Airport. After being taken to the Majles for inspection, the contract was cancelled for security reasons and later given to the Ghorb and the NAJA Cooperative Foundation, the economic organisation of the police. Likewise, the agreement with French Hutchinson Group for development of Shahid Raja'i Port was revoked. Seen as responsible for these deals, Ahmad Khorram, the Roads and Transportation Minister, was impeached and removed from his post a few months later by the Majles.[186] Naming another Turkish firm, the Turkcell, the winner of another tender to develop the second operator of cellular phone network generated a new tussle over the FDI in September 2004. By signing a $3 billion contract, the Turkish firm owned 70 per cent stocks of the consortium while another two local Iranian firms controlled the remaining shares. Similar to the previous case, the Majles contested the contract for 'security reservations and problems' and in deliberate disregard for the FIPPA, its shares were reduced to 49 per cent. The following year, the Turkcell share was given to the South African MTN an Irian consortium affiliated to the Mostazafan Foundation granted 51 per cent stake in the project.[187] Whilst security concerns used as pretext to repel foreign investors, the real intention expressed by the then-First Deputy of the Majles, Bahonar, who argued that 'the foreign management of the Imam Khomeini Airport is an insult to the scientific society and the Iranian nation' and stressed that 'we possess evidence that indicates Iranian companies have the ability to carry out such a project [the development of the cellular phone network].'[188] This is lambasted by the proponents of FDI, affirming that besides those who 'apparently out of a compassionate stance for the country's independence' oppose foreign investments, the main group for barricading against FDI consists of those who 'benefit from the import and production of domestically produced junk products.'[189]

185 *Finical Times*. (21 March 2002). First foreign takeover of Iranian group, p. 9.

186 *Shargh*. (21 August 2010). Interview with Ahmad Khorram: Two views prevent the attraction of FDI, p. 4; Prapanchi, M. (1 February 2005). Turkcell: we will leave Iran; the Majles: goodbye. *BBC Persian*. Archival Research.

187 *Kayhan*. (2 November 2016). Repeating the bitter experience of Turkcell in a new contact of the Ministry of Energy; *Fars News Agency*. (21 September 2014). Majles Research Centre: Turkcell contact will have security ramifications for the country.

188 *Jmaejam Online*. (24 September 2004). Different comments regarding the Turkcell contract.

189 *Shargh*. (21 August 2010), p.4.

At last, the Seventh Majles did not revise the new law on foreign direct investment, but it made parliamentary approval mandatory for future deals with foreign firms.

The approval of the FIPPA and other microeconomic reforms during the third plan facilitated the inflows of FDI to the country as it increased by more than 18-fold from $194 million in 2000 to $3.519 billion in 2002. Nevertheless, the suitable legal framework for foreign investments has not led to a further increase in the volume of FDI inflows to Iran in the following years compared to the neighbouring Turkey and Saudi Arabia (Table 5.3) due to the coordinated sabotage from the military-bonyad complex, which was initially orchestrated through the conservative-dominated Seventh Majles and later deteriorated because of Ahmadinejad's aggressive foreign policy and his uncompromising stance regarding the nuclear programme. Despite the optimism of the internationally-oriented fraction after the 2015 nuclear accord, the volume of inward flows has reminded constantly at average $3.5 billion per year due to a specific international conjuncture created following Donald Trump's victory, as we shall see in detail in Chapter 7.

Table 5.3 FDI Inward Flows 2000-2016 (Million US Dollars at current prices)

Year	Iran	Turkey	Saudi Arabia
2000	194	982	183
2002	3 519	1 082	453
2003	2 877	1 702	778
2004	3 037	2 785	1 942
2005	2 889	10 031	12 097
2006	2 318	20 185	18 293
2007	2 018	22 047	24 319
2008	1 980	19 851	39 456
2009	2 983	8 585	36 458
2010	3 649	9 086	29 233
2011	4 277	16 142	16 308
2012	4 662	13 631	12 182
2013	3 050	12 771	8 865
2014	2 105	12 458	8 012
2015	2 050	17 259	8 141

Source: UNCTADStat: http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740

In short, as well as largely controlling the SMEs, the internationalist fraction is the major advocator of the EOI strategy. It is in favour of FDI, but, as shown, despite its attempts, the process of globalisation has largely increased the internationalisation rather transnationalisation in Iran because the production units linked to this fraction are still predominately characterised by local firms that produce for export rather than being integrated into GVCs. This fraction could not be simply described as private capital because many of their so-called private firms are in reality the subsidiaries of various government ministries. With a heavy reliance on the government, this fraction is inclusive of some state officials and their relatives. As it will be elucidated in detail shortly, the heightened exploitation of labour as a result of the deregulation of the labour market in recent decades is another major component of the accumulation strategy of the internationalist fraction of capital (Table 5.4).

On the other hand, the circuit of productive capital in the military-bonyad complex shows that production, realisation and reproduction mostly occur within Iran since all their production plants are based in the country, produced goods are sold in the national market, and realised money capital reinvested within the nation. Unlike the FDI-dependent development strategy of the internationalist wing, the complex does not favour the participation of foreign investors and advocates a domestically-oriented accumulation strategy. The central constituent of its accumulation strategy is that it has inherently a monopolistic character through dominating highly protected big industries. Historically speaking, the structure of bonyads positioned them in a superior situation because of their disproportionate market share and political connections that guaranteed government contracts. Reinvigorated during the Ahmadinejad administration, bonyads alongside the economic machine of the military forces extended their monopoly by employing two strategies. First, it subdued all forms of competition, both at home and from outside. Whilst the internationalist fraction advocated the IMF prescribed policy of the incorporation of TNCs into state monopoly industries through privatisation in order to recover economic growth, the complex exploited the privatisation mechanism by expanding its control over these industries and blocking foreign takeovers through recasting the opposition argument as a facilitator of the foreign domination of the national economy. Second, inspired by the statist development theory, the nationalist fraction of the capitalist class embraced the idea of creation of national corporations similar to those developed in East Asia as it is unequivocally expressed by the chairman of the Setad-affiliated Tadbir Economic Development Group: 'In South Korea, companies like Samsung, LG and Hyundai have had an impact on development. In China, Japan, Brazil, Germany and America it is the same…We saw that in Iran we don't have these large corporations. With this in mind, within the Tadbir Investment Company we started slowly, slowly discussing the strategy of

entering various arenas.'[190] This strategy of development is also evident from the IRGC's economic activities since the Ghorb no longer participates in 'small and medium projects because the domestic private sector is growing' and it 'should replace foreign corporations.'[191] The spokesman of the Revolutionary Guard summarises the two strategies impeccably by arguing that not only the estimated costs of projects by foreign firms are usually multiple times higher than their domestic competitors, but more importantly unlike the common belief their presence does not lead to the importation of technical knowledge and organisational initiatives, adding that 'what the Revolutionary Guard accomplishes is [also] beyond the power of small domestic firms.'[192] To be brief, as it has been shown that in the Iranian industry the bigger an enterprise the lower its level of competitiveness,[193] the military-bonyad complex has utilised both the neoliberal pro-privatisation argument and the revolutionary rhetoric in its advantage to sustain and magnify its monopolised structure in recent years. Frustrated by the advance of the military-bonyad complex, the pioneer of the Iranian structural adjustment, Hashemi, recapitulates its monopolistic tendency when he remorsefully claims that awarding the post-war reconstruction projects to the engineering arm of the IRGC paved the way for its control of 'the pulse of the economy, domestic and foreign politics' to such an extent that now 'it is not contented with less than the whole country.'[194]

Alongside promoting of the deployment of anti-labour policies, the Ahmadinejad government implemented a radical energy subsidiary reform that admired by the IMF as 'a critical step in promoting the transition towards a market-based economy.'[195] After launching a public campaign and winning the support of the Supreme Leader for the initiative, the programme superseded energy subsidies with the distribution of modest cash transfers to nearly all households.[196] These two policies as well as its pro-privatisation rhetoric convinced many commentators and analysists in Iran to label the Ahmadinejad government as 'the most right-wing neoliberal post-revolutionary government', which bluntly supported the Washington Consensus.[197] As examined earlier, the complex took advantage of the privatisation scheme whereby formerly GOEs were transferred to the parastatal organs and the military forces under the name of 'public ownership' without restructuring the firms to survive in competitive markets. With regards to the

190 Afkhami (April 2013). Interview with *Sharqh*. Cited in *Reuters*, Assets of the Ayatollah II.

191 *Kayhan*. (8 July 2011). General Jafari' account of the prominent role of the Ghorb in managing sanctions, p. 3.

192 *Etemad*. (17 September 2013) Interview with the Spokesman of the IRGC, p. 1.

193 Nili, M., et al. (2012), p. 29.

194 Cited in *Etemad*. (26 October 2014). Honeymoon of the IRGC and the government, p.7.

195 IMF. (August 2011). Islamic Republic of Iran: 2011 Article IV Consultation-Staff Report. Country Report, no. 11/241, p. 18.

196 Maloney, S. (2015), pp. 350-53.

197 Sadeghi-Brojeni, K. (2011: pp. 32-35) comprehensively summarises the arguments of these critics regarding the Ahmadinejad's economic policies during his two terms in the office.

overhaul of the subsidy system, it is worth pointing out that cash handouts to the poor have been a defining trait of the revolutionary foundations since the Islamic revolution. In line with their alleged goal of supporting *mostazafin*, the repurposing state subsidies served two objectives for the complex. First, to re-win the political support of the working class and the poor and marginalised strata of the country, whose deteriorating living conditions were attributed to the deleterious effects of neoliberal reforms of the previous administrations. Second, it could be argued that in accordance with the policy of 'support for national production and consumption', the military-bonyad complex expected that pay allowance boosts the consumption of domestically-produced goods. The point is that conceptualising the military-bonyad complex as 'aggressive neoliberals' demonstrates a lack of critical thinking that is incapable of comprehending the complexity of its accumulation strategy. Apart from an aggressive attitude towards the transnational capital and the incorporation into the global economy, which is at odds with the central teachings of neoliberalism,[198] the argument also disregards hitherto tormented experiences of working classes in different parts of the world under various forms of state capitalism, which treated labouring classes as nothing more than a mere instrument of accumulation for the 'grandiose catch-up development'.[199] In light of this, it should be obvious that the military-bonyad complex, while implementing some neoliberal policies, still firmly upholds some policies rooted in the ISI strategy of the 1970s that continued throughout the first decade of the revolution.

Due to the low level of productivity as a result of the relatively poor and to a large degree outdated technologies in the absence of real cooperation with international capital, both fractions have relied on the imposition of highly exploitative working conditions on the working population as the only viable vehicle for capital accumulation. As documented in the previous chapter, independent labour organisations were brutally repressed after the revolution, but secured, full-time jobs more and less guaranteed for workers employed in all SOEs and the public sector until the early 1990s. Since then the labour force has been under an unceasing onslaught from both the internationalist fraction and the nationalist wing of capital for the implementation of a flexible labour market, which is seen as a necessary step for enhancing productivity. There are various estimates for short-term contracts with less than six months, ranging from 80 to 95 per cent of the

198 It is worth emphasising that, apart from the economic contradictions between the autochthonous fraction of the capitalist class and transnational capital, the former also 'occupies a relatively autonomous position in the ideological and political structure, and thus presents a proper unity' (Poulantzas, N. 1974/2008, p. 243). In the next chapter, the distinctive ideology and the associated discourses of the military-bonyad complex and the internationalist fraction of capital will be explored in detail. See Poulantzas, N. (1974/2008). 'Internationalisation of capitalist relations and the nation-state'. In J. Martin (ed.). *The Poulantzas Reader*. London: Verso.

199 Selwyn, B. (2014), pp. 29-53; Selwyn, B. (2013). 'The political economy of development: Statism or Marxism?'. In L. Pradella and T. Marois (eds.). *Polarizing development: Alternatives to neoliberalism and the crisis*. London: Pluto Press, pp. 39-50.

total labour contacts.[200] In a dramatic intervention, the Ministry of Labour reveals that in 2017 over 95 per cent of labourers were employed under causal contracts, of which 90 per cent have the length of shorter than three months.[201]

Table 5.4 Structure and Accumulation Strategy of the Fractions of Capital

Internationalist fraction	**The military-bonyad complex**
❖ Export-oriented	❖ Domestic market oriented
❖ Largely controls SMEs	❖ Largely controls big enterprises
❖ Reliance on government's assistance	❖ Monopolistic
❖ In favour of FDI	❖ Anti-foreign capital
❖ Heightened exploitation of labour	❖ Heightened exploitation of labour

All things considered, it is evident that the varieties of assistance provided by the government for the internationalist fraction point to the fact that the EOI accumulation strategy of this wing of power has directly inherited policies of the pre-1989 industrialisation strategy. Likewise, the military-bonyad complex has engendered a refined form of ISI strategy by adopting a selection of neoliberal policies including the most exploitative labour practices with some policies rooted in the industrialisation strategy of the 1960s to 1980s. In light of this, I argue that the existing general model of development in Iran is the amalgamation of the ISI and the EOI strategy; that is the fusion of two phases of capitalist development in the Global South, the monopolistic state capitalism of the post-1960s and the neoliberal capitalism of the late 1980s onwards. The concurrent presence of the different stages of capitalism in contemporary Iran represents a new condition of hybridity in which it is more than 'the sum of its parts'. To put it in another way, post-Iran-Iraq-war Iran is neither merely neoliberal capitalism nor state capitalism, 'but both and more'[202] as it is an amalgamated socio-economic system and socio-political institutions that peculiarly combined these two phases in its contemporary social formation. Hence, I propose that the concurrent presence of the different stages of capitalism in contemporary Iran is the

200 *Hamdeli Daily*. (30 January 2018). 'Casualisation of labourers' in the triangle of danger, p. 4.

201 *Tasnim News Agency*. (18 July 2017). Terrifying statistics of the Ministry of Labour about causal contracts.

202 Matin, K., and Anievas, A. (2016). *Historical sociology and world history: uneven and combined development over the longue durée*. Rowman & Littlefield International, p. 9.

manifestation of 'hybrid neoliberalism'. As shown throughout the chapter, the hybrid neoliberalism in Iran is the product of the recent process of renovation of production in the context of the uneven development of global capitalism and as a result of the agency of domestic class forces. Returning to the theoretical discussion in Chapter 3 regarding how to conceptualise transitions within capitalism, the use of UCD and capitalist restructuring together helps us to grasp the process of capitalist development in contemporary Iran. Having dealt with it, in what follows, we now turn to explore the ramifications of the latest model of development in Iran for other social classes, in particular, the working class.

5.6. Neoliberal Labour Market and Remaking of Other Classes

After violently suppressing the labour movement during the first few years of the revolution, the independent Workers' Councils were dismantled and replaced by newly formed state-sponsored Islamic Workers' Councils (*shurahaye eslami-e kar*). Workers were also permitted to create Guild Societies (*anjomane-e senfi*) with a similar structure in areas where Islamic workers' councils were lacking. At the top of them, the Workers' House (*khaneh-e karegar*) was constituted as 'a self-appointed federating 'union' with the financial and logistical support of the government.'[203] Despite a complete agreement over destroying any attempt for the construction of independent labour organisations, the formulation of a new labour law generated several years of struggle between the strata of managers of the state and the bonyad-bazaar nexus in the first decade of the revolution. After rejecting the first draft in 1982, which led to the forced resignation of the labour minister, a new draft was finally passed by the Majles in 1987. Upholding a traditional interpretation of Islam about workers' rights and state regulations on contractual relations between workers and employers, the Guardian Council raised 74 Shari'a law objections on the bill. Several revisions by the Majles from 1987 and 1990 had produced similar outcomes. Nevertheless, the disagreement was ultimately resolved by the intervention from the Expediency Council, which ratified the new labour law in November 1990.[204]

While avoiding the term 'trade union', the Labour Law recognises collective bargaining (Article 139) and the right to organise only through 'Islamic labour councils, guild societies or workers' representatives' (Article 131). The right to strike is not also explicitly recognised but it ambiguously acknowledges the 'stoppage of work while the workers are present in the workplace'

[203] Nomani, F. and Behdad, S. (2012). Labour rights and the democracy movement in Iran: Building a social democracy. *Northwestern Journal of International Human Rights*, 10(4), pp. 220-21.

[204] Hesam, F. (2002). The labour law; the crystallisation of social policy in the field of labour relations (in Persian). *Goftogoo*, 35, p. 25.

(Article 142). As well as outlawing child labour (Article 79), the Labour Law imposes stringent restrictions on firing workers by subjecting the termination of employment contracts to the agreement of Islamic labour councils or guild societies. In the presence of a disagreement between two wings, the law mandates the dispute shall be settled by the Board of Inquiry and the Disputes Board (Article 27). Further, the law stipulates paid maternity leave, feeding time and day care services at the workplace (Article 76) and requires the provision of housing, sports and training facilities for workers in large enterprises. Recognising these rights lead to the conclusion by proponents of liberalisation that the Labour Law is the greatest obstacle to the pro-market restructuring of the economy and a barrier to the attraction of investments both from home and abroad. Accordingly, the first attempt to amend the Labour Law in the second part of the 1990s excluded small-scale enterprises with less than five workers from the provision of the law. Similarly, in early 2003, the Khatami government followed this trend by legalising the exclusion of enterprises with fewer than ten workers from the provision of the Labour Law. In both attempts, it was argued that Article 191 of the law allows this exemption on the basis of the approval from the Council of Ministers. In 2006, the Ahmadinejad administration also tried to fundamentally revise the Labour Law by arguing that 'the amendment would enhance productivity, allowing employers to dismiss permanent workers without penalty by paying sizable severance fees' and increasing job security by encouraging job creation.[205] In the end, these efforts to entirely redraft the law and make it more business-friendly did not materialise for two reasons: first, because the existing law is not completely in the side of workers and; second, perhaps more importantly, in reality, it has always only been partially implemented, if at all.

To begin with, the Labour Law has numerous articles in support of employers, which demonstrates its contradictory nature as it was the product of a prolonged struggle. Article 7 of the law about employment contracts recognises the recruitment of employees both on 'a definite and an infinite period', i.e. legitimising both temporary and permanent contracts. Article 11 complements Article 7 by permitting short-term contracts under the name of the 'probationary period of work' with maximum duration of one month for unskilled and semi-skilled workers and three months for skilled and specialised workers during which the contract can be terminated by either party 'without prior notice and without being obliged to pay compensation.'[206] Many labour activists argue that these two articles have facilitated workforce casualisation since the start of the structural adjustment programme through which employers have turned permanent jobs into a

[205] Maloney, S. (2015), pp. 331-32.

[206] To access the English translation of the labour law see the website of the International Labour Office: http://www.ilo.org/dyn/natlex/docs/WEBTEXT/21843/64830/E90IRN01.htm

series of temporary contracts. Undoubtedly, these loopholes in the current law have had negative impacts on labour relations but precarity in the labour market, which has reached unprecedented levels in recent years, is, arguably, the result of the adoption of the ideology by both fractions of capital that contends a flexible labour market would increase productivity. At least two factors help to achieve this goal without redrafting the Labour Law. First, the non-existence of independent trade unions that can defend workers' rights and fully enforce the law has deteriorated work conditions and left workers vulnerable to the demands of employers. According to a study, in the case of dissolution of work contracts and firing of workers, the Disputes Board had voted in favour of employers in 75 per cent of cases from 1992 to 2002 as the official workers' representatives were reluctant to take their side.[207] Although there is little information regarding the issue since then, it could be argued that the situation has aggravated, especially during Ahmadinejad's presidency as his government endeavoured to bring even the state-sponsored labour organisations to its total control. It is true that the minimal opening of the political space during the reign of the reformists paved the way for the formation of independent trade unions, which brought about a few labour committees, councils, and syndicates such as the Vahed Bus Workers Syndicate.[208] Yet, with Chapter VI of the Labour Law and non-ratification of the International Labour Organization conventions, including the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98), any hope of the recognition of these organisations faded away. In fact, during this Khatami presidency, workers' defensive demands and peaceful protests were brutally suppressed by the security forces, resulting in several deaths and a few hundred casualties and arrests.[209] Second, the Iranian reserve army of labour has continuously grown in recent decades as the unemployed population increased from 1.5 million in 1996 to 3.3 million in 2016.[210] Hence, many essential protections envisaged in the law are not upheld such as minimum wage, social security, normal working hours and a safe working environment. In other words, the unemployment crisis has lowered upward pressure on wages and decreased the bargaining power of workers, leading to the acceptance of low wages and deprivation from the social security scheme by many workers. In addition to these two determinants, a minor amendment of the law legalising the exclusion of small-scale enterprises with initially fewer than five and then ten workers from the provision of the Labour Law has contributed to a significant increase in the number of precarious and low-paid

207 Cited in Hesam, F. (2002), p. 29.

208 *Problematica*. (14 December 2015). Interview with Mohsen Hakimi (Labour Activists): Experiences and Prospect of Independent Labour Organisations.

209 Nomani, F. and Behdad, S. (2012), pp. 221-25.

210 Statistical Centre of Iran. Statistical Yearbooks (1996/1997 and 2015/2016).

jobs because the majority of enterprises in Iran have fewer than ten employees with the highest percentage of job creation in recent years.[211] This has also eased the conditions for the expansion of child and forced labour in practice, which is forbidden in the law. The parliamentary research centre in September 2012 estimated that among the 3.25 million children out of school more than 90 per cent were working.[212] Unofficial figures produced by NGOs estimate that the number of child workers is likely to be as high as 7 million.[213] And Iran currently is among the top ten countries with the highest prevalence of modern slavery in the world.[214]

The structural changes in the social relations of production since the early 1990s has changed the composition of the Iranian working class. Even though the share of the working class to the total employed workforce has more and less remained unchanged (Table 5.5), it has qualitatively witnessed a transformation since the number of public sector workers (most notably the military and paramilitary forces after the end of the war) has declined and the size of blue-collar workers has dramatically increased. In 1986, military and paramilitary forces constituted around 26 per cent of the working class (1.2 million), but two decades later its size substantially declined and reduced to 8 per cent of the working class (690 thousand). In short, While the percentages are almost identical, the size of the working class increased from 4.5 million in 1986 to 9.5 million in 2016. Indicating the deregulation of the labour market in line with neoliberal economic policies, the most prominent transformation in the composition of the working class, however, has been the constitution of the precariat as the largest group within the Iranian working class. In the most optimistic forecast, it is estimated that more than 85 per cent of workers work under short-term contracts. What is more, multiple jobholding and 12 hours work a day have become a norm in the labour market.[215]

211 Islamic Parliament Research Center of the Islamic Republic of Iran. (June/July 2017). Probing the employment increase in 2015 and 2016. Report, no. 15431, p. 23. In recent years, the SCI has ended collecting data about enterprises with less than 10 workers since 2002, but there is a consensus among researchers and policymakers that at least 80 per cent of Iranian enterprises in all economic sectors have fewer than 10 employees.

212 Cited on *Human Right Watch*. (30 April 2013). Iran: Government Trampling Workers' Rights Campaign Highlights Labour Concerns on International Workers' Day.

213 *Tasnim News Agency*. (27 September 2017). Child labour statistics rage from 3 to 7 million.

214 *Global Slavery Index*. (2018). Annual Report.

215 Khairollahi, A. (2018). The political economy of the 'crisis' of social security in Iran (in Persian). *Journal of Critique of Political Economy*, 5, pp. 40-41.

Table 5.5 Class Composition of Employed Workforce (in 1,000 and %)

	1986	1996	2006	2016
Capitalists	68 (0.6%)	106 (0.7%)	306 (1.5%)	163 (0.7%)
Working Class	4,553 (41.4%)	5,997 (41.1%)	7,979 (39.0%)	9,563 (42.3%)
Petty Bourgeoisie	4,663 (42.4%)	5,621 (38.6%)	8,590 (41.9%)	8,799 (39.0%)
Middle Class	774 (7.0%)	1,588 (10.9%)	2,531 (12.4%)	2,866 (12.7%)
Unpaid Family Workers	484 (4.4%)	797 (5.5%)	683 (3.3%)	1,198 (5.5%)
Unspecified	458 (4.2%)	463 (3.2%)	387 (1.9%)	-

Source: Calculated from the Statistical Centre of Iran Censuses for 1886, 1996, 2006, and 2016

As conceptually discussed in Chapter 3, alongside the capitalist class and working class, petty-bourgeoisie and middle class are other important social classes. One eye-catching transformation in the class reconfiguration of the society during the first decade of the revolution was the absolute increase in the size of the petty bourgeoisie. Although the petty bourgeoisie superseded the working class as the largest social class during the 1980s, in the subsequent decades the working class regained its position as a result of the liberalisation of the economy and became the largest class with the share of 42 per cent the employed workforce compared to the 39 per cent share of the petty bourgeoisie in 2016 (Table 5.5). Moreover, the reforms of the social relations of production to some extent enlarged the size of the middle class from 7 per cent of the workforce population in 1986 to around nearly 13 per cent in 2016. The growth of this class reflects the increase in the number of medium-sized and large firms with a complex organization and skilled workers throughout the years of the market-oriented reforms.

The neoliberal restructuring of the economy, especially since the mid-1990s, has also engendered a new class, which I call the 'new poor'. Unlike the Iranian traditional poor – who largely reside in rural areas and small cities or are rural migrants in big cities and to a degree are under the support of the welfare organisations such as the Imam Khomeini Relief Committee, the Mostazafan Foundation, and the Social Security Organisation – young people in the age group of 15-29 years with a university degree constitutes the new poor. Due to the high fertility rate of the 1980s and the introduction of private universities a decade later, the number of the university graduated population has astronomically increased. For instance, whilst the total number of

university students in the 1996-97 academic year was nearly 580,000, less than two decades later there were 4.8 million university students in the 2014-15 academic year.[216] Consequently, the share of the young graduated population from the total unemployed population witnessed a steady growth from 10 per cent in 2001 to 20 per cent in 2005 (535,000) and 41.5 per cent in 2015 (1.13 million), with the expectation to be 50 per cent in the near future. Meanwhile, in 2005, 6.32 per cent (2.12 million) of the economically inactive population held a higher education degree. Ten years later, 14.25 per cent (5.7 million) of the economically inactive population had university degrees. Thus, it could be concluded that the population of the new poor in the course of a decade increased from 2.6 million in 2005 to 6.8 million in 2015.[217] Pushed by the harsh realities of the economic conditions, many members of the new poor subsist on family support or live in slums and squatter settlements.

All facts considered, it would be fair to argue that the market liberalisation in Iran has produced the sharp rise in precarity, the expansion of absolute poverty, widespread child labour, the concentration of wealth in the hands of a few, and widening inequality. Since 1994, the average income of the richest 10 per cent of the population has been about fifteen times that of the poorest ten per cent. At the same time period, while the top 20 per cent (the capitalist class, the middle class and the upper strata of the petty bourgeoisie) accounted for 48.5 per cent of the income share on average, the lowest 20 per cent held as little as 5.5 per cent.[218] Perhaps, the most shocking phenomenon as a result of the transformation in the mode of production has been the striking increase in the number of those who live in extreme poverty. According to the head of the Imam Khomeini Relief Committee, 'currently, 1.5 deciles of the society (10 to 12 million people) live in absolute poverty', testifying that the number will be between 16 to 20 million (25 per cent of the population) if the extreme poverty line is measured slightly higher.[219]

While certainly not disputing the significance of corruption or mismanagement, the explanation of the process based on this analytical framework is highly problematic. For the channel of enormous wealth originated in the export of hydrocarbons and the transfer of the ownership of SOEs through polices of privatisation to reconstruct the ruling class cannot be fully grasped through the corruption lens since the same people are more or less in charge of the so-

216 Statistical Centre of Iran, Statistical Yearbook for 2015, p. 678.

217 To calculate the size of the new poor, I used three parliamentary reports: Islamic Parliament Research Center of the Islamic Republic of Iran. (August/September 2016). Unemployment, Employment, and the Labour Market. Report no. 14978, p. 13; Islamic Parliament Research Center of the Islamic Republic of Iran. (June/July 2017). Probing the employment increase in 2015 and 2016. Report no. 15431, pp. 18-19; Islamic Parliament Research Center of the Islamic Republic of Iran. (August/September 2017). An analysis of the pattern of employment in the Iranian industrial sector. Report no. 15521, p.5.

218 Data generated from the World Development Indicators of the World Bank.

219 *Resalat.* (18 September 2017). Fattah: 12 million people live in absolute poverty, p. 10.

called 'private' and 'publicly-owned' enterprises. Nor can this explanatory formula equip us to understand the logic behind the redistribution of wealth from the poor to the rich by implementing labour market deregulation and cutting off state subsidies. As argued in Chapter 3 that the economic doctrine of neoliberalism has been the ideological backbone of the new material structure of global capitalism, neoliberalism in Iran has also emerged out of the necessity of the reorganisation of the system to recover capital accumulation and reconstitute class power in favour of the ruling class.

5.7. Conclusion

Against the explanation of the global as a process or force that exists externally to the local and the pervasive approaches that privilege the national space as the ultimate terrain for the interpretation of social phenomena, this chapter reiterated the necessity for moving beyond the analytical distinction between the internal and external in the study of neoliberal restructuring in Iran. Based upon the conceptual framework of the thesis, it substantiated that Iranian neoliberalisation has to be viewed as a part of the global response to the crisis of capital accumulation. It has furthermore demonstrated that the post-revolutionary class structure and the agency of local forces have played indispensable roles in the initiation and destination of the neoliberal reforms from above. This dialectical interaction has led to the reinforcement of links between the country's economy and the global market at the exchange level and the transformation in the class structure. Besides reshaping the working class, middle class, petty bourgeoisie and creating the new poor, the Iranian neoliberalisation has also fundamentally reshuffled the composition of the ruling class. It has given rise to the emergence of the internationalist capitalist class fraction with focus on the growth of non-oil exports and the opening up of the market for foreign capital as well as the institution of the powerful anti-foreign capital fraction of the military-bonyad complex. In a nutshell, the top-down neoliberal restructuring has produced the fierce antagonism between the fraction of capital linked to small and medium-sized export-oriented firms and the monopolistic fraction in control of large firms that produce for the national market.

The chapter further illuminated how this interplay between global and local has shaped the outcome of the process. In other words, although neoliberal restructuring in Iran has thrown up tensions and contradictions that have been seen throughout the world, it showed that it has produced a unique form of development. Hybrid neoliberalism was conceptualised as the amalgamation of the ISI state-led development strategy of the post-1960s and the EOI strategy that has been attempted to implement since the end of the war with Iraq. The revelation of the

Iranian condition of hybridity that rejected a pronounced distinction between different stages of capitalism could potentially open up a new horizon for sophisticated historiography of recent capitalist development in the Global South. Nonetheless, as argued in Chapter 3 that concrete cases of combination occur in territorial confines of states, it should be stressed that hybrid neoliberalism limits to certain societies. In this way, it is possible to widen the geographical scope of the notion without proposing a general law that is not sensitive to historical specificity. Drawing on the findings of this first level of activity of the historical materialist approach of the study, the next chapter will investigate the form of state and the struggle for hegemony at the societal level.

Chapter Six

State and Society: Institutions, Ideas and Class Struggle in Contemporary Iran

6.1. Introduction

Because of its principal focus on state policies, the previous chapter touched upon the subject of the state form, shedding light on the fact the two fractions have often been in a ferocious fight for the control of the state. Nonetheless, this fleeting overview did not provide a detailed account of the contemporary form of the Iranian state, which is the central objective of the second level of analysis of the thesis as outlined in Chapter 3. The first aim of the chapter is to determine the extent to which the abovementioned changes in the relations of production and class structure have rearranged the institutional setup of the state. Put differently, the chapter intends to substantiate whether the current form of the Iranian state significantly differs from the revolutionary form of state between 1979 and 1989. Secondly, by challenging the strict separation of political society (formal institutions) and civil society and then unpacking the relationship between ideas and material structure, the chapter focuses on the struggles of the internationalist and nationalist fraction of capital for hegemony at the societal level.

The chapter argues that whilst there is some degree of continuity, the institutional setup of the state has gone through a conspicuous transformation as a result of the reorganisation of the economic structure of the society. Unlike the mainstream conceptualisations of the Iranian state as a constellation of institutions above social classes and society or interpersonal relations, the state is thus defined as the condensation of relationship of class forces and a strategic site of struggle through which the internationalist fraction and the military-bonyad complex have utilised and modified state apparatuses/institutions to realise their interests. It contends that the Iranian state is not a government within a government, as often claimed, but a contradictory unity of a set of institutions that reflects the fragile and trembling balance of power within the state. In respect of the second objective, the chapter relates the emergence of the post-1990s liberal/reformist interpretation of Islam and re-articulation of the revolutionary discourse of Islam to the material interests of these fractions of the ruling class. The claim is not to dismiss the existence of these interpretations before the current era but to attest that these ideas have been realised as they have found their justifications in the economic reality of contemporary Iran. Although the role of these discourses is considered to be indispensable, it further maintains that to fully grasp the struggle for

hegemony the incorporation of the material demands of other classes in the institutional materiality of the state by the two wings of the ruling class should not be neglected. Hence, by employing the 'ideological-coercive-material matrix', the Green Movement, as the perfect illustration of societal struggle for hegemony, is characterised as the alliance-compromise of the two fractions of capital with other classes to nullify the supremacy of the rival, crystallising the impasse of the outright control of the state by one fraction and the actuality of minimal hegemony over the society. Finally, in the light of recent unrests, while the chapter concedes that the ongoing labour protests might have facilitated some degree of class consciousness, it calls into question the *formation* of the Iranian working class.

The remainder of the chapter is organised as follows. The next section problematises the existing theorisations of the Iranian state and provides a historical materialist framework whereby the state is to be understood. The third section surveys the effects of neoliberal restructuring on the state apparatuses and institutions, documenting the establishment of new structures, as well as the transformation in the function of the previously existing bodies, due to the struggle of the emerging fractions of the ruling class. The following section focuses on the role of ideas in the struggle for state power, endeavours to answer *why*, *how*, and by *whom* different interpretations of Islam have been articulated and realised since the beginning of the 1990s. The penultimate section scrutinises societal struggles for hegemony by looking at the 2009-2011 Green Movement and the 2017-2019 protests. The former is chosen to signify the importance of ideas, coercive measures, and material interests in the analysis of the struggle of the dominant fractions of capital for hegemony. The latter explores the possibility of the formation of Iranian working class, i.e. the conversion from the class as an *economic category* to the class as a *political subject* following a drastic surge in the number of protests and strikes in the last two years. After briefly reviewing the arguments of the chapter, the final section draws the road for the final empirical chapter of the thesis that probes the tensions surrounding the nuclear program and its relation to the process of neoliberalisation.

6.2. Theorising the Iranian State

Conventional conceptualisations of the structure and form of the Iranian state are largely formulated by mainstream IR and political science approaches. It is no secret that, by focusing on security and geopolitical issues, the domestic structure is taken out of the equation by structural realist perspective since a transhistorical international structure is considered to be the underlying

determent of the immutable form of the state.[1] It follows from this parsimonious model of analysis that the state is a 'billiard ball' that pursues either deterrence or (regional/global) hegemony as in the case of various structural realist studies regarding the nature and actions of Iran in the international system.[2] Accordingly, the state centricity of this account produces ahistorical analyses due to its disregard for the state/society complex, which plays an indispensable role in the formation of different types of state in different historical epochs. Dissatisfied with the structural realist approach due to its exclusion of domestic determinants and ideational factors, divergent strains of social constructivism evaluate the Iranian state as a homogenous unit with a singular revolutionary identity that dictates its actions in the global constellation of states.[3] However, besides neglecting the material structure of ideology, which will be explained shortly, the conception of the state in these accounts, as argued in Chapter 2, also reproduces the state-centric premise of neorealism.

On the other hand, most political science analyses challenging the unitary understandings of the state by identifying the multiplicity of power centres within the state, suffer from an excessive degree of voluntariness, an inability to incorporate non-elite interests in the analysis and methodological nationalism. In *Who Rules Iran: The Structure of Power in the Islamic Republic*, Wilfried Buchta argues that rather than looking at a single group or person to grasp the political system in Iran, the emphasis has to be on both formal and informal power centres. Grounding in the constitution and in governmental regulations, the formal power centre manifests itself in state institutions and offices that engenders some powerful political elites. The members of political elites, however, do not confine to those in charge of the formal positions since many of them gain their power positions through personal patronage links. The informal power centre thus includes powerful political clerics, senior non-clerical governmental functionaries and administrators, members of semi-autonomous revolutionary foundations and influential individuals and groups positioned between the regime and civil society.[4] To expand Buchta's analysis, Eva Rakel deploys the concept of the 'politically relevant elites'[5] in an attempt to encompass those with discursive

1 In the current chapter, I shall restrict myself to the issue of the state. In the next chapter, however, I challenge this assumption by demonstrating the necessity of considering the interaction of internal and international factors when it comes to security and geopolitical tensions in a nuanced interpretation about the internal relation of geopolitics and capitalist development.

2 Waltz, K. (2012); Bowen, W. Q. and Kidd, J. (2004); Rahigh-Aghsan, A. and Jakobsen, P. (2010).

3 Moshirzadeh, H. (2007); Behravesh, M. (2011), pp. 327-347; Warnnar, M. (2013).

4 Buchta, W. (2001). *Who rules Iran? The structure of power in the Islamic Republic*. Washington, DC: Washington Institute for Near East Policy, pp. xi-xii. Similarly, Hamid Yeganeh points to these formal and informal power centres in his study of the power structure in Iran. See Yeganeh, H. (2015). *Making sense of Iranian society, culture, and business*. New York: Business Expert Press.

5 Rakel, E. P. (2008). *Power, Islam, and political elite in Iran*. Leiden: Brill; Rakel, E. P. (2009). The political elite in the Islamic Republic of Iran: From Khomeini to Ahmadinejad. *Comparative Studies of South Asia, Africa and the Middle East*, 29(1), pp. 105-25. Mehrzad Boroujerdi and Kourosh Rahimkhani also deploy the concept of politically relevant elites in their study of Iran's post-revolutionary

influences in the process of decision-making and policy formation, by virtue not of their strategic positions in powerful organisations, but their location in civil society. Hierarchically ordered, therefore, the Iranian politically relevant elites are put in three concentric centres, namely the inner circle which is occupied by political elites responsible for strategic decisions, the second circle is constituted of administrative elites, and the third circle consisted of discursive elites. In the political arena, the author notes, these elites, represented by the conservative, the pragmatist, and the reformist factions, engage in ideological struggles over domestic and foreign issues for political influence and economic privileges.[6]

Broadly speaking, the flaw of this model of conceptualisation of the Iranian state is threefold. First, by putting too much emphasis on ideology and interests of political elites, these scholars are in danger of producing an excessively voluntarist account of power, incapable of seeing the state as an institutional structure that largely restrains rather than loosens decision-makers from acting according to their whims. Unable to comprehend the state as 'an objective structure', we never know the place and function of the state apparatuses/institutions and their operators in the process of the reproduction of socio-political domination. This is because the state is to a large extent reduced to *inter-personal relations* of the members of groups that are in charge of and operate over the formal and informal state apparatuses and institutions.[7] In the case of Iran, this voluntarist conceptualisation is even more problematic as 'the separation of the economic and the political' in the Iranian capitalism has been less pronounced since most of the directors and owners of enterprises are currently taking or have in the past held state offices.[8] Second, concentrating on the interests of political elites leaves no room for the incorporation of outside interests in their theory of the state, thereby insinuating that the Iranian elites act 'in something of a social void'. Stuck largely with the analysis of the intra-elite relationships, social classes 'are not taken into account in the explanation of political domination since they are considered aggregates that are overly broad and/or they do not ultimately produce politically important effects.'[9] Finally, this elitist perspective offers an internalist conception of the state whereby the role of 'the international'

power structure. See, Boroujerdi, M. and Rahimkhani, K. (2018). *Postrevolutionary Iran: A political handbook*. Syracuse: Syracuse University Press.

6 Rakel, E. P. (2008), p. 49. Anoushiravan Ehteshami could be also categorised as part of this current. See Ehteshami, A. (2017). *Iran: Stuck in Transition*. London: Routledge.

7 Poulantzas, N. (1969/2008). 'The problem of the capitalist state'. In J. Martin (ed.). *The Poulantzas reader*: London: Verso, p. 175.

8 My claim here that the moment of coercion is not totally separated from the moment of appropriation of surplus value goes against Ellen Meiksins Wood's central argument developed in her thought-provoking but a highly contentious essay (1981). There, Wood claims that the economic and political are separately in capitalism unlike previous modes of production, meaning that appropriators do not possess the direct political powers to subordinate producers. See Wood, E. M. (1981). The separation of the economic and the political in capitalism. *New Left Review*, I/127, pp. 66-95.

9 Codato, A. and Perissinotto, R. M. (2011). Marxism and elitism: Two opposite social analysis models?. *Rev. bras. Ci. Soc.* vol.5 no.se, p. 7.

and intersocietal relations are generally neglected and everything is often reduced to the exceptionality of the nature of the post-revolutionary state, its institutions and its interpersonal networks. As the previous chapter showed, the new global structure of capital accumulation has exercised a conclusive role in the constitution and reconfiguration of domestic classes and the state's policies. A significant sway that consequently demonstrates itself in the institutional setup and the ideological composition of the state since the late 1980s, which will be explored in detail shortly.

An alternative definition of state power could be the capacity of social classes to realise their interests through state apparatuses/institutions. Here, the function of the state is understood on the ground of the objective links between these institutions and the class structure of the society.[10] From this perspective, since the foundation of power is conceived to be originated in class relations, these institutions and apparatuses thereby do not possess any power of their own, but rather they 'materialise and concentrate class relations.' Nor interpersonal relations could be seen as the source of power without their links to class relations. This implies that the role of state apparatuses/institutions in the accumulation of capital, reproduction social relations of production and representation of class interests is not a function of their 'intrinsic nature', but depends on '*social classes which hold power*.'[11] Put differently, 'state institutions are political arenas for the exercise of class power and exit at such only by virtue of their functional role in the capitalist mode of production.'[12] This leads us to a strategic-relational definition of the state because 'like 'capital', *it is rather a relationship of forces, or more precisely the material condensation of such a relationship among classes and class fractions, such as this is expressed within the State in a necessarily specific form.*'[13] At the same time, it is also a 'strategic site of the organisation of the dominant class in its relationship to the dominated classes.'[14] Another significant element in defining the state is that this condensation of a relationship of class forces and a strategic site of the exercise of power include two inseparable realms of the 'political society' including state's apparatuses and institutions (government, judiciary, and coercive apparatus) and the 'civil society' that consists of media, education, and non-governmental institutions and organisations. The latter constituent of the definition of the state puts me at odds with another group of scholars who still firmly upholds the dichotomisation of

10 Ibid, p. 2.

11 Poulantzas, N. (1975). *Classes in contemporary capitalism*. Trans. Fernbach, D. London: New Left Books, pp. 26-27; Poulantzas, N. (1973). *Political power and social classes*. Trans. O'Hagan, T. London: New Left Books, p. 115.

12 Barrow, C. W. (2011). '(Re)reading Poulantzas: State theory and the epistemologies of structuralism'. In A. Gallas, et al. (eds.). *Reading Poulantzas*. London: The Marlin Press, p. 33.

13 Poulantzas, N. (1978), pp. 128-29.

14 Ibid, p. 148.

the state and the civil society in their studies of contemporary Iranian society and state. This narrow, juridical understanding of the state is not merely limited to many liberals,[15] as it is surprisingly present in the work of those who are influenced by post-structuralism. The most notable is Arshin Adib-Moghaddam whose Foucault-inspired approach excludes civil society organizations from being part of the state by restraining the state to formal apparatuses and institutions, thereby claiming that other forms of power exist outside the state.[16] In reality, however, as it will be disclosed below, these sites of power 'are all the more sites of power in that they are included in the strategic field of the state' and thus they are not wholly outside the state.[17] What is more, considering the transformation of global capitalism in recent decades, there is a need to assert that the state is the condensation of a relationship forces and the strategic field of exercise of power between different fractions of capital and labour, namely national, internationally-oriented, and transnational.

How, one might ask now, does this definition of the state not reproduce the one-dimensional elite-masses relationships in another form? This question nicely links us to the issue of the role of the state with regards to the dominated classes, which is essential in the definition of the state. According to Poulantzas, by virtue of enjoying a *relative autonomy* from given capital fractions, the state's role concerning the dominant class is primarily one of organisation/unification. It is critical to keep in mind that the relative autonomy of the state means distancing from 'short-term, particular interests' of a given capital fraction for the sake of the 'long-term, global hegemony' over dominated classes, i.e. the everlasting reproduction of capitalist social relations of production. This ultimate task of the state is often fulfilled by 'bringing the power bloc and certain dominated classes into a (viable) game of provisional compromises' whereby the dominated classes are disorganised and divided.[18] Because '[t]he resulting alliances-compromises and relationship of forces are embodied in the structure of the particular state apparatus',[19] the incorporation and representation of outside interests within the state are conceivable; a crucial point that helps us to move beyond the conventional elite-masses relationships. The existence of the masses in the state, however, is rather different from the ruling class because, unlike the latter, the control of apparatuses and branches of the state is essentially unfeasible for the former. What

15 Jahanbegloo, R. (2011a). *Civil society and democracy in Iran*. New York: Lexington Books; Boroumand, L. and Boroumand, R. (2000). Illusion and reality of civil society in Iran: An ideological debate. *Social Research*, 67(2), pp. 302-44.

16 Adib-Moghaddam, A. (2006). The pluralistic momentum in Iran and the future of the reform movement. *Third World Quarterly*, 27(4), pp. 665-74.

17 Poulantzas, N. (1978), pp. 36-37.

18 Ibid, p. 140.

19 Ibid, p. 142.

often happens is that the struggles of the dominated classes 'are inscribed in the institutional materiality of the State, even though they are not concluded in it' by guaranteeing certain material demands of the masses due to the disunity among the ruling class. Accordingly, various fractions of capital might join forces with particular strata of the working class, urban and rural poor, and petty bourgeoisie 'in order either to impose solutions more to their advantage, or to put up more effective resistance to solutions which favour other fractions over and above themselves.'[20] This incorporation of the material interests of the popular masses into the state's agenda has also the advantage of opposing a reductionist conceptualisation of their relationship to 'the couplet repression-ideology.' Although ideological allurement undoubtedly is always part and parcel of the practice of the state, the material substratum for mass consensus should not simply be reduced to propaganda, which presupposes 'a uniformly mystifying discourse' of the ruling class. Because, as a condensation of a relation of forces, the state does not have a unified ideology and discourse since it adopts the discourses of various fractions of ruling class and incarnates them in its apparatuses depending on the balance of class power within the state.[21] In what follows, I strive to deploy this notion of the state to historicise the Iranian state in order to examine whether its activities 'are *functionally adequate* for capital accumulation and political class domination and how this functional adequacy is achieved (or not)' in the current conjuncture 'through specific strategies and policies promoted by particular social forces.'[22] The first step towards this goal is a thorough investigation of the institutional setup of the state and the links between these institutions and the two main fractions of capital.

6.3. Class Power and the Institutional Setup of the Iranian State

In the previous chapter, it was demonstrated how the process of Iranian neoliberalisation, which began in the late 1980s, has restructured social relations of production that led to the formation of the internationalist fraction of capital and the military-bonyad complex. Drawing on the definition of the state outlined above, I now turn to the ways in which these fractions of the ruling class control state power and operate over the state institutions and apparatuses. While the military-bonyad complex is in charge of mostly unelected institutions, the internationally-oriented wing is left with the option of the struggle for grabbing the elected institutions. In the first place, this substantially conspicuous splitting up of the state's institutions between the two fractions is rooted

[20] Ibid, p. 144.

[21] Ibid, pp. 31-2.

[22] Jessop, B. (2011). 'Poulantzas's State, Power, Socialism as a modern classic'. In A. Gallas, et al. (eds.). *Reading Poulantzas*. London: The Marlin Press, p. 42

in the structure of the state that developed during the first decade of the Revolution through which the strata of managers of the state was running the government bureaucracy and the majority of elected institutions whereas the bonyad-bazaar nexus had largely operated through appointed revolutionary institutions and foundations. Considering that the military-bonyad complex was the product of the gradual metamorphosis of the bonyad-bazaar nexus and the internationalist fraction was to a large degree spawned out of the strata of managers of the state, the continuity of this institutional division of power should come as no surprise. Nevertheless, the continuation of the preceding structure could explain the present situation up to a certain level since the institutional setup of the state has witnessed meaningful modifications in response to the changes in the relations of production and the composition of the dominant classes.

The military-bonyad complex commands and dominates the most powerful state institution, the office of the Supreme Leader. Endowed with wide-ranging authority by the constitution based on the idea of the guardianship of the jurist (*velayat-e faqih*), the Supreme Leader delineates general policies of the state, supervises policy execution, declares war and peace and commands the armed forces. This extensive power puts the Supreme Leader in a position to appoint and dismiss many crucial offices of the state including the head of the judiciary, the commanders of the Revolutionary Guard and the regular army (*artesh*), the chief of the Law Enforcement Forces (*niroo-e entezami*), the heads of the revolutionary and religious foundations (*bonyads*), the head of the Islamic Republic of Iran Broadcasting and the Islamic jurisprudents of the Guardian Council.[23] According to the constitution, the Supreme Leader is an elected life tenure, meaning that he must be selected, evaluated and dismissed by another elected body, namely the Assembly of Experts. Because the members of the Assembly are screened before running for its seats by the members of Guardian Council who are in turn directly and indirectly appointed by the Supreme Leader, the Assembly of Experts in reality never fulfils its constitutional duty of making the highest office accountable.[24] As it should be already cleared, the electoral preselection procedure, which is executed by the Guardian Council, serves to continuously either secure the upper hand of the nationalist wing or limit the damage even in the absence of the public support. The powerful Guardian Council consists of twelve members, six clergymen chosen by the Supreme Leader and six non-clerical jurists selected by the Majles at the recommendation of the head of Judiciary, whom himself is carefully chosen by the Leader. With two major functions, the Council has consistently been active in the process of the realisation of the interests of the military-bonyad complex. Not only does it

[23] Leadership in the Constitution of the Islamic Republic of Iran. Article 110. The Office of the Supreme Leader website.

[24] Alamdari, K. (2009). 'Election as a tool to sustain the theological power structure'. In A. Parasiliti (ed.). *The Iranian Revolution at 30*. Washington DC: The Middle East Institute, p. 111.

authorise to screen the qualification of all candidates in presidential, parliamentary and assembly elections, it also acquires an exclusive power over detecting the compatibility of all proposed legislation by the Majles with the criteria of Islam and the constitution.[25] In regards to the former, it has regularly vetted reformist candidates close to the internationalist wing on numerous occasions, most notably the disqualification of 3,500 candidates for the Seventh Majles including 80 prominent reformist incumbent members of the Six Majles based on 'the lack of practical commitment to Islam.'[26] Regarding its second function, as documented in the previous chapter, the Council has blocked countless bills in favour of the internationalist fraction repeatedly in an attempt to sabotage and disrupt the process of integration into the global economy and foreign capital inflow.

On the other hand, controlling the second most powerful office of the state, the presidency, as well as the Majles, has been the ultimate objective of the internationalist fraction of capital. The president, who is in charge of executive and economic matters, chooses the government ministers and forms the cabinet, implements the laws passed by the Majles, and supervises foreign policy and international affairs.[27] The Majles is responsible for introducing new laws and passing government-proposed legislation, reviewing international treaties and vetting ministerial nominees.[28] As powerful institutions of the state with pivotal roles in economic planning and foreign policy, the presidency and the Majles are subjected to general elections every four years. In the light of this, the internationalist fraction has politically prioritised winning popular votes and has become the driving force behind the promotion of fair elections opposing any form of meddling especially by the Guardian Council's candidate approval process. It has managed to control the government for the large part since 1989, except for the two-term presidency of Ahmadinejad, owing to the likelihood of escaping the election watchdog by choosing safe candidates difficult to be disqualified as well as more inspiring election manifestos capable of attracting the support of other social classes. Winning the majority of Majles seats, however, has persistently been problematic not just because of the vetting process but also due to the role of regional and local factors in parliamentary elections.

Considering the unfeasibility of seizing the appointed institutions by the internationalist fraction and their fragile control over the elected institutions, it should be easy to comprehend

25 Thaler, D. E. et al. (2010). *Mullahs, guards, and bonyads: An exploration of Iranian leadership dynamics*. Santa Monica: National Defense Research Institute, pp. 29-30; Yeganeh, H. (2015), p. 78.

26 *BBC News*. (14 February 2004). Iran MPs defy calls to end sit-in.; Rasa, H. (24 February 2016). The Six Majles; sit-in, protest, court. *BBC Persian*.

27 Yeganeh, H. (2015), p. 77.

28 Ehteshami, A. (2017), p. 27.

why one of the major political disputes in recent decades has been over free elections, electoral fraud and the legality of the preselection process. This intense political struggle over the electoral system is a clear indication of the difference between the first decade of the revolution and post-1989 era, illuminating how state institutions are subject to the onslaught of dominant classes as a result of the reorganisation of the social relations of production and not vice versa. The bolstering role of the Guardian Council in elections began to take real shape after the revision of the constitution in the same year with the initiation of neoliberal restructuring. While the 1989 revision of the constitution reiterates the supervisory responsibility of the Guardian Council on elections,[29] the form of its supervision was still a matter of real contention. In response to a letter from the election commission regarding the issue in 1991, the Guardian Council interpreted that '[t]he supervision stated in article 99 is proactive [*nezarat-e estesvabi,* i.e. with the right to make legally binding interventions] and includes all executive stages of the election, including confirming or rejecting the qualifications of candidates.'[30] By all means, this institutional amendment has to be seen in relation to the short-term class alliance between the neoliberal wing of the strata of managers of the state and the bonyad-bazaar nexus in order to marginalise the statist wing of the former immediately after the commencement of the first development plan in June 1990. Its first outcome was the disqualification of more than a third of candidates of the parliamentary election of June 1992, including 30 'Islamist leftist militant' incumbent members of the Majles.[31] Likewise, the abolishment of the office of prime minister in the new revision of the constitution was part of this short-lived coalition through which the neoliberal wing of the strata of managers of the state took over the presidency as the head of the government to implement the new development plan with the aim of reviving capital accumulation. The executive power during the first decade of the revolution was divided between the president and the prime minister in which the former largely possessed ceremonial power despite being elected directly by the people, while the latter had the actual administrative power to run the government without popular approval. Although the prime minister was recommended for the post by the president, the real selector of the prime minister was the Majles through the process of the vote of confidence, which for the most part of the 1980s was controlled by the strata of managers of the state committed to capital accumulation through extensive state intervention in the economy. The collapse of the tactical alliance between the government-controlled neo-liberal wing of the strata of managers of the state and the bonyad-bazaar nexus following the irreconcilability of some of the government neoliberal policies with the

[29] Papan-Matin, F. (Trans.) (2014). The Constitution of the Islamic Republic of Iran (1989 Edition). *Iranian Studies*, 47(1), p. 182

[30] The Guardian Council letter, no. 1234, dated 1/3/1370 [5/22/1991]. *Iran Data Portal*. Interpretation of Article 99. (Trans.).

[31] Moslem, M. (2002). *Factional politics in post-Khomeini Iran*. Syracuse: Syracuse University Press, pp. 188-89.

nexus interests[32] resulted in the creation of a new political bloc in the fifth parliamentary election of 1996 to represent the interests of the nascent internationalist class force.[33] The fleeting alliance, however, came at a hefty cost for the neoliberals as the proactive supervision of the Guardian Council has widely been used to justify the disqualification of the political representatives of the internationalist fraction of capital, thereby putting the scope of the authority of the council at the centre of long-lasting quarrel between the two fractions since the mid-1990s. In an attempt to curb the power of the Guardian Council, the Ministry of the Interior proposed a bill in 1999 to abolish its supervisory power over elections as it was labelled by the Khatami government 'unconstitutional'.[34] After the endorsement of the Supreme Leader, the Majles, however, reconfirmed the supervisory power of the Council that would nullify any legal challenge at least for the foreseeable future.[35] Yet, the internationalist wing brought back the issue in the centre of a political and judicial dispute a decade later[36] through the Expediency Discernment Council (*majma-e tashkhis-e maslahat-e nezam*) by proposing a new bill to reform the election law which specified that the national election commission is responsible for 'holding elections, reviewing the competence of candidates, controlling and supervising election campaigns and their costs, and scrutinizing electoral complaints.' Likewise, the Supreme Leader's defense of the Guardian Council stopped the advance and choked the bill altogether.[37] Undeniably, this was part of a broad struggle between two wings of power since the 1990s regarding the meaning of the revolution, the notion of the Guardianship of the Islamic Jurist and the place of the elected and unelected state institutions among other things, which will be interrogated and unpacked in-depth shorty in the following section.

Furthermore, the previously existing institutions have also undergone major transformations as a result of the neoliberal restructuring and the transformation in the composition of social classes. As such, the function and character of many ministries and governmental organisations have been altered, various new institutions such as the Trade Promotion Organisation of Iran and

32 For the detailed account of this short-lived alliance and struggle surrounding the Hashemi's first government see the previous chapter, section 5.2.

33 Moslem, M. (2002), pp. 227- 32.

34 Arjomand, S. A. (2000). Civil society and the rule of law in the constitutional politics of Iran under Khatami. *Social Research*, 67(2), pp. 294-5. See also Kazemian, M. (10 May 1999). Removing the proactive supervision is the realisation of [the Slog] Iran for all Iranians. *Khordad Daily*; Khuzestani, J. M. (11 May 1999). The role of the proactive supervision at the service of totalitarians. *Sobh-e Emrouz Daily*.

35 *Khordad Daily*. (11 August 1999). 116 conservative MPs legalised proactive supervisory power.

36 *Aftab-e Yazd Daily*. (13 February 2010). Gholammohsen Elham (Spokesman of the Guardian Council): They want to eliminate the supervision of the Council, p. 2; *Resalat*. (31 May 2009). Ayatollah Yazdi: Creation of a parallel entity for supervising elections is illegal and irrational, p. 3; *Etemad*. (2 February 2010) Majid Ansari: Our revolution was a reformist revolution, Interview with ISNA, p. 6; *Etemad-e Melli*. (14 January 2008). Proactive supervision, operation of the Guardian Council and the subject of candidates' approval process, Interview with Ayatollah Bayat-e Zanjani, p. 10.

37 *Iran Daily*. (11 February 2010). End of the attempt for limiting the authority of the Guardian Council, p. 3;

the Iranian Privatisation Organisation were created, and the TSE was reopened to accommodate the process of neoliberalisation and internationalisation of production. Likewise, the changing operation and function of the revolutionary foundations, in particular the expansion of their economic activities and the entry of the military forces into the economic arena, has to be viewed in regard with the process of the reorganisation of production, albeit in an intricate form of antagonism. Finally, it should be also noted that the transnational fractions of capital have had an indirect influence on the reorganisation of the Iranian state through the advisory role of the IMF and the World Bank. Its insignificance over the course of changes in the state is due to the low volume of FDI inflows in Iran, as explained in the previous chapter.

My explanation would cast serious doubt on the prevalent conceptualisation of the Iranian state as a government within a government, one being the official government under the control of the president and the other being the 'deep' state run by the Supreme Leader. Whereas if we view the state as the condensation of the relationship between the military-bonyad complex and the internationalist fraction and a strategic site for the realisation of their interests, it is possible to conceive the incoherent and chaotic appearance of the state policies as they are embedded and the products of the process of intra-state contradictions. Not only is this mode of enquiry incapable of accounting for the reality of the form of the state, but it is also unable to explain how long-term strategic policies of the state, which comprises of two governments, is possible without falling into random explanations. Here, the relative autonomy of the state and its embodiment on the Iranian state institutions deserves particular consideration.

Before his death, Khomeini elaborated further his doctrine about the Islamic state, arguing that the state could and should suspend the 'any affair – devotional or else – whose occurrence is against the interests of Islam as long as it is so', i.e. the survival of the system at all costs.[38] The fear of the outbreak of unruly intra-class struggle that would potentially threaten the integrity of the state was the rationale behind the new reading, which was unnecessary during the first decade of the revolution due to the function of the Bureau of the Supreme Leader and, in particular, the charismatic leadership of Khomeini as an arbitrator between the two wings of power to ensure the universal hegemony of the ruling class despite his occasional predisposition towards the strata of managers of the state. A year before his death, to institutionalise this function, the Expediency Discernment Council (*majma-e tashkhis-e maslahat-e nezam*) was founded in February 1988. But it was constitutionally formalised in the 1989 revision to resolve the legislative dispute between the

38 Ayatollah Khomeini (2008). *Sahife' Noor (letters and lectures of Ayatollah Khomeini). Vol 20.* Tehran: The Institute for Compilation and Publication of Imam Khomeini's Works. p. 427.

Guardian Council and the Majles and support the new Supreme Leader in the dispensation of his duties. The thirty-nine members of the Council are selected by the leader, but the balance of the power between the two fractions of the ruling class is to a large extent well-maintained, which reflects the essence and function of the institution in the structure of the state. Equally important was the establishment of the Supreme National Security Council (*shoraye-e aali-e amniat-e melli*) in 1989 as part of the revision of the constitution, which has been populated with representatives of both classes with similar influence thenceforth. With the key mission of drafting strategic-level polices, the council 'plays a crucial role in encouraging collective decision-making and also an unbiased examination of issues of concern to the country'[39] which helps to mediate the interests of the nationalist and internationalist fraction of capital. Having explained the operation of the fractions of the ruling class over the state institution, it is time to turn to the relationship between ideas/discourses and class power in Iran since the early 1990s. Recalling the theoretical section in Chapter 3 that argued that civil society should be viewed as a domain of the state, uncovering this relationship would be crucial in grasping the contemporary form of the Iranian state.

6.4. Material Structure and Construction of Discourses: Which Islam and for Whom?

After cracking down on the anti-Khomeini political forces immediately after the revolution and the establishment of the Islamic state, a particular revolutionary set of ideas, including independence and freedom from the 'global arrogance', revolutionary Islam (against 'American Islam'), Islamic justice, guardianship of the jurist and the downtrodden completely dominated the political milieu during the 1980s. From early to the mid-1990s, however, new understandings and terminologies, such as Islamic democracy, non-violent political development, rule of law, civil society, political freedom and the free press entered into the political scene, constructing a new popular discourse that shaped the rules of the political game in the next two decades. It is worth pointing out that this liberal/reformist discourse was not a strictly hegemonic discourse, because the revolutionary discourse was concurrently reconstructed as a rival set of ideas by emphasising on the 'absolute' guardianship of the jurist, Islamic justice and the danger of the Western cultural infiltration. Although there have been some studies regarding the 'conservative discourse', the analysis of the construction of the 'reformist discourse' has drawn the most attention without, however, fittingly addressing the question of *how* the latter discourse had become established and prevailed. Above all, the question as to *why* this discourse and not another one has been successful

[39] Ehteshami, A. (2017), p. 27. The Supreme National Security Council has been a significant player in the issue of the nuclear program and nuclear negotiations by bringing the wings of power closer together. I will return to this in the next chapter where I attempt to provide a different interpretation of the nuclear program by linking it to the process of neoliberal restructuring.

in this particular epoch of the country is barely, if at all, addressed. Equally, the question of *who* constructed such discourse is to a large degree reduced either to political elites or civil society activists devoid of linking it to the social class structure and the wider class realisation of hegemony in the society. To shed light on the interrelationship between prevalent ideas and class power, the notion of the material structure of ideology could be instrumental because it helps to foster links between key class agents (who of power) with how of the genesis of dominant ideas and underlines connections between the emergence of new discourses and the contemporary structure of capitalism in Iran.

The material structure of ideology is a critical concept to help us to avoid falling into the trap of 'crude economism' or 'vulgar reductionism' that considers ideas as nothing but the reflection of material structure. At the same time, it challenges the position which 'treats ideas as a factor completely independent from material reality.'[40] For a historical materialist perspective, 'ideologies are anything but arbitrary; they are real historical facts which must be combated and their nature as instruments of domination exposed...precisely for reasons of political struggle.'[41] In other words, ideas and ideologies are the products of ceaseless class struggle throughout the course of history. This does not imply that ideas do not have the lives of their own but indicates that only those ideas are realised if they find their justification in the economic reality at a particular point in time. The relevance and effectiveness of ideas inherently, therefore, depend on their connection to 'a particular constellation of social forces' in specific periods of history. Put differently, the materialisation of particular ideas in the form of discourses/narratives or ideologies by various class fractions to a large degree marginalise (not completely eliminate) other sets of ideas. 'In that sense, ideological struggle is a part of the general social struggle for mastery and leadership – in short for hegemony.'[42] That is to say, dominant and relevant ideas have a 'material organisation intended to maintain, defend and develop the theoretical or ideological "front".'[43] A material structure consisting of publishing houses, political newspapers, magazines, periodicals, news agencies and so forth is essential for dissemination of relevant ideas. Furthermore, by emphasising the dialectical unity of state-civil society, Gramsci argues that hegemony of class relations is exercised through 'capillary networks' of various organisations of the civil society that give the illusion that individuals govern themselves. In reality, however, this self-governing space is nothing but the normal continuation and the organic complement of the political society through which

40 Bieler, A. (2001). Questioning cognitivism and constructivism in IR Theory: Reflections on the material structure of ideas. *Politics*, 21(2), p. 99.

41 Gramsci, A. (1995), p. 395.

42 Hall, S. (1986). The problem of ideology – Marxism without guarantees. *Journal of Communication Inquiry*, 10(2). p. 44.

43 Gramsci, A. (1995), p. 155.

'organic intellectuals' produces new ideas and articulate strategies of class power beyond the coercive apparatuses of the state. Overall, the concept of the material structure of ideology crucially elucidates why and by whom certain discourses are articulated and appeared in the society. By linking to the social relations of production and class struggle, it is possible to argue that '[d]iscourse does not simply act upon people; people act through discourse, so the world cannot be reduced to discourse alone.'[44] Building upon this particular interpretation, I shall examine the formation and crystallisation of the new discourse of 'democratic Islam' and the re-articulation of the radical interpretation of Islam under the name of the 'revolutionary Islam' since the early 1990s. This will reveal their internal relationship with the process of Iranian neoliberalisation and the emergence of the internationalist fraction and the reconfiguration of the nationalist fraction of capital.

The 'democratic' rendition of Islam is in favour of the diversity of religious truth and calls into question the 'single understanding of Islam, or *fiqh*, the *velayate-e faqih* [the guardianship of the jurist], the Revolution, or the Imam's Path.'[45] Against this backdrop, it rejects an authoritarian reading of the Khomeini's doctrine, the guardianship of the Jurist, by advocating that people are the mediator of God and the Islamic ruler in which the consent of subjects is the source of state authority and legitimacy.[46] This is concisely articulated by the ex-president, Mohammad Khatami: 'The legitimacy of power relies entirely on the vote of the people [who] have the right to replace this power with another power without recourse to violence.'[47] In contrast to the first decade of the revolution where neither the Islamic nor the republican aspect of the new state was seriously questioned, the post-1990s democratic interpretation of Islam has accentuated the 'republicanism' of the Islamic Republic.[48] That being the case, by returning to the meaning of the revolution,[49] the proponents of this discourse claim that the democratic promises of the revolution have been unfulfilled; the defining aspects that would be achieved only by implementing the neglected sections of the constitution, respecting civil rights, complying with the rule of law and transpiring

44 Bieler, A. and Morton, A. D. (2018), pp. 72-73.

45 Khatami, M. cited in Kamrava, M. (2008). *Iran's intellectual revolution*. Cambridge: Cambridge University Press. p. 153.

46 See for example Mohammad Khatami Speech in the ceremony of the Office for Strengthening Unity (*daftar-e tahkim-e vahdat*) published on *Salam Daily*. (1 and 8 February 1997).

47 Cited in Harrop, W. S. (2009). 'Muhammad Khatami: A dialogue beyond paradox'. In A. Parasiliti (ed.). *The Iranian Revolution at 30*. Washington DC: The Middle East Institute, p. 116.

48 Soltani, S. A. (2005*). Power, discourse and language: Mechanisms of power in the Islamic Republic of Iran* (in Persian). Tehran: Ney Press, p. 165.

49 *Etelaat*. (2 February 1998). Mohammad Khatami: The Islamic Revolution, the precursor of another civilisation; *Etelaat*. (5 August 1997). Interview with Mohammad Khatami: The horizons of religious thought; *Etelaat*. (4 February 1998). Mohammad Khatami: The Islamic Revolution and the flagship of another civilisation; Razavi-Faqih, S. (3 February 2002).The manifest of the Islamic Revolution. *Nowruz Daily*; *Mosharekat Daily*. (25 June 2001). Theoretical foundation of the Islamic Revolution.

economic activities.[50] The notion of 'religious democracy' captures this polity since it calls for 'secularisation' (institutional separation of religion and state) rather than 'secularism' which implies the diminishment of the significance of religion in the society.[51]

This liberal reading had initially appeared in the circle of a few religious lay and clerical intellectuals, most notable Abdolkarim Soroush, Mohammad Mojtahed Shabestari and Mohsen Kadivar, in the late 1980s and the early 1990s. By separating religion *per se* from religious knowledge, Soroush argued that while the essence of religion is divine and hence out of human reach, the latter 'is a sincere and authentic but finite, limited, and fallible form of human knowledge.'[52] By its very nature, his philosophy opened a space for a pluralist rather than a particular interpretation of Islam as the ultimate model, which questioned the office of the clergy (*rouhaniat*) and the concept of the *velayat-e faqih* for the first time since the consolidation of power by the Khomeinist groups after the Revolution.[53] Likewise, by calling for using extra-religious sources due to 'the essentially *limited* nature of religious knowledge', Shabestari disputed religious tyranny embedded in the official orthodoxy of the Islamic Republic and contested that the deep understanding of Islam is comparable with democracy and human rights.[54] Unlike Soroush and Shabestari who has been influenced by non-Islamic critical rationalism and hermeneutics, Kadivar's critique of authoritarian interpretation of Islam is solely articulated within a jurisprudential framework. By tracking the concept of *faqih* in the history of political thought in Islam, Kadivar attested that the concept has never been in the centre of Islamic thinking and practice, adding that the idea of the absolute mandate of the jurist (*velayat-e motlagheh-e faqih*), in particular, has no Islamic scientific basis or rational justification.[55] In a nutshell, while drawing from different sources, these intellectuals, along with a few like-minded thinkers, reach a similar conclusion of there being no essential conflict between Islam and popular sovereignty.[56] The intimate compatibility of Islam and democracy for them was based on the argument that: 'Islam has not mandated any specific forms of government except those that attend to the material and

50 Ansari, A. (2007). *Modern Iran: The Pahlavi and after*. London: Routledge. p. 318.

51 Bayat, A. (2013). 'The making of post-Islamist Iran'. In A. Bayat (ed.). *Post-Islamism: The Changing Faces of Political Islam*. Oxford: Oxford University Press, p. 54.

52 Sadri, M. (2001). Sacral defense of secularism: The political theologies of Soroush, Shabestari, and Kadivar. *International Journal of Politics, Culture, and Society*, 15(2), p. 259.

53 These sources provide essential understanding of Soroush pluralist interpretation of Islam: Soroush, A. (2000). *Reason, freedom & democracy: Essential writings of Abdolkarim Soroush*. In M. Sadri and A. Sadri (Eds and Trans). Oxford: Oxford University Press; Vakilli, V. (1997). *Debating religion and politics: The political thought of Abdolkarim Soroush*. New York: Council on Foreign Relations.

54 Sadri, M. (2001), pp. 261-2.

55 Kamrava, M. (2003). Iranian Shiism under debate. *Middle East Policy*, 10(2), pp. 107-8. See also Sadri, M. (2001), pp. 262-6. Mohsen Kadivar' works including *Anxieties of Religious Government* (2000) and *Theories of Government in the Shiite Jurisprudence* (1999), are available online here https://kadivar.com/

56 Ghobadzadeh, N. and Rahim, L. Z. (2012). Islamic reformation discourses: Popular sovereignty and religious secularisation in Iran. *Democratization*, 19(2), 334-51.

spiritual needs of the people. The ideal form of government, therefore, is changeable according to the needs and circumstances of the times, which, in the contemporary era, happens to be democracies.'[57] In other words, while stressing the importance of religious ethics in the society, these intellectuals call for the secularization of the Iranian state.

Although the post-1990s reformist interpretation of Islam was enunciated in a radically different context, it was not a new and novel intellectual trajectory as its origins could be traced back to the nineteenth century in the work of al-Afghani who supported a rationalist approach to Islam against the religious authority of ulama.[58] As a source of inspiration for the whole Islamic world, al-Afghani's endeavour continued by other reformers and intellectuals such as Abduh and Iqbal in the early twentieth century.[59] In Iran, the formulation of a modernist account of Islam gathered momentum during the 1906-1911 Constitution Revolution when religious leaders such as Ayatollah Naini and Ayatollah Khorasani had interpreted Islam in favour of a democratic government, elections and parliaments.[60] Throughout the religiously hostile reign of Reza Shah, the like of Shariat Sangilaji and Ali Akbar Hakamizadeh had kept the flames of this religious reformist tendency despite relatively limited influence on the socio-political sphere. In response to the disappointment of the oil nationalisation movement, absorption of religious ideas with nationalism was put forward by some activist-intellectuals called 'religious-nationalist thinkers'. With the ultimate objective of a formation/reconfiguration of a democratic reading of Islam, this new religious intellectual tradition established a political organisation called the Liberation Movement of Iran (*nehzat-e azadi-e Iran*) in 1961. Ayatollah Taliqani (inspired by the work of Ayatollah Naini) and Mehdi Bazargan as the leading figures of the movement argued that Islam is compatible with modernity and inherently democratic as people are responsible for executing the divine law, not any particular individual nor a group. Bazargan was appointed as the prime minister of the interim government after the Revolution, but his administration fell apart a few months later due to the vicious onslaught from the radical Islamist forces who labelled his reading of Islam as 'liberal' and 'American'.[61] Finding itself in a radically new predicament in the aftermath of the 1979 revolution, the liberal democratic version of Islam was marginalised in the battle of ideas

57 Kamrava, M. (2008). p. 135.

58 Sukidi. (2005). The travelling idea of Islamic Protestantism: A study of Iranian Luthers. *Islam and Christian–Muslim Relations*, 16(4), pp. 401-412.

59 Fischer, M. M. (2003). *Iran: From religious dispute to revolution*. The University of Wisconsin Press, pp. xxvii-xxviii.

60 Kamrava, M. (2008). p. 120.

61 Jahanbakhsh, F. (2001). *Islam, democracy and religious modernism in Iran, 1953-2000: from Bāzargān to Soroush (Vol. 77)*. Leiden: Brill, pp. 65-112.

with the Khomeini's revolutionary reading of religion and its political organisation was subsequently dismantled.

In direct contrast, the revived form of this reading of Islam has transcended the halls of academia and religious seminars as it has found countless networks including popular journals, newspapers and publishing houses since the early 1990s, which has opened up the political scene to debate about freedom, civil rights and the relationship between religion and politics. Initially, Soroush articulated these ideas in article series between 1988 and 1990 in *Kayhan-e Farhangi*. Due to the resignation of the editorial board of journal under pressure, the religious intellectual circle continued their work in the bi-monthly journal called *Kian* during the 1990s.[62] Alongside *Kian* as a theoretical journal, an increase in the number of publications as a result of the liberalisation of the press by the centre-right government of Hashemi in the early 1990s precipitated the popularity of these ideas.[63] Relatedly, the establishment of the President's Centre for Strategic Research (*markaz-e tahghighat-e strategic riasat jomhori*) was instrumental in the realisation of the reformist version of Islam, which produced policy-oriented analyses inspired by modern social theories.[64] While the Hashemi administration had provided space and funding for the dissemination of these ideas through the journal and the centre, the real ascendancy of this new narrative was materialised with the formation of a new centrist political party with a tight bond to the government under the name of the Servants of Reconstruction (*kargozaraan-e sazandegi*) in November 1995. The founding members of the party were a group of sixteen influential state officials including ten ministers, four vice presidents, head of the Central Bank and mayor of Tehran. The latter, Karbaschi, was the editor of a then-widely read newspaper called *Hamshahri*, which had a circulation of more than one million.[65] As a formal political entity, the Servants of Reconstruction appeared in the political arena two months before the fifth parliamentary election in January 1995 with the aim of challenging 'the monopoly of power in the hands of a particular group', i.e. the bonyad-bazaar nexus, defending of the freedom of thoughts and press, promoting free-market teachings and moderate foreign policy.[66] Khatami's campaign platform for the presidential election of 1997, which was supported by the Servants of Reconstruction party and other concurring political groups,

62 Clawson, P. and Michael, R. (2005). *Eternal Iran: continuity and chaos*. London: Palgrave, p. 128.

63 Tarock, A. (2001). The muzzling of the liberal press in Iran. *Third World Quarterly*, 22(4), p. 588.

64 Mohebi, M. (2014). *The formation of civil society in modern Iran: Public intellectuals and the state*. New York: Palgrave MacMillan, pp. 71-4.

65 Ashraf, A. and Banuazizi, A. (2001). Iran's tortuous path toward 'Islamic Liberalism'. *International Journal of Politics, Culture, and Society*, 15(2), p. 251.

66 Kulaai, A. and Mazarei, Y. (2016). Modernisation and political party building: The case study of the Hashemi Rafsanjani administration (in Persian). *Politics*, 46(2). pp. 416-18.

demonstrates the total application of the thoughts of the new religious thinkers.[67] Furthermore, the principles and general policies of the other reformist parties including the Crusaders of the Islamic Revolution (*mojahedin-e enghlab-e eslami*) and the newly-formed Islamic Iran Participation Front (*jebhe-e mosharekat-e iran-e eslami*) revealed the potency of the liberal reading of Islam during this period.

The sweeping victory of Khatami in 1997 with more than 70 per cent of popular votes cast, which hailed as the 2 Khordad Epic,[68] was presented as the repudiation of non-democratic rendition of Islam as it was eloquently spelled out in the official weekly magazine of the Crusaders of the Islamic Revolution:

> The people voted for an Islam that not only does not see a contradiction between religion and freedom, democracy, human rights, and civil society, but believes that these [modern] concepts can find their true meaning in Islam. An Islam that recognises the rights of the citizens and discerns the legitimacy of the regime to be based on their consent…construes the *vali-ye faqih* to be an elected and lawful leader. One who is the symbol of the country's unity and leads the revolution based on the wishes of people and within the confine of the constitution…May 23 was a vote for such as reading of Islam.[69]

Apart from emphasising the rule of law, protection of civil liberties and moderate foreign policy, Khatami made the building of a vibrant civil society as the centrepiece of his political agenda.[70] Given the control over the powerful state institutions, including the public broadcasting in the hands of the bonyad-bazaar nexus, the promotion of civil society not only served as a way to challenge the hold of authoritarian power, but also an essential means for the promotion of liberal interpretation of Islam and a source of influence among the electorate. Hence, after tightening their grip on power following another two landslide victories in the municipal elections of 1999 and particularly the Sixth Majles election of February 2000, the reformist government had fostered the conditions for the mushroom growth of political groups and non-governmental organisations. While witnessing a gradual increase since the early 1990s, the number of political parties and organisations reached ninety-five in 2000.[71] There were 1,437 scientific, cultural, artistic and professional organisations in the universities in 2001, publishing around seven hundred student newspapers.[72] At the same time, the number of NGOs relating to women's issues reached 450 in

[67] *Iran*. (16 March 1997). Interview with Mohammad Khatami: My goal is the dignity of Islam and strengthening the foundations of civil society.

[68] 2 Khordad is the day of the presidential election in 1997 which is equivalent to 23 May.

[69] *Asr-e Ma*. (16 July 1997). The election: Islam and revolution's second generation'. Cited in Moslem, M. (2002), p. 253.

[70] *Hamshahri*. (24 July 1997). Political renovation of society is a necessity of our era (evaluation of the programme of the elect president); *Hamshahri*. (19 January 1998). Interview with Mohsen Armin: Civil society does not have any conflict with religious beliefs.

[71] Bayat, A. (2013), p. 60.

[72] Ibid, p. 43.

2004 (only 55 in 1997) thanks to the financial support by the government.[73] More importantly, with the backing of the government through the Ministry of Culture that issued, for example, more than 799 new press in the first year of Khatami's presidency alone,[74] the number of newspapers, magazines and literary journals had astronomically proliferated, surpassing 1000 publications in 2000.[75] In particular, because the internationalist fraction had prioritised the publication of daily newspapers from the beginning of the 1990s, the number of daily newspapers increased to 34 in 1993, 62 in 1996, and 112 by the end of the 1990s while there existed only seven newspapers in the 1980s.[76]

Against the liberal/reformist discourse, the radical Islamist discourse claims that Islam offers 'a complete social, political, economic, and moral system' that has answers to all human problems. With the monopolisation of truth at its heart, this discourse is 'exclusionary, monovocal and intolerant to pluralism, representing an absolutist and totalitarian ideology that placed a disproportionate emphasis on people's obligations, enforced by draconian social and moral surveillance.'[77] Hence, the 'radical/revolutionary' understanding of Islam aims to sustain the prevailing political/institutional arrangements of the first decade of the revolution for which the concept of the guardianship of the jurist is central. Similar to the rival discourse, the discourse of 'revolutionary Islam' stresses that sovereignty belongs to God, which refers to the 'divine sovereignty' in the Islamic sacred texts. Nonetheless, it interprets that the Islamic rulers mediate between people and God in which 'the guidance of people and the political and social leadership are not based on demand, opinion and vote of people', implying that they possess the divine right to govern Islamic societies since the Almighty directly legitimises their appointment. In other words, rather than social contracts or cultural norms, the only source of legitimacy is God - who chooses the executors of the law. This right was given to the Prophet Mohammad, then is passed to the Imams, and currently, in the absence of the Twelfth Imam, the legitimate holders of power are *vali-e faqihs*. It should be noted that this reading of the religious authority distinguishes between legitimacy (*mashruiyyat*) and acceptability (*maqbuliyyat*) arguing that the former comes from God and the latter from the people. The two do not have any relationship with each other because a rightful leader might not have the people's support. Contrary to the reformist discourse, which either challenges the notion or is in favour of the limited power of the *vali-e faqih*, the proponents of the

73 Mohebi, M. (2014), p. 117.

74 Tarock, A. (2001), p. 590.

75 Kamrava, M. (2001). The civil society discourse in Iran. *British Journal of Middle Eastern Studies*, 28(2), p. 171. Mohebi, M. (2014), p. 89.

76 Mohebi, M. (2014), p. 89.

77 Bayat, A. (2013), p. 38.

radical interpretation declare that the guidance of the jurist is always unconditional due to the inferiority of the consent of the populace.[78] This 'absolute mandate of the jurist' (*velayat-e motlagheh-ye faqih*), however, was enshrined in the 1989 revision of the constitution despite that the designation 'absolute' to describe the scope of the power of the jurist was not used by Khomeini in his seminal work about the concept before.[79] By downgrading the importance of the popularity of the *vali-e faqih*, the revolutionary discourse accentuates that the electorate can only elect the members of the Assembly of Exports, who select the leader of the revolution. Notwithstanding, as explained above, candidates for the Assembly are first screened and approved by the Leader's appointed members of the Guardian Council that illuminates the absurdity of the popular indirect election of the *vali-e faqih*.[80] Along with the adherence to the orthodox interpretation of the *velayat-e faqih,* the revolutionary Islamic discourse castigates the redefinition of the Revolution by the rival discourse as a historical distortion. Deploying Khomeini's idea of the 'pure Islam' against the 'American Islam', it accentuates the centrality of social justice, fights against deprivation and safeguards the downtrodden.[81] Moreover, rather than restraining the notion of freedom to the 'Western individualism', true freedom is defined as 'the freedom of human spirit from corruption, lust, temptations, whims, and material bondage.' At the societal level, with reference to the main slogan of the Revolution (independence, freedom, and the Islamic Republic), it is emphasised that 'freedom should be defined in terms of national independence' and against the 'global arrogance'.[82] In this nativist world view, intellectuals are portrayed as the agents of the cultural infiltration of the enemies, i.e. the US and the West in general, who pose an undeniable menace to Islamic values.[83] And the development of civil society and the expansion of free press are considered to be mechanisms by which this Western cultural assault is materialised,[84] as it is unequivocally specified by the Supreme Leader: 'If freedom of the press is grounded in driving people to lose religious faith, journalists and newspapers are not free to do so. Such freedom is treachery. If their intent is to conspire [against the system] and spread dissent [throughout the nation], this freedom is a conspiracy [against the state]. This freedom is repulsive.'[85]

78 Kamrava, M. (2008). pp. 101-5.

79 Ibid, p. 85 and 105.

80 Amuzegar, J. (2012). The Islamic Republic of Iran: facts and fiction. *Middle East Policy*, 19(1), p. 28.

81 Darvish-Tavangar, A. (1 June 1997). The economic foundation of the Imam's thoughts. *Resalat*; Mortazavi, S. Z. (11, 12, 13, 15 June 1996). Social justice in confrontation with American Islam. *Jomhori-e eslami.*

82 Ayatollah Khamenei speeches. Cited in Hovsepian-Bearce, Y. (2015). *The political ideology of ayatollah Khamenei: Out of the mouth of the Supreme Leader of Iran*. New York: Rutledge, p. 327.

83 Taiar, J. (6 March 1996). Cultural camisado of the enemy to all aspects of the society. *Kayhan*; Taiar, J. (10 March 1996). Dependent intellectuals, the channels of cultural infiltration of the enemy. *Kayhan.*

84 Mohebian, A. (7 February 1998). Civil society and the logic of the Western infiltration. *Resalat.*

85 Ayatollah Khamenei speeches. Cited in Hovsepian-Bearce, Y. (2015), p. 196.

Apart from controlling the national broadcasting with numerous TV channels and radio stations, this discourse is propagated by several mass-circulation newspapers including *Kayhan*, *Resalat*, *Jam-e Jam*, and *Jomhori-e Eslami* among the others, as well as the Friday Prayer Imams who are directly appointed by the Supreme Leader. Alongside the Basij (the paramilitary organisation affiliated with the Revolutionary Guard), which has branches almost everywhere around the county, traditional community-based organisations such as informal charities with the aim of providing services to vulnerable groups are important players in the diffusion of this revolutionary discourse.[86] That being said, the forced prevention of the realisation of the rival discourse owing to the monopoly over the coercive apparatuses of the state has probably been more important than the construction of common consent by the nationalist faction. Viewing the flourishing of the press during the 1990s, especially after Khatami's victory, which was welcomed as a step toward the right direction by the West, as a real threat, General Safavi, the then commander of the Revolutionary Guard, remarked that his forces would 'cut the throats and tongues' of liberal journalists.[87] This followed by Khamenei's September 1998 fiery speech proclaiming that 'I am not going to wait to see what the world is saying or what the global newspapers or global organizations are saying. I am not going to allow international organizations to run this country. I am waiting for the Cultural Council, judiciary and security forces to do their job. Look and see how the press has targeted and attacked the faith of the people. They insult the revolution.'[88] The first severe move to curb the influence of the press was made by the Fifth Majles that narrowly passed a new press law in July 1999. And after labelled as 'the bases of the enemies' by the Supreme Leader, 40 reformist newspapers were clamped down, and a dozen journalists were jailed in April 2000.[89] Although the reformist-dominated Sixth Majles put the reform of the press law in its first agenda in August 2000, the intervention from the Supreme leader by using an obligatory religious decree blocked the attempt.[90] Apart from utilising formal institutions, the nationalist fraction used the Basij forces and especially the Ansar-e Hezbollah to violently disrupt rallies and events, beat up individuals and assassinate intellectuals and reformist activists.[91] To reiterate, rather than solely relying on the creation of a popular discourse through consent, this strategy of using the judiciary

86 Mohebi, M. (2014), pp. 127-46.

87 Arjomand, S. A. (2000), p. 289.

88 Ayatollah Khamenei speeches. Cited in Hovsepian-Bearce, Y. (2015), p. 196.

89 Tarock, A. (2001), p. 586.

90 Ghasemi, F. (2016). *The Islamic republic: From Bazargan to Rouhani* (in Persian). H&S Media. p. 271.

91 A good example is the assassination of the leading reformist strategist, Saeed Hajjarian, who survived the attack, by the Ansar-e Hezbollah outside Tehran's city council in March 2000. Before that, the brutal killing and disappearances of six intellectuals and political activists, which is labelled as the chain murders of Iran, shocked the country and returned backed the violent memories of the early days of the revolution. See Burns, J. F. (13 March 2000). Gunman in Iran seriously wounds a top reform figure. *New York Times*; Fowler, S. (2 December 2018). Iran's chain murders: a wave of killings that shook a nation. *BBC*.

and the pressure groups has been widely used by the nationalist wing of power since the early 1990s.

Returning to the issue raised at the beginning of the section, I have endeavoured to show why treating ideas as completely independent from the material structure and civil society is misleading. Related to Islam, what is needed is the examination of the socio-economic conditions through which social class forces are allowed to render a particular interpretation of the sacred texts to become hegemonic. Resorting to mere scriptures does not take us very far in explaining the relevance of particular interpretations of Islam, nor merely focusing on the role of intellectuals and thinkers.[92] In the context of contemporary Iran, this does not, however, mean that the internationalist fraction and the military-bonyad complex have constructed the pluralist and revolutionary Islamic discourses respectively from the scratch. This echoes the Marxist 'orthodox' simplistic reductionism according to which the 'economic' base simply generates superstructural boxes, which I have intended to also challenge. Quite contrary to these positions, I have argued that the set of ideas associated with these discourses have had a long history, dating back to the late nineteenth century and the early twentieth century in the case of former and the 1950s and the 1960s in the case of the latter. What made the contemporary liberal interpretation of Islam far more consequential and politically relevant than the antecedent varieties, was the emergence of the internationalist fraction of capital which has provided the material bases for its realisation. With regards to the revolutionary interpretation of Islam, while the victory of the 1979 revolution made it ubiquitous in the first decade of the revolution, the reconfiguration of the nationally-based fraction of capital, the military-bonyad complex, during the presidency of Ahmadinejad, was the fundamental determinant in its rejuvenation. Considering the structure and accumulation strategy of each fraction, it should be rather obvious why the former is in favour of a liberal, open rendition of Islam and the latter constructs a nativist, conservative interpretation with an emphasis on the importance of independence and cultural purity. In a nutshell, 'power does not simply lie in words, in the 'inner truth' expressed in words, but primarily in those who utter them, those who give truth/power to these words. Discourse is *not* power, unless it is given material force.'[93]

6.5. Societal Struggle for Hegemony

Linking the construction of discourses to class relations and class interests is crucial. But neither the hegemony of a particular discourse, nor the deployment of coercive means, nor the utilisation

[92] Bayat, A. (2007). *Islam and democracy: What is the real question?*. Amsterdam: Amsterdam University Press. p. 12

[93] Ibid, pp. 12-3.

of consent and coercion together could explain the superiority of a fraction. This is because the complexity of the form of state and the battle for hegemony could be comprehensively grasped if the material interests of the various non-ruling classes are incorporated in the analysis. It what follows, I shall aim to shed light on some major episodes of political turmoil and social upheavals in contemporary Iran. First, the manifestation of this ideological-coercive-material relation between the two fractions of the ruling class and other social classes will be analysed by reviewing one of the most important political uprisings since the 1979 Revolution, namely the Green Movement. In the light of recent events, thereafter, the ongoing wave of protests and unrests will be examined.

6.5.1. The Case of the Green Movement

As the Green Movement embodies the culmination of antagonism between the contesting classes that represents the epitome of the struggles for control of the state and society, it deserves particular attention.[94] Unsurprisingly, the controversy over the presidential election of June 2009 triggered the movement. Though, this time rather than the supervisory role of the Guardian Council, the dispute was over the results of the election in which the incumbent president, Mahmoud Ahmadinejad, was named victorious in a dubious manner which was unprecedented in the history of the Islamic Republic. To protest the 'rigged' results, hundreds of thousands peacefully took the streets, mainly in Tehran, claiming their votes were stolen and chanting 'where is my vote?'. The initial nonviolent demonstrations were quickly plunged into violence because the IRGC and the Basij attacked protesters that resulted in a large number of casualties and a dozen deaths. In the wake of the extensive use of violence mass mobilizations similar to the early days of the movement had effectively been prevented, but the protesters still used public and religious ceremonies such as the Quds day and Ashura as platforms to continue their dissent in the following months.[95] Throughout this period, authorities had closed down newspapers, magazines and websites linked to the movement and arrested several thousand political activists. Yet, the call for a public rally in solidarity with Tunisian and Egyptian protesters in February 2011 was the final

[94] It should be pointed out that the choice of the colour for the movement has nothing to do with Environmentalism. Green was initially chosen by Mir-Hossein Musavi for his 2009 election campaign and later became the symbol for protesters as it is the colour of Islam.

[95] Reisinezhad, A. (2015). The Iranian Green Movement: Fragmented collective action and fragile collective identity. *Iranian Studies*, 48(2), pp. 212-14.

nail in the coffin of the movement as not only were small scattered protests brutally cracked down, but it also brought forth the house arrest of the leaders of the movement.[96]

The dominant conceptualisations argue that the Green Movement 'represents a new era in Iran' due to the employment of non-violent tactics, horizontal organizational methods and modern communications techniques to pursue its objectives.[97] Nonetheless, it views the movement as *only* a new chapter of the long history of 'the popular quest for democratisation of the state and society.'[98] Represented as the battle of the 'people' against the authoritarian theocratic state, it is contended that 'most Iranians do not feel concerned with the power struggles among the revolutionary elites'[99] since they are ahead of the 'inherited politics, floating ideologies or mismatched theories.'[100] Believing in a transhistorical truth about human nature, the democratisation thesis avows that since 'the inherent truth about Iran is that its people desire civil liberties and personal freedoms as much as any other population in the world', the movement should not be seen as 'a singular event in Iranian history'[101] but rather as the continuation of 'an idea [freedom] first instilled in the Iranian mindset in 1906 with the introduction of the first constitution of the people.'[102] What brought this long-lasting desire once again to the surface was, firstly, the demographic changes as a result of the Islamic Revolution that encouraged high fertility, which has ultimately put Iran among counties with the largest youth population in the world since the early 1990s. The rapid urbanization in which a 50-50 urban-rural ratio in 1979 has shifted to a 70-30 ratio in recent years as well as an extraordinary expansion of higher education are also seen to be other key structural factors in pushing for democratic changes in the society.[103] Furthermore, we are invited to take the changes in gender relations and the availability of new communication technologies seriously to grasp the Green Movement as the latest manifestation of the quest for

96 Hashemi, N. (2014). 'Renegotiating Iran's post-revolutionary social contract: The Green Movement and the struggle for democracy in the Islamic Republic'. In M. Kamrava (ed.). *Beyond the Arab Spring: The evolving ruling bargain in the Middle East,* pp. 207-13.

97 Mahdavi, M. (2011). 'The civil society approach to democratization in Iran: The case for bringing it back carefully'. In R. Jahanbegloo (ed.). *Civil society and democracy in Iran*. New York: Lexington Books, p. 85.

98 Jahanbegloo, R. (2011b). Iran and the democratic struggle in the Middle East. *Middle East Law and Governance,* 3(1-2), p. 133; Mahdavi, M. (2011). Post-Islamist trends in post-revolutionary Iran. *Comparative Studies of South Asia, Africa and the Middle East*, 31(1), p. 94

99 Jahanbegloo, R. (2011b). p. 133.

100 Dabashi, H. (2010). 'Iran's Green Movement as a civil rights movement'. In N. Hashemi and D. Postel (eds.). *The people reloaded: The Green Movement and the struggle for Iran's future*. New York: Melville House. p. 25.

101 Sundquist, V. (2013b). Iranian democratization, part II: The Green Movement- revolution or civil rights movement?. *Journal of Strategic Security*, 6(1), p. 45.

102 Sundquist, V. (2013a). Iranian democratization, part I: A historical case study of the Iranian Green Movement. *Journal of Strategic Security*, 6(1), p. 33.

103 Farhi, F. (2011). Tehran's delayed spring?. *Globalizations*, 8(5), p. 618; Mahdavi, M. (2011), p. 96.

democracy in Iran.[104] Taking into account all these social changes, the democratisation thesis assumes that 'a sizable middle class' that constitutes '50 per cent of the population' (40 million!) has been engendered.[105] This class, represented as the people, is portrayed as a class in the possession of *agency* and *subjectivity* that has the burden of confronting the religious despotic state on its shoulders in both the democratisation thesis and the civil rights movement account.[106] The people-state dualism and the celebration of the Iranian 'middle class' as the rightful representation of people's desires and dreams is summed up impeccably by Farhi:

> 'their demand for political rights, greater cultural openness in the face of a strict Islamic code of conduct, less ideological/religious screening for jobs, better governance and political accountability, negotiated accommodation with the global order, and an end to cliquish corruption are as much a call for democracy as a claim to what they consider their rightful political and socioeconomic power.'[107]

It is beyond the scope of this chapter to go into political and philosophical discussions about the concept of freedom. Still, it is worth pointing out that most of the aforementioned accounts not only are based on the narrow definition of freedom, which reduces it to 'civil liberties' and 'individual and political freedoms', but they also trans-historicise the liberal interpretation of the concept. That aside, the notion of the middle class in these accounts is theoretically and empirically highly problematic in several aspects. For the start, it does not consider the fact that due to the 1979 revolution with the promise of providing free education for all, particularly for the poor and disadvantaged people, the number of university graduates has dramatically increased in the following decades. As demonstrated in the previous chapter, this eye-catching change more than anything else has contributed to the emergence of the class of the *new poor*, many of whom subsist on family support or live in slums and squatter settlements despite obtaining university degrees. Nor should urbanisation be translated as a sign of the enlargement of the middle class since all historical records across the globe and in Iran point to the fact that this process is directly related to industrialisation which associates primarily with the growth of the working class and urban poor. Recalling the definition of the middle class in Chapter 3 as senior officials and high-ranking managers deprived of the ownership of means of production who exercise some forms of authority and possess relative autonomy in the labour process, the preceding chapter showed that

104 Khosrokhavar, F. (2012). 'The Green Movement'. In E. Hooglund and L. Stenberg (eds.). *Navigating contemporary Iran: Challenging economic, social and political perceptions*. London: Routledge, pp. 176-77; Golkar, S. (2011). Liberation or suppression technologies? The internet, the Green Movement and the regime in Iran. *International Journal of Emerging Technologies and Society*, 9(1), 50. pp. 50-70.

105 Hashemi, N. (2014), p. 206.

106 The following studies could be also put in these categories: Dabashi, H. (2011). 'Iran's greens and the American civil rights movement: An interview with Cornel West'. In N. Hashemi and D. Postel (eds.) *The people reloaded: The Green Movement and the struggle for Iran's future*. New York: Melville House; Tahmasebi-Birgani, V. (2010). Green women of Iran: The role of the women's movement during and after Iran's presidential election of 2009. *Constellations*, 17(1), 78-86; Rostami-Povey, E. (2010). *Iran's influence: A religious-political state and society in its region*. Zed Books; Vahdat, F. (2011). 'Theorizing civil society in contemporary Iran'. In R. Jahanbegloo (ed.). *Civil society and democracy in Iran*. New York: Lexington Books.

107 Farhi, F. (2011), pp. 618-19.

the size of this class is currently less than 3 million of the employed workforces. What is more, all members of this small class does not automatically oppose the 'revolutionary conservative elites', who, as it is claimed by these studies, are in the total control of the state.[108] A further critique could be derived from the fundamental assumption of the above analyses which is the separation of the state and civil society that restrains the former to formal apparatuses and institutions. This ultimately ignores the intra-class struggle between the two fractions of the ruling class that primarily constitute the state by conceptualising the Iranian state as an authoritarian theocratic state in the hands of the nationalist wing of the power. Astoundingly, the internationalist fraction is implicitly (and occasionally explicitly) regarded to be part of the people against the tyrannical religious state. The Green Movement thereby is understood as the tale of two Irans: the Islamic state with the support of the minority of conservatives that constitute at best 10 to 15 per cent of the population and the rest of the country.[109]

While Farhang Morady, against these accounts, contends the reduction of the theocratic state to the conservative faction, he oddly, from a Gramscian perspective, reproduces the same line of argument at another level. The reliance of the development of the country on the oil industry, Morady notes, has kept the 'theocratic state' independent from society. This however creates tensions between the revolutionary elites regarding 'who should get what share of the cake.' Unfolding through ideological struggles, accordingly, the conservative faction, with less republican and secular elements, has confronted the reformist faction, with more secular and democratic features, to gain the support of different social groups.[110] The problem of this way of theorisation is threefold. First, despite recognising the importance of the economic structure and the process of integration of the country into the global economy, it fails to capture the neoliberal restructuring of global capitalism and its shaping factor in the country's development since the late 1980s. Considering the centrality of this issue in the reorganisation of the classes and the state, it is therefore inadequate to articulate the incorporation of Iran into the capitalist system as something immutable. Although the oil industry has been a prominent feature of Iran's economy, the ways in which oil revenues historically have been allocated points to the different accumulation strategies adopted by the country that in turn reflects the specific context of the various episodes

108 With the exception of Farhi, F. (2011, p. 619) who notes that 'the Islamic Republic has given birth to an ideologically differentiated middle class', all the above-mentioned studies conceptualise it as a homogeneous class with one voice.

109 Khosrokhavar, F. (2011). 'The Green Movement in Iran: Democratization and secularization from below'. In R. Jahanbegloo (ed.). *Civil society and democracy in Iran*. New York: Lexington Books, pp. 57-75; Khosrokhavar, F. (2012), p. 178.

110 Morady, F. (2011a). 'Who rules Iran? The June 2009 election and political turmoil. *Capital and Class*. 35(1), pp. 39-61; Morady, F. (2010). Iran: Islamic republic or God's kingdom? The election, protest, and prospects for change. *Research In Political Economy*. 26, pp. 69-97; Morady, F. (2011b). The power bloc in Iran: A reply to 'the changing formations of the power bloc in Iran and the neo-national bourgeoisie". *Global Discourse*, 2(2), pp. 115-120.

of global capitalism. Second, this failure eventually leads to the inability to conceptualise different fractions of the current ruling class, their accumulation strategies and the class basis of the state. In the end, ignoring the nuances of the material basis of various capital fractions subsides the analysis to an ideologically specific and culturalist explanatory formula.

To comprehend the Green Movement, the political society and civil society should be conceptualised as inseparable realms of the strategic site of struggles of the two fractions of capital for hegemony through which the interests of other classes are integrated and represented within the state. This means that we should consider the process of alliance-compromise of different fractions of the ruling class with other classes whereby the internationalist fraction and the military-bonyad complex had endeavoured to forge (short-term) material-ideological alliances with the middle class, working class, traditional and new poor and petty bourgeoisie in order to either advance their interests or block the gain of the rival. This matrix is complicated with the addition of the element of repression, especially in the case of the nationalist fraction of capital. While there was some speculation about the electoral fraud during the 2005 presidential election, Ahmadinejad managed to narrowly secure majority thanks to the support of the traditional poor, some section of the working class and the petty bourgeoisie. The central theme of his 2005 election campaign was based on the unmasking of the devastating effects of the process of liberalisation of the two previous administrations for the working class and the poor and exposing its corrupt nature that led to the birth of what he called '*aghazadehha'*, referring to high-ranking government officials and their sons who were involved in wealth accumulation. By returning to one of the main promises of Ayatollah Khomeini during the revolution, Ahmadinejad swore to 'bring the oil money to the tables of the people.' Handing over the shares of the profitable GOEs to Iranian families through 'justice shares' instead of giving to the *aghazadehha* was also asserted. Playing a nationalist card with the aim of mobilising a popular support by representing himself a national hero who would stand against the 'bullying of the Great Satan', i.e. the US, particularly regarding the 'Iranian peaceful nuclear program' was equally important in creation of a formidable electoral base for the nationalist wing of power. Hence, this fraction not only regained the support of the traditional poor,[111] but it also managed to bring the lower strata of the petty bourgeoisie and the working class on board who were put in a disadvantaged position as a result of 16 years of neoliberalisation. While during the early days of his presidency, Ahmadinejad had taken several measures to assist these classes through initiatives such as the Imam Reza Compassion Fund and the Compassion Housing Project, it soon became clear that the whole administration run to realise the interests of the

111 It could be argued that, since the revolution 1979, the traditional poor, both in rural and urban areas, ideologically and materially has been tied with the bazaar-bonyad nexus and later the military-bonyad complex through charities and revolutionary foundations.

military forces and revolutionary foundations with calamitous implications for the labour market and the working conditions of labouring classes, as explained in the previous chapter. Given the enduring reign of neoliberals and the Ahmadinejad experiment, members of the working class and the lower strata of the petty bourgeoisie were to a large degree indifferent to the post-2009 election conflicts.[112] A clear indication of this apathy was the never materialised promise of the leader of the Green Movement, Mousavi, to call for a general strike two weeks after the election due to the lack of support from the working class.[113] With regards to the upper strata of the petty bourgeoisie, the attempts of the two fractions of capital to incorporate their economic interests through the amendment of the labour law that legalised the exclusion of small-scale enterprises with initially fewer than five (during Hashemi and Khatami administrations) and then ten workers (during Ahmadinejad first term) from the provision of the Labour Law has put this class in an irresolute and vacillating position. However, considering the fact that most of the small-sized enterprises under the control of the internationalist fraction have similar structure to petty bourgeoisie-owned units, the economic uncertainty as the international pressures mounted because of the Ahmadinejad administration aggressive policies and perhaps the historical democratic demands of this wing of the petty bourgeoisie, it seemed that it took the side of the internationalist fraction during the Green Movement. Likewise, a large portion of the middle class that had witnessed the relatively palpable expansion especially during the first phase of the privatisation passionately placed its backing behind the internationalist wing as a natural ally. Furthermore, the sudden rise of the new poor, which mainly constitute of unemployed young university graduates, who blamed Ahmadinejad's policies for the retrogression of the economic conditions and the creation of job opportunities as well as the anti-democratic and reactionary social and political policies of the military-bonyad complex placed this class in line with the internationalist fraction at least for the time being. Under the marginal supremacy of the coalition led by the internationalist fraction that called for democratic reforms and free elections, the military-bonyad complex contrived a highly securitised political environment by labelling the movement as a 'sedition' that was orchestrated by the foreign powers, in particular the 'criminal US' and the 'evil England', without any national base. The hostile relations with the West in the midst of Iranian nuclear controversy when the US repeatedly asserted that 'all options including the military action on the table' made, in fact, the anti-nationalist coalition that demanded political reforms more vulnerable to the repression of the

[112] Due to the presence of numerous factors including the lack of origination that will be discussed in the next section, the working class has never intervened in the political process as a class for-itself.

[113] Kurzman, C. (2012). The Arab Spring: Ideals of the Iranian green movement, methods of the Iranian revolution. *International Journal of Middle East Studies*, 44(1), p. 164.

military forces.[114] In a word, rather than rendering it as the battle of the people and the theocratic state, the Green movement was the manifestation of a divided society, the impasse of the absolute control of the state by a particular fraction of capital, and the representation of minimal hegemony of the ruling class as a whole over the masses. Otherwise stated, it was the crystallisation of the pinnacle of class struggle between the two fractions of the ruling class for hegemony that impeccably exhibited the lack of an organic equilibrium between the rulers and the ruled.

6.5.2. The 2017-2019 Protests: The Formation of Iranian Working Class?

The security environment of the post-Green movement eased for the following presidential election in 2013 due to the domestic pressures to the nationalist wing and more importantly the tightening of international sanctions that deteriorated the economic conditions and alarmingly threatened the integrity of the system. Representing the interests of the internationalist fraction of capital, pro-reformist forces waged an effective campaign with the primary aim of entangling the economic malaise plaguing the country with the crippling sanctions of the Obama administration that united the world against Iran's nuclear program.[115] To terminate the international isolation, thwart the possibility of war and unshackle Iran's economy from years of sanctions, the Iranian people were thus invited to support Hassan Rouhani's initiative to negotiate with the West, in particular the US for the first time since the Revolution.[116] Against the expectation, however, in the last few years, inequality has escalated, unemployment has increased and the average purchasing power of ordinary Iranians has plunged, unfolding a series of protests, strikes and often violent riots. Against this backdrop, in this section, I shall endeavour to unpack the recent wave of unrests and its impacts on the *formation* of the Iranian working class.

The Rouhani government has rested on two interrelated pillars: resolving the nuclear issue with the West and furthering deregulation and neoliberalisation. As a typical neoliberal administration, the initial focus to tame the inflation below 10 per cent and reduce the budget deficit led to a rise in unemployment.[117] To create jobs and in line with the interests of the internationally-oriented fraction of capital, the government claimed that a projected increase in the volume of FDI inflows to the country following a nuclear accord would tackle the problem. At

114 Ritter, D. P. (2015). *The iron cage of liberalism: International politics and unarmed revolutions in the Middle East and North Africa*. Oxford: Oxford University Press, pp. 175-210.

115 The impact of the international factors on the balance of class forces within the Iranian state will be the subject of the next chapter where I aim to offer a non-Eurocentric, non-state-centric account of the Iranian nuclear program.

116 Oveisy, F. and Amini, B. (17 January 2018). The Iran protests: a third path to political change?'. *Socialist Project*.

117 Handjani, A. (2 January 2018). Commentary: The best way to respond to Iran protests. *Reuters*.

the same time, deepening the deregulation of the Iranian labour market was considered by the administration to be as crucial as untying the political Gordian knot of the nuclear program for growth in the number of people in work. Interestingly, before he came to power, in his 2010 book, *National Security and Economic System of Iran*, Rouhani labelled Iran's labour law as a major obstacle for businesses, arguing that the abolishment of minimum wage and elimination of restrictions on the laying off of workers are central for the freedom of owners of capital to create prosperity. Even 'yellow unions' under the format of Islamic labour councils were viewed as detrimental for businesses as Rouhani notes: 'One of the main challenges that employers and our factories face is the existence of labour unions. Workers should be more pliant toward the demands of job-creators.'[118] To this end, his administration firstly introduced an internship scheme to facilitate the recruitment of fixed-term interns instead of hiring workers under the stipulation of labour laws and later 'revised and introduced a long-dormant bill that called for further relaxation of Iran's already lax labour laws, proposing to cut the minimum wage by half.'[119] Additionally, austerity measures through cutting social welfare services spending and retreating from public investment in infrastructure in favour of international and domestic private investment have intensified even more than the first two years of the Rouhani government since the nuclear agreement in 2015.[120] In particular, in the budget for the next Iranian fiscal year (March 2018-March 2019), the government proposed to limit cash subsidies – called the *yaraneh* system which was introduced by Ahmadinejad in 2011 – where almost all poor citizens receive funds every two months. It further planned to raise the price of petrol by 50 per cent from $0.30 per litre to $0.45 and introduce fees for car registration and departure tax caused massive anxiety among the most disadvantaged groups.[121] In short, although the administration has managed to decrease the inflation rate from 40 per cent to 10 per cent since mid-2013, 'Iranians' living costs have risen almost 60 per cent during that time.'[122] In the meantime, the victory of Trump with the promise of unilaterally ending the nuclear deal has slowed down further the pace of the removal of nuclear-related sanctions. Accordingly, a 40 per cent sudden jump in the price of many basic foodstuffs due to these austerity measures and the prospect of returning crippling US sanctions triggered a series of violent protests in some 75 cities and provincial towns between late December 2017 and early January 2018.

118 Cited in *Middle East Institute* (18 May 2017). Rouhani's neoliberal doctrine has failed Iran.

119 Shaddel, M. (1 February 2018). How Rouhani's neoliberal policies provoked unrest in Iran. *Open Democracy*.

120 Ibid.

121 *New York Times*. (22 January 2018). How corruption and cronyism in banking fuelled Iran's protests; *BBC News*. (4 January 2018). Six charts that explain the Iran protests.

122 Bozorgmehr, N. (17 January 2018). Rouhani's budget transparency strokes Iran unrest. *Financial Times*.

Considering the geographical locations of protests and the age groups of those arrested, which according to official figures included more than 90 per cent under 25 years old, often educated,[123] it becomes apparent that the class of new poor coordinated the protests. It is worth reiterating that this class to a large extent backed the internationalist wing during the Green Movement and the election and re-election of Rouhani in May 2017.[124] It is important to point out that the intra-struggle between the two fractions of capital yet again was a significant factor in the instigation of the unrest. Because all evidence points to the fact that conservative foes of the government with a close tie with the military-bonyad complex were involved in the initial protest in the city of Mashhad.[125] Since taking office, the struggle between the two wings of power has intensified as Rouhani has publically criticised unaccountable centres of power, in particular, the IRGC's economic activities, by describing the privatisation of the SOEs during the Ahmadinejad presidency as the transference of part of economy from 'an unarmed government' to 'a government with arms'.[126] In the midst of nuclear talks and in response to a denunciation from the commander of the Revolutionary Guard regarding the government attitude towards the negotiations, Rouhani once again deplored the nature of the Revolutionary Guard, adding that 'if information, weapons, money, newspaper, news agency, and other aspects of power get together in one entity, Abouzar and Salman [the companions of the prophet Muhammad] become corrupt.'[127] Besides demanding the complex's divestment from the economy and handing over its enterprises to the so-called 'real private sector',[128] the government also managed to pass a bill through the Majles that repeals the tax exemption of the revolutionary foundations.[129] In the midst of this intensification of the power struggle inside the state, by relying on past experiences, the Mashhad demonstration was supposed to be a merely peaceful anti-Rouhani protest. But it quickly and unexpectedly spread out to other cities and became anti-Islamic state protests with a dozen casualties and deaths in the following days.

123 Eltagouri, M. (3 January 2018). Tens of thousands of people have protested in Iran. Here's why. *Washington Post*.

124 Against all odds, Rouhani managed to secure 57 per cent of 56 million voters casting ballots in the 2017 presidential election. See Thomas, E. (20 May 2017). Rouhani wins re-election in Iran by a wide margin. *New York Times*.

125 Bajoghli, N. (8 January 2018). Behind the Iran Protests. *Jacobin Magazine*.

126 Radio Farda (27 June 2017). IRGC commander's sharp response to Rouhani'; See also Ghadimi, A. (24 May 2017). What is a *khosolati* firm and why is Rouhani against it?. *BBC Persian*.

127 Cited in Gharchedaghi, L. (19 July 2017). Why has disagreement between Rouhani and the IRGC intensified?. *BBC Persian*.

128 Despite that the Revolutionary Guard denied the transfer of its enterprises to the private sector (*BBC Persian*, 25 January 2018, Deputy Commander of the IRGC is unaware of the assignment of its enterprises), the *Financial Times* reported that the IRGC was being forced to shrink its sprawling business empire and some of its senior members were arrested. See, Bozorgmehr, N. (14 September 2017). Iran cracks down on Revolutionary Guards business network. *Financial Times*.

129 *Donya-e eghtesad*. (8 March 2018). The Imam Reza Shrine Foundation and entities under the control of the military forces are obliged to pay taxes.

Whilst several days of protests commencing on 28 December 2017 have widely been under scrutiny, what has been overlooked is that in almost all cites that demonstrations occurred there had already been some degree of labour unrest by various groups of the working class, including factory workers, teachers, bus and truck drivers, nurses and so forth.[130] According to a study by *BBC Persian*, in nearly 90 per cent of those cities witnessing uprisings, there was at least one labour protest six months before the wave of turmoil.[131] Prior to this, some 400 labour protests in 2015, nearly 350 in 2016, and more than 900 protests in 2017 were documented.[132] Despite the aggravation of political aggression against workers in that period, the unprecedented resurgence of labour activism is still ongoing, which might cast doubt on confining the Iranian working class to an economic category rather than a political subject in the current historical conjuncture.

From the historical materialist perspective, relations of production distribute individuals into class positions, but this does not imply that class simply equals relation to the means of production. This is merely 'objective class situations' or what is often referred to in Marxist terminology as a 'class-in-itself'. At the same time, 'these situations entail essential antagonisms and conflicts of interest, and they therefore create conditions of struggle. Class *formations* and the discovery of class consciousness grow out of the process of struggle, as people 'experience' and 'handle' their class situations.'[133] This means that the breakdown of the objective relations of production should be the necessary point of departure of the analysis of class because '[i]n order to experience things in 'class ways' people must be 'objectively distributed' into class situations; but this is the beginning, not the end, of class formation.'[134] What is more, sharing common experiences and identifying common interests for people in class ways are always a complex and often contradictory historical process whereby their class situation may give rise to a fully-fledged class formation. A related point is that the formation of classes is not a permanent phenomenon because in the course of history 'every class is always caught up in a process of reconstitution and deconstitution, variation and transformation, emergence or disappearance.'[135] Given that resurrection, reanimation and reorientation of their cultural heritage, common experiences and shared traditions in a strategic manner are necessary elements of the process of class formations, for this notion of class as 'structured process', as points out by E. P. Thompson in reference to the making of the English

130 Harris, K. and Kalb, Z. (19 January 2018). How years of increasing labour unrest signalled Iran's latest protest wave. *Washington Post*.

131 *BBC Persian*. (2 January 2018). Have there been any signs of protests before?.

132 Bayat, A. (27 January 2018). The fire that fuelled the Iran protests. *The Atlantic*.

133 Wood, E. M. (2016). *Democracy against capitalism: Renewing historical materialism*. London: Verso, p. 80.

134 Ibid, p. 81.

135 Mohandesi, S. (2013). Class consciousness or class composition?. *Science & Society*, 77(1), p. 75.

working class, 'the working class made itself as much as it was made.'[136] Two further points need to be accentuated in relation to this method of class analysis. First, 'class as relationship' is not restricted to a relationship between classes but also involves 'an *internal* relationship' among members of the same class,[137] and secondly, 'while the structural basis of class formation is to be found in the antagonistic relations of production, the particular ways in which the structural pressures exerted by these relations actually operate in the formation of classes remains an open question to be resolved empirically by historical and sociological analysis.'[138]

As documented in the previous chapter, since the early 1990s, Iranian neoliberal restructuring has reorganised people in the process of production that resulted in the reconfiguration of all social classes. The central transformation with respect to the working class has been the gradual dominance of casualisation and temporary contracts in the labour market which made the structural pressures more striking and the exploitative class relation more conspicuous. This asymmetrical, antagonistic relationship, however, has not appeared in the same way and with the same intensity throughout this period. During the Hashemi and Khatami presidency, workers started to protest over pay, benefits and redundancies and demanded independent unions following the trivial political openness, notably during the reign of the latter. These strikes and worker protests had carried out in a heavy presence of police and security forces since strikes are prohibited in all sectors according to the Iranian labour laws. Moreover, the formation of independent labour organisations is not permitted in workplaces as workers are encouraged to establish Islamic labour councils instead. In reality, these councils are mostly management-run unions with close links to the state repressive apparatuses that in effect undermine workers' efforts to maintain independent unions.[139] It is not a surprise that workers had been routinely fired and trade union leaders had been the subject of arbitrary arrests and violence for organising workers during that time. Although it could be said that these conflicts and struggles shaped the social experience of some workers in class ways, they did not express themselves in class consciousness or in clearly visible formations. In recent years, the deterioration of work conditions and the unparalleled vulnerability of workers to the demands of employers alongside the general exacerbation of economic conditions have aided the relations of production have established connections among people, which has crystallised in a noticeable increase in the

136 Thompson, E. P. (1963). *The Making of the English Working Class*. New York: Vintage, p. 194.

137 Wood, E. M. (2016), pp. 93-4.

138 Wood, E. M. (2016), p. 98.

139 US Department of State. (2017). Iran 2017 human rights report. Country Reports on Human Rights Practices for 2017, pp. 43-4.

number of labour unrests.[140] While the main demands of workers have been a better condition of work, wage increase and the revocation of the privatisation of SOEs, in some protests the control of the firms through independent workers' councils has been stressed for the first time after the experience of managing some factories by workers in the aftermath of the 1979 revolution. Furthermore, radical slogans that targeted the integrity of the state such as 'Death to the Islamic Republic' and questioned the compromise/alliance between the various fractions of ruling class and subaltern classes in the past decades in the form of 'Principlists! Reformists! The game is over!' point to the inability of the ruling class to incorporate the demands of subaltern classes in their various political projects to limit their political horizons in the current conjuncture. In other words, there are some signs that illustrate that the Iranian working class has been successful in transcending its divisive particularities by collectively organising themselves intended to struggle against the capitalist class and the state in recent years.

That being said, it is unwise to argue that these protests have brought about the formation of the working-class identity incapable of establishing a working-class hegemony that, in turn, unifies popular masses against capitalism. This is because the transformation to a class-for-itself requires the interaction of the naked experience of exploitation with a range of other processes and possibilities that currently seem to be absent. The major obstacle is the enduring difficulty of creating independent labour organisations because of the subjugation of workers by the state since the establishment of the Islamic Republic. Lately, as workers' agitations have increased, workers' repression has intensified, leading to long-term prison sentences for trade unionists including the leaders of the Teachers' Trade Association, the Committee to Pursue the Establishment of Workers, the Syndicate of Workers of Tehran and Suburbs Bus Company, workers of Haft Tapeh Sugar Cane Mill, under the ground of 'national security charges such as 'gathering and colluding to commit crimes against national security', 'spreading propaganda against the system', 'disrupting public order' and 'forming a group [i.e. independent labour unions] with the purpose of disturbing national security."[141] To highlight the current level of militancy against workers, the recent remark from the Supreme Leader is illuminating since the labour discords have been labelled as unsubstantial that fomented by enemies within and foreign powers. As a green light for further repression, Khamenei, in February 2018, maintained that the anti-revolutionaries since the first day of the Revolution have always attempted to agitate workers against the Islamic Republic, adding that 'one of the major activities of our enemies [US and Israel] has been to create a recession

[140] It should be noted that alongside these labour protests, some 1,700 social protests by the disenfranchised including street venders, farmers, pensioners, unemployed and other groups of the poor have been reported in the last few years. See, Bayat, A. (27 January 2018).

[141] *Amnesty International*. (30 April 2017). Iran: Release imprisoned trade unionists and uphold workers' rights.

and obstacles in our factories and among our groups of labourers – particularly the big ones – so they can provoke the workers.'[142] The clamping down on labour activities not only has crucially hindered the creation of political strategies at the national level, which is largely possible in the presence of workers parties, unions and other organisations, but it also has wiped out the historical legacies of past struggles. Particularly, the execution, imprisonment and exile of many labour and revolutionary activists in the aftermath of the Revolution completely ruptured the transfer of past experiences and working-class traditions to the new generation. The political repression has further made the collaboration between workers and other subaltern groups more difficult. On top of that, the role of ethnicity that could be malignant for the creation of a working-class identity, in a country which is constituted by several nations in a hierarchical structure, must not be unnoticed because the current crisis as it has increased labour activities, has also made the already existing acute ethnic tensions more prominent. The increasing US pressures and the real prospect of a war could also bring the two wings of power closer together and inflame religious and national sentiments of the dominant nation to divide the masses and provide an opportunity for further repression similar to the experience of the Iraq invasion in 1981, which facilitated and precipitated the charge of treason and betrayal for any anti-Islamist groups activities. On balance, it remains to be seen if the continuation of protests and prolongation of strikes might change the balance of forces and lead to a high degree of class consciousness and class formation in the future. Despite the real possibility of the creation of the Iranian working class as a revolutionary agent in the near future, a sober judgment of the current situation should not underestimate the difficulty of such project.

6.6. Conclusion

This chapter set out to explore the historical reconfiguration of the form of the Iranian state since the instigation of neoliberal accumulation strategy, and antagonisms surrounding and battles for hegemony between the two fractions of capital. Concerned with the second level of analysis of the study, it embarked on a critique of widespread articulations of the Islamic Republic State that conceive it either as a unitary entity based on a longstanding ideology or a government within a government in which politico-ideological elites derive their power from formal institutions or interpersonal relations. The latter was accused of the inability to account for the objective structure of the state that confines arbitrary decision-making of state officials at the prospect of unbroken socio-political domination. Locating the origins of power in class relations and regarding the state

[142] *Radio Farda*. (27 February 2018). Enemies fomenting labour discord, says Khamenei.

as the compression of the relationship of class forces, it further asserted that both formal state institutions and civil society organisations have been the zones of the struggle for mastery and leadership of the dominant fractions of capital. Thereafter, what followed from assuming away the inextricability of the political society and civil society realms was the argument that linked the construction of the 'democratic' and 'revolutionary' Islam discourses to the internationalist fraction and the military-bonyad complex. Emanated from the notion of the material structure of ideology, the chapter argued that the realisation and relevance of these ideas have been depended on the availability of material organisations provided by the aforementioned fractions while the historical existence of the different interpretations of Islam was acknowledged. Rather than the state having a solitary ideology and because the ruling fractions have attempted to incorporate the material demands of other classes by means of various state policies, the matrix of consent, coercion and materiality advanced to analyse the struggles for hegemony on the grounds of often short-term alliance-compromise of two wings of the ruling class with other classes as it was exhibited in the case of the Green Movement. Finally, it observed that the severity of the recent economic crisis has demonstrated some degree of total opposition to the existing political order throughout the latest wave of protests. Specifically, with regards to the revival of working-class resistance, it was argued that the Iranian working class is not yet in possession of agency and subjectivity to lead a popular struggle that could challenge the current system and materialise a new socio-political order. Taking into account the arguments developed in the previous and current chapters, the next, and final, empirical chapter aims to provide a nuanced account of Iran's nuclear program.

Chapter Seven

Capitalism, Geopolitics and Social Class Forces: The Iranian Nuclear Program

7.1. Introduction

The last two chapters explored the process of neoliberal capitalist development and the form of state in contemporary Iran. By articulating the new combined form of development as the upshot of the dialectical interaction of external and internal determinants, it was exhibited that the process brought about the formation of the internationalist fraction of capital and the reconfiguration of the national fraction of capital, the military-bonyad complex. Informed by these fundamental alterations in the relations of production and class structure of the society, the preceding chapter then navigated the changes in the institutional arrangement of the Iranian state as well as the struggles of the two main fractions of the ruling class for mastery and leadership at the societal level since the early 1990s. It was argued that the conspicuous transformations in the state institutions and apparatuses and major socio-political events could be best comprehended if the state (encompassing of both the political and civil society) is understood as the strategic site of struggles of class fractions and forces.

Building upon these findings, this chapter aims to examine Iran's foreign policy in the last three decades with a special focus on its contentious nuclear program in line with the third level of analysis of the thesis, namely the world order. Throughout, the chapter presents evidence that the nuclear program has been utilised rather differently by the prevailing social class forces within the Iranian state as well as national and transnational fractions of capital in the United States and the European Union by virtue of their different accumulation strategies rested up their conflicting class interests. The empirical discussions substantiate three interrelated theoretical statements which are put forward about the relationship between the state-system and capitalism. The first claim is that geopolitical confrontations and capitalist development are internally related to each other, therefore disputing the idea that any geopolitical competition does not pertain to the process of capital accumulation. Second, while these geopolitical confrontations always manifest themselves through states, this does not imply that each state represents the collective interests of its united national bourgeoisie. Rather, geopolitical strategies might change drastically depending on which social class force has relative supremacy in the state in any given time. Third, in order to challenge Eurocentrism, which is embedded in almost all theories of geopolitics, the active agency

of the non-West should be recovered and incorporated into analysis. Following from this, the chapter argues in favour of the interiorities of the tensions surrounding the nuclear program and the process of neoliberalisation, asserting however that the changing balance of power between social class forces within the U.S. and the Iranian state has resulted in the formulation of different foreign policies regarding the matter during this period. Whilst the U.S. national fraction of capital has exploited the nuclear program to include Iran in its 'strategy of Bomb-and-Build' as a key source of accumulation, the utilisation of it by transnational fractions has been for the further opening up of the Iranian market to foreign capitals through a multilateral approach in foreign policy. On the other side, the military-bonyad complex and the internationalist fraction of capital have made the use of the nuclear crisis to cease and amplify the process of the integration into the global economy respectively. The significance of the actions of the Iranian agents is articulated as the vindication for the importance of addressing the active role of the non-West in any analysis of geopolitics.

The remainder of the chapter proceeds accordingly. The following section reviews the prevailing historical materialist explanations of the relations between capitalism and the interstate system. As Chapter 2 provided a critical overview of structural realist and social constructivist theorizations of this relationship, the section thus confines itself to its Marxist part of the debate whereby the theories of informal empire, contingency and two logics are problematized. Through critically engaging with the alternative explanation developed based on the philosophy of internal relations, the third section puts forward a conceptual framework for the analysis of the Iranian nuclear program. The fourth section scrutinizes the location of Iran in the neoliberal word order since the instigation of neoliberal restructuring of the economy almost three decades ago. By putting a spotlight on the nuclear program, the attempts of the abovementioned class forces to influence and direct the foreign policies of Iran and the United States are examined in three different historical periods. The final section concludes with a discussion of the broader theoretical implications of the chapter.

7.2. Contesting Informal Empire, Contingency and Two Logics

By impugning the Lenin-Bukharin thesis of imperialism for reproducing an instrumentalist conception of the state,[1] Leo Panitch and Sam Gindin claim that 'an extension of the theory of the capitalist state' is needed to understand capitalist imperialism not 'the theory of economic stages

[1] Panitch, L. (2014). Rethinking Marxism and imperialism for the twenty-first century. *New Labor Forum*, 23(2), p. 22.

or crises' that contemporary sympathetic critics of the thesis still formulate. As this means historicising the theory, they revisit the 'imperialism of free trade' of Britain, arguing that the former 'informal empire' failed to incorporate the interests of the newly emerging capitalist powers into its free trade imperialism and therefore administered conflicts arising from the development of global capitalism in the late nineteenth century due to the fragility of 'the international institutional apparatuses of diplomacy and alliances, British naval supremacy and the Gold Standard.' This failure however was rectified with the emergence of a new informal empire in the aftermath of the World War II owing to the dynamism of American capitalism, its liberal democratic ideology and above all the 'formation of the American state.'[2] Ever since, whilst still representing its capitalists' interests abroad, the American state has functioned in a way that incorporates the interests of its capitalist rivals in advanced capitalist counties and the concerns of capitalists in developing states.[3] It has done so through the reconstruction of states around the globe that has brought about 'the *internationalisation of the state*, understood as a state's acceptance of responsibility for managing its domestic capitalist order in a way that contributes to managing the international capitalist order.'[4] Panitch and Gindin challenge the view that the crisis of 1970s signalled the rise of rival powers at the expense of the U.S. hegemony while affirming that the successful post-crisis reconstruction of its informal empire did not mean 'a new plateau of stability' of global capitalism. For the United States has been involved in military interventions in 'rogue states', which are based on the margins of the dynamics of global capitalism 'that neither penetrating external economic forces nor international institutions can effectively restructure them.'[5] Because of the 'hubris and sense of burden', the U.S. has sometimes abandoned multilateralism in favour of unilateralism in dealing with these states that contributed to open disagreements between America and other core capitalist states as in the case of the second Iraq War. Nonetheless, rather than having anything to do with 'economic rivalries', the authors stress that these tensions must be seen as variations in policies and tactics of achieving the same objective which is the transformation of the so-called 'rogue states' to 'effective states'.[6]

Unlike William Robinson' TNS thesis that effectively claims a global state is in the process of forming,[7] Panitch and Gindin do not suggest that the American informal empire overcomes the

2 Panitch, L. and Gindin, S. (2004). Global capitalism and American empire. *Socialist Register*, 40, pp. 7-10.

3 Panitch, L. and Gindin, S. (2012). *The making of the global capitalism*. London: Verso, p. 332; Panitch, L. and Gindin, S. (2004). p. 4; Panitch, L. (2014), p. 24.

4 Panitch, L. and Gindin, S. (2004), p. 17.

5 Ibid, p. 28.

6 Ibid, pp. 28-31; Panitch, L. and Gindin, S. (2012), p. 332.

7 Robinson, W. (2004).

legitimacy of other capitalist states but rather subordinate them to its hegemony.[8] Notwithstanding, both arguments reach the same conclusion: the irrelevance of geopolitical competition if not its obsolescence. In other words, for the informal empire and the TNS, the benefits of the interventions of the U.S. military as 'the ministry of global capitalism' are always shared by same groups even though it is framed slightly differently. In the case of Panitch and Gindin the primary recipients are capitalist classes in the U.S. and aboard while for Robinson 'an increasingly globally integrated ruling class'.[9] Contrary to these claims, a brief survey of the post-war reconstruction illuminates that the major beneficiaries of the invasion of Iraq were U.S. nationally-based corporations.[10] Apart from this empirical inaccuracy, which ultimately calls into question their theoretical assumptions, there are major issues with the theorisation of the state in both accounts. Since Robinson's TNS thesis was dealt with in Chapter 3, the attention here is given to Panitch and Gindin's thesis.[11] They censure the classical theorists of imperialism for not providing a proper theorisation of the state and the international system of states of which is required to understand antagonism's between states and the 'conjunctural predominance of one imperial state'. However, they do not either provide any definition of the state nor other key concepts such as empire and global capitalism. Throughout, they repeat 'the American state' and the centrality of the state for the reproduction of capitalism without clarifying whether the state is a 'thing', an 'object', a 'subject' or a social relation. In the lack of a clear conceptualisation of the state, we are left with an implicit reification of the state in which its relation with social class forces is left untheorized. Their account furthermore does not provide any convenient theoretical justification for the persistence of the interstate system. Important questions such as whether the 'imperial' form of territorial configuration is permanent or a global state might emerge in the future are remained unanswered. Relatedly, it does not say if geopolitical tensions are always related to the process of accumulation of capital.

Within the historical materialist tradition, Political Marxism vigorously endeavours to conceptualise the relation between geopolitical struggles and capitalism. It problematises the strongly held and widely accepted perspective of the co-emergence and co-constitution of capitalism, the sovereign state and the system of territorially organised sovereignties both historically and theoretically by arguing that '[t]he formation of a territorially fragmented states-system preceded the onset of capitalism. This system was socioeconomically and (geo)-politically

8 Panitch, L. and Gindin, S. (2004), p. 31.

9 Robinson, W. (2004), p. 140.

10 Anievas, A. (2008), p. 203; Bieler, A. and Morton, A. D. (2015), pp. 119- 22.

11 For further critical evaluations of Robinson's thesis see Van der Pijl, K. (2001). Globalization or class society in transition?. *Science & Society*, 65(4), 492-500; Block, F. (2001), pp. 215–21; Anievas, A. (2008). pp. 190-206.

pre-modern, since its constitutive units were predominantly dynastic states and, to a lesser extent, oligarchic merchant republics.'[12] By surveying the history of the transition from feudalism to absolutism in continental Europe, it is claimed that the lord-based 'parcellized domination' was replaced by 'generalized personal dominion' thereby 'the territorial particularism of medieval times' was eventually transformed into 'the more homogeneous and bounded… territoriality of dynastic kingdoms.' During the late eighteenth and early nineteenth century, under the fiscal-military pressure from industrialised Britain, the capitalist transition in continental Europe took place within these absolutist states and its related system of sovereign states. Political Marxists emphasise however that the development of capitalist social relations does not require this form of state as 'the impersonal territoriality' of a typical capitalist state is founded upon and often regulated through the rule of law.[13] Not only does the nature of capital not need this type of state, but it also does not generate a states-system as it is explicitly spelt out by Teschke and Lacher: 'There simply is no straight line from capitalism to any specific geo-territorial matrix or set of international relations….Capitalism did not develop out of itself the system of territorial states which fragments capitalist world society; inversely, capitalism is structured by an international system because it was born in the context of a pre-existing system of territorial states.'[14] Likewise, in a critical engagement with Harvey's *New Imperialism*, which I shall deal with shortly, Robert Brenner disputes the formulation of often ongoing tenacious gaps between states' foreign policy and the needs of capital as a conflict of interests of the two parties, contending that this contentious relationship could be grasped best by 'reference to the problematic character of the form of state that historically emerged to carry out the political functions required for the reproduction of capital: the system of multiple states.'[15] The crux of the matter is that while this intellectual current agrees that the development of capitalism had transformed the component states of the absolutist system into capitalist states, they remain adamant that it 'failed to alter the multi-state character of the resulting international system.'[16] Nonetheless, for them, this does not imply that other forms of capitalist statehood such as 'the transnational state' are not possible in the future.[17] In fact, according to Brenner, a single global state is not only conceivable but perhaps is the most desirable agenda of

12 Teschke, B. (2003). *The myth of 1648*. London: Verso, pp. 145-6.

13 Teschke, B. and Lacher, H. (2010). 'The changing "logics" of capitalist competition'. In A. Anievas (ed.). *Marxism and world politics: Contesting global capitalism*. London: Routledge. pp. 34-5

14 Ibid, pp. 35-6. See also Lacher. H. (2002). 'Making sense of the international system'. In M. Rupert and H. Smith (eds.). *Historical materialism and globalization*. London: Routledge, p. 159.

15 Brenner, R. (2006). What is, and what is not, imperialism?. *Historical Materialism,* 14(4), pp. 83-4. See also Brenner, R. (2007). Structure versus conjuncture. *New Left Review*, 43, pp. 33-59.

16 Ibid, p. 84.

17 Lacher, H. (2002), p. 162.

capital.[18] Ellen Meiksins Wood is the only exception in this tradition who defies the possibility of a global state to match the needs of global capital by maintaining that 'the very fact that 'globalization' has extended capital's purely economic powers far beyond the range of any single nation state means that global capital requires *many* nation states to perform the administrative and coercive functions that sustain the system of property and provide the kind of day-to-day regularity, predictability, and legal order that capitalism needs more than any other social form. No conceivable form of 'global governance' could provide the kind of daily order or the conditions of accumulation that capital requires.'[19] As Wood concedes it herself, this proposition is not built upon the theoretical plane, but rather it is drawn from 'a lower-level practical observation about the insurmountable difficulty of sustaining on a large geographical scale the close regulation and predictability capital needs.'[20]

Many would be reluctant to dispute the argument that the state system antedates capitalism as Political Marxists as well as Weberian historical sociologists point out. Nevertheless, if we accept that capitalism has triumphantly seized and fundamentally reconstructed many pre-modern relations, social forms and institutions, it makes little sense to still articulate the current state system as a social form incapable of incorporating into and adapting to the capitalist mode of production.[21] Beyond this logical statement and at the level of theory, contingency puts forward an accident of history which is not very convincing. It seems like the persistence of the state system is the product of the uneven development of capitalism rather than pure historical contingency.[22] This implies that there is something inherent in capitalism that provides the source of a powerful centrifugal drive that sustains the system of territorial states. As explained in Chapter 3, while there is a strong propensity in capitalism for the unification of the world, the relentless competition between individual capitalists for the domination of the market by reducing the costs of production through either concentration/centralisation (i.e. monopolisation) or the introduction of technological innovations always yields uneven development. What is more, the construction of spatially-embedded physical infrastructures, which is necessary for the perpetual accumulation of capital, permanently reproduces unevenness in capitalism. All these *tendencies* point to the fact that the formation of a single fraction of global capital and a single global state is unlikely. These economic

[18] Brenner, R. (2006), p. 84

[19] Wood, E. M. (2003). *Empire of capital*. London: Verso. p. 141; see also Wood, E. M. (2006). Logics of power. *Historical Materialism,* 14(4). p. 26; Wood, E. M. (2000). 'Back to Marx'. In R. H. Chilcote (ed.). *Imperialism: theoretical directions*. New York: Humanity Books. p. 124.

[20] Wood, E. M. (2006). p. 25.

[21] Callinicos, A. (2009). p. 80.

[22] Harvey, D. (2006), pp. 413-24; Callinicos, A. (2009), pp. 80- 92.

effects of uneven development therefore lead to the territorial configuration of the state that resists pressure to change.[23] Whilst it is conceivable to see the forces of capital dispense with the *national state* as the current form of the territorial expression of uneven development, 'this would say nothing about the persistence of a states-system which could take various scales and forms of territorial configuration (regional, multinational forms, empires, etc.).'[24]

Due to the adherence to the idea of the continuation of the pre-modern state system, Political Marxism thus argues that there is not an intrinsic connection between capital accumulation and the interstate system. Another prominent Marxist explanation for the enduring coexistence of the state-system and capitalism, which also denies any internal relation between geopolitical conflicts and capital accumulation by articulating it as a *coincidence of interests,* is 'two logics', theorised most notably by David Harvey and Alex Callinicos.[25] Formulating it as the 'territorial' and the 'capitalist' logics of power, it is argued that their difference is that the motivations and interests of capitalists and statesmen deviate as the former seeks to incessantly accumulate capital whereas the latter pursues policies that aim to augment the power of their own state against other states. Furthermore, while capitalists operate 'in continuous space and time' and their firms 'come and go, shift locations, merge, or go out of business', statesmen/politicians operate within states that 'are long-lived entities, cannot migrate, and are, except under exceptional circumstances of geographical conquest, confined within fixed territorial boundaries.'[26] Despite this distinction, it is emphasised that these logics are in a 'problematic and often contradictory (that is, dialectical)' relationship with each other which might sometimes pave the way to the point of outright antagonism.[27]

Harvey and Callinicos are very different in many respects and they strongly disagree on the theorisation of capitalist crises and the contemporary nature of U.S. capitalism.[28] Nonetheless, they concur that adopting neo-liberal policies to radically restructure global capitalism after the crisis of the early 1970s was an attempt by the United States to maintain its hegemonic position against Europe, especially Germany and Japan. That said, with early benefits for Japanese and European

23 Anievas, A. (2008), pp. 200-2.

24 Ibid, p. 202.

25 Harvey, D. (2003); Harvey, D. (2001). *Spaces of capital: Towards acritical geography*. Edinburgh: Edinburgh University Press, pp. 312-44; Arrighi, G. (1994). *The long twentieth century: Money, power and the origins of our times*. London: Verso; Callinicos, A. (2003). *The new mandarins of American power*. Cambridge: Polity; Callinicos, A. (2007); Callinicos, A. (2009), *Imperialism and global political economy*. London: Polity Press.

26 Harvey, D. (2003), p. 27.

27 Harvey, D. (2003), 29-30; Callinicos, A. (2009), pp. 114-15.

28 Harvey, D. (2004), pp. 63-8; Callinicos, A. (2009), pp. 197-203; Callinicos, A. and Ashman, S. (2006). Capital accumulation and the state system: Assessing David Harvey's the new imperialism. *Historical Materialism*, 14(4), pp.107–131.

companies, a new multilateralism was organized with a triadic structure of Western Europe, North America and East Asia, illustrating that 'Lenin was wrong and that Kautsky might be right.' The volatility of the new structure however returned to haunt the U.S. as it facilitated conditions for the rise of the East and South-East Asia, in particular China with the potentials of challenging the dominance of Washington.[29] Against this backdrop, different U.S. administrations and political parties have been united in the objective of maintaining the hegemony of the U.S. against rivals despite policy disagreements. Hence, it is noted that elements within the U.S. political establishment are always ready to use military power as in the case of Iraq to warn off potential 'peer competitors' and tighten its grasp on the oil supplies as the best means to counter the power shifts since 'whoever controls the global oil spigot can control the global economy, at least for the near future.'[30] Conceptualising the current form of the world order as the inter-imperialist rivalries, Harvey thus concludes: 'With the occupation of Iraq and the possible reform of Saudi Arabia and some sort of submission on the part of Syria and Iran to superior American military power and presence, the U.S. will have secured a vital strategic bridgehead…on the Eurasian land mass that just happens to be the centre of production of the oil that currently fuels…not only the global economy but also every large military machine that dares to oppose that of the United States. This should ensure the continued global dominance of the U.S. for the next fifty years.'[31]

Despite being novel in reconstructing one of the classical theories of imperialism, the modern inter-imperialist rivalries argument is not totally persuasive for several reasons. To begin with, it seems that the outcomes of the Iraq War has jeopardised rather than strategically strengthened the U.S. position against rivals due to the astronomical costs of the war, both financially and ethically. While accepting the debacle of the policy, two logics advocators still argue that the failure in Iraq does not make the strategy irrational nor is related to the division within the American ruling class.[32] If the invasion of Iraq and more generally the increase of the U.S. military presence in the region since 9/11 is conceived as part of the accumulation strategy of 'Bomb-and-build' of a certain fraction of American capital, it would be possible to view the centrality of warfare and militarism as temporary relief and a means to create fresh spaces for accumulation.[33] This relates to the second unconvincing aspect of the 'theories of new imperialism', which is the tendency to reduce the state to a singular, monolithic body that represents and acts on behalf of

[29] Harvey, D. (2004), pp. 70-80; Harvey, D. (2003), pp. 68, 81-83 and 184-195; Callinicos. A. (2009), pp. 207-13.

[30] Harvey, D. (2003), p. 19; Callinicos, A. (2009), p. 15.

[31] Harvey, D. (2003), pp. 198-9.

[32] Callinicos, A. (2009), p. 225.

[33] Bieler, A. and Morton, A. D. (2018), p. 205.

many capitals within a given country in competition against rival capitals of other countries. Drawing on Marx's argument that 'capital exists and can only exist as many capitals', Callinicos seems to stress that many capitals only exist between states not within a state, therefore reproducing the Bukharinian idea of the formulation of a single 'gigantic enterprise' on a national basis.[34] As Anthony Brewer correctly points out in his survey of classical Marxist theories of imperialism, '[i]t is not true that competition was, then or later, completely suppressed within national boundaries…The tendency has been for big corporations to spread out from their national bases and compete all over the world, rather than uniting to face foreign competition.'[35] This being said, it should be noted that Harvey cautiously argues, in favour of 'regionality' that 'necessarily and unavoidably arises out of the molecular processes of capital accumulation in space and time', resulting in the formation of regional dominant classes and hegemonic class alliances whose interests are expressed through politics of the state.[36] Nevertheless, it is not clear in his concrete analysis of the Iraq War how this regionality and regional class interests played out beyond the theoretical rigidity of nation-statism. Finally, but most importantly, the fundamental theoretical point of this current, framed as the difference between the territorial and capital logics of power, seems to be abandoning the central concept of Marx's method. This is because if one argues that the state system 'can and should not be deduced from the concept of capital', and then stresses that 'it exerts its own set of determinations, quite independently of capital', in effect denies the notion of totality.[37] The alternative that could overcome both the coincidence of interests of two logics and the accident of history of contingency could be the internal relations between capitalism and the state system, which I now turn to probe.[38]

7.3. Capitalism and Interstate System: An Internal Relation

By confronting the two logics argument and the TNS thesis, Andreas Bieler and Adam Morton aim to provide an alternative historical materialist account of an internal relation between interstate

34 Callinicos, A. (2009), p. 79.

35 Brewer, A. (1990). *Marxist theories of imperialism: A critical survey*. London: Routledge & Kegan Paul, p. 114.

36 Harvey, D. (2003), pp. 102-4.

37 Pozo-Martin, G. (2007), Autonomous or materialist geopolitics?. *Cambridge Review of International Affairs*, 20(4), pp. 556-7; Davidson, N. (2010a). 'Many capitals, many states: Contingency, logic or mediation?'. In A. Anievas (ed.). *Marxism and world politics*, London: Rutledge, p. 82.

38 It is worth pointing out while Neil Davidson disputes the two-logic argument by subscribing to the idea of totality, he reaches to the similar conclusion as a result of sticking with the Bukharin-Lenin thesis which embodies a monolithic theorisation of the state. For Davidson nationalism rather than uneven development of capitalism is the force for the persistence of the state-system, arguing that 'there will be many capitalist nation-states so long as there are many capitals, and so long as there are many capitalist nation-states they will behave as capitals. The trajectory of geoeconomic competition ultimately ends in geopolitical rivalry.' See Davidson, N. (2012). The necessity of multiple nation-states for capital. *Rethinking Marxism*, 24(1), pp. 32-3; Davidson, N. (2009), pp. 9-28.

system and capitalism. To this end, first, Callinicos' account of imperialism is regarded as 'a hypostatisation of the two logics of capitalism and geopolitics…which are conceived as always-already analytically separate elements that are then subsequently combined',[39] and then the idea that a transnational state has replaced the interstate system is rightly dismissed. While agreeing with the largely-accepted argument that the territorially fragmented system of the states predates capitalism, Bieler and Morton claim that 'powerful forces' prolong this connection to the point that the nation-state is rooted in the very nature of capitalism.[40] After accepting the persistence of the interstate system, they then reject that the dynamics of capitalism and geopolitics are externally related to each other. Grounding in the philosophy of internal relations, they argue that instead of analysing 'geopolitical and capitalist logics or corporate and policy-planning networks' as things that they are externally related to each other, it is better to situate the full meaning of each in its internal relationship with the others.[41]

Here, first, a specific understating of the capitalist state becomes crucial to make a case for 'its internal relations with market conditions, with the wider interstate system, and with global capitalist relations of production.'[42] As dominant classes consist of several class fractions rather than a unified class, the state is conceptualised as the condensation of class forces. This allows them to argue for the need of taking into account the formation of specific forms of state in their different ways in the analysis of the internal relations between the interstate system and the changing configuration of global capitalism.[43] Second, they argue that because of the periodic crises, capitalism constantly has to expand outwardly to create hothouse conditions for capital accumulation.[44] Through utilising this theoretical framework in the case of the Iraq War, they analyse the class struggles between different transnational and national fractions of capital inside the U.S. state within the structural context of the constant pressure for capitalist expansion, arguing that the invasion, rather than being a strategic move by the United States to outmanoeuvre its rivals, was 'the spatial ordering of the built environment through militarism and other mechanisms

39 Bieler, A. and Morton, A. D. (2014), p. 26.

40 It should be however noted that the source of these 'powerful forces' is not clear from their account since their reference to Ellen Wood implies the impracticality of the formation of a global state whereas a citation from Chase-Dunn puts emphasise on 'the dynamic of uneven development that undercuts the possibility for global state formation.' See Bieler, A. and Morton, A. D. (2018). p. 108 and 122-3.

41 Bieler, A. and Morton, A. D. (2015), p. 100; Morton, A. D. (2007), p. 606.

42 Bieler, A. and Morton, A. D. (2014), p. 38.

43 Bieler, A. and Morton, A. D. (2018), P. 127.

44 Bieler, A. and Morton, A. D. (2015), pp. 107-11.

of finance linked to specific fractions within the U.S. state form,' which was directly related to the immediate needs of capital.[45]

Whilst Bieler and Morton' thesis provides a foundation for my survey of Iran's nuclear program, there are at least two issues that need to be addressed, namely their conceptualisation of TCC and the lack of attention to the agency of non-Western forces. Whereas the former is specific to their framework, the latter is a widely ignored issue in historical materialism. As I engaged with the TCC in Chapter 3, there is no need to further investigate the idea. In short, it was argued that rather than the transnational capitalist class, the ideas of transnational fractions of capital in the plural is more compelling. With regards to the second issue, in reviewing the classical Marxist theories of imperialism, Anthony Brewer observes that their theoretical fixation with the rivalry between major capitalist countries over territory that tended to produce inter-imperialist wars leads to a justifiable accusation of Eurocentrism. For this theorization ultimately results in a focus on 'a struggle between the strongest in which the less developed countries figure mainly *as passive battlegrounds*, *not as active participants*' (emphasis added).[46] It could be argued that this blind spot is not limited to these classical theories since all (aforementioned) contemporary Marxist explanations of geopolitics are also guilty of reproducing Eurocentrism. This is probably more palpable in the case of Harvey, Callinicos, Davison and a few others who substantially draw on the Lenin-Bukharin thesis.[47] But this weakness is equally visible in the works of Political Marxists, Panitch and Gindin, and Bieler and Morton as for instance the latter two pairs mainly focus on the U.S. state, depicting thus the Iraqi state and society as a passive battlefield in the analysis of the 2003 Iraq War.

To grasp this silence on the role of the non-West in the mechanisms and dynamics of 'the international', closer attention to assumptions and spatial abstractions of Eurocentrism as a specific mode of comprehending modernity is essential. Kamran Matin suggests that the conceptual core of Eurocentrism builds upon *historical*, *normative*, *prognostic*, and *stadial* assumptions, which denote that the European modernity endogenously emerges, is superior to the rest and destined to become universal whereby the internal processes of development in all societies around the world emulate its stagist modernity. A triple spatial abstraction is reproduced from these assumptions, namely the complete exclusion of non-European societies from the theorisation of modernity in Europe, the intentional or unintentional suppression of an analytical discussion of

45 Bieler, A. & Morton, A. D. (2018), pp. 215-16.

46 Brewer, A. (1990), p. 89.

47 See for instance Gowan, P. (1999). *The global gamble*. London: Verso; Harman, C. (2003). Analysing imperialism. *International Socialism*, 2/99; Rees, J. (2006). *Imperialism and resistance*. London: Routledge.

violent implications of the 'self-generated European modernity' for non-European societies and finally the theoretical foreclosure of possible influence of contemporary 'modern(izing)' non-European societies on the dynamics and shape of future world.[48] Cemal Burak Tansel elaborates further on this persistent dismissal, affirming that the Eurocentric narrative eradicates 'the role and effect of the non-West in engendering both conjunctural and epochal transformations, some of which are essentially constitutive of the emergence of the modern capitalist economy and the international states-system.'[49] Of course, without any reservation, the majority of Marxist authors are immune from many aspects of Eurocentric mode of inquiry since they relentlessly challenge the discourse of the replication of the 'European miracle', dispute the stagist mode of thinking about history, and resist the removal of important global events and processes such as colonialism and imperialism from the analytical discussion by shedding light on the violent experiences of the emergence and expansion of capitalism. That said, they do not incorporate the *active agency* of the non-West in the conceptualisation of global history including geopolitics because it was never included in the first place. I concur with Tansel, who borrowed the term 'subliminal Eurocentrism' from John M. Hobson, that 'the dislocation of the non-West from a reciprocal agential axis is not necessarily a deliberate move' by the abovementioned scholars in their theorisation of geopolitics.[50] Nonetheless, the active agency of the non-West has to be interiorised and integrated into the theoretical discussion in order to provide a comprehensive account of the relationship between geopolitical competitions/struggles and capitalism.

Before going into the empirical investigation of the Iranian nuclear program, let me summarise the conceptual framework informing this analysis. First, there are different fractions of capital within the state, namely nationally-oriented, internationally-oriented and transnationally-oriented fractions of capital with often competing interests. Second, assuming that there are internal links between capital accumulation and geopolitical tensions, these fractions are involved in struggles within the state to influence the process of foreign policy decision-making in an attempt to realise their class interests. That said, this does not mean that foreign policy of any given state completely gears towards the realisation of the interests of a given fraction due to the impossibility of the total control of the state. Furthermore, other factors other than economic interests could well impact the process of foreign policy decision-making. In other words, rather than simplistically reducing geopolitical struggles to the material interests of one or other capital

48 Matin, K. (2011), pp. 354.

49 Tansel, C. B. (2015). Deafening silence? Marxism, international historical sociology and the spectre of Eurocentrism. *European Journal of International Relations*, 21(1), p. 78.

50 Ibid, pp. 78-9.

fraction, the framework attempts to show why ignoring the internal relations between the two is not desirable. Finally, intending to shake up the Eurocentric underpinnings of the social theory, the conceptual model calls for bringing the noticeable role of the non-West agency to the forefront of the analysis to capture the complexity of geopolitics and its relations to capital accumulation.

7.4. Iranian Nuclear Program and Neoliberalisation

7.4.1. Détente, the War on Terror and a 'Missed Opportunity' (early 1990s – 2005)

In line with the newly initiated process of neoliberalisation, the government of Hashemi embarked upon a new foreign policy in the early 1990s, which profoundly challenged the 1980s isolationist approach and bellicose attitude towards the West. By revising the then-prevailing notion of sovereignty that embraced isolation for the sake of independence, the new government declared that the integration into the world community is the prerequisite of Iran's sovereign independence.[51] To this end, the IRGC's overseas activities as well as the Islamist leftists' propaganda in favour of the export of the revolution in the region were to some extent controlled through the compromise between the bonyad-bazaar nexus and the neoliberal wing of the strata of managers of the state at the early stage of neoliberal restructuring. Accordingly, several measures had been taken including a pragmatist policy regarding the first Gulf War in which Iran inaudibly cooperated with the U.S. to eject Iraq from Kuwait in spite of opposition from the radical Islamist statist wing and 'Saddam's unilateral offer to restore the 1975 border agreement and to give Iran 'everything you wanted" in return for its support against the common enemy.[52] Furthermore, besides reinstating ties with regional powers, the government made serious attempts to restore relations with Europe and downgrade hostility towards the United States. Encouraged by Iran's stance about the Iraqi invasion of Kuwait, the EU advocated the normalisation of relations with Tehran as an essential step for the stability of the region. Formulated in 1992 under the name of the 'critical dialogue', the Union entered talks for enhancing economic relations that were conditional upon Iran's improvements in human rights, the resolution of the Rushdie issue and terrorism.[53] By the mid-1990s, the EU became Iran's main trading partner, counting for 36 per cent of its exports and 40 per cent of its imports.[54] President Hashemi had also sent positive gestures to open channels with Washington, remarking that 'I have always been opposed to

51 Ramazani, R. K. (2012). 'Iran's foreign policy: Independence, freedom and the Islamic Republic'. In A. Ehteshami and M. Zweiri (eds.). *Iran's foreign policy: from Khatami to Ahmadinejad*. Berkshire: Ithaca Press. p. 9.

52 Sick, G. (2011). Iran's foreign policy: A revolution in transition. In Keddie, N. and Matthee, R. (eds.). *Iran and the surrounding world: Interactions in culture and cultural politics*. Washington: University of Washington Press, p. 362.

53 Dryburgh L. (2008). The EU as a global actor? EU policy towards Iran. *European security*, 17(2-3), pp. 257-8.

54 Ehteshami, A. (2017), p. 199.

completely breaking our ties with the United States. They provide us with much needed spare parts and we sell them petrol. Therefore, our economic ties have never been completely halted and some kind of dialogue must always exist'.[55] As a result, U.S. oil companies resumed business in Iran in the early 1990s and the Iranian government unprecedentedly offered an American firm (Conoco) a lucrative $1 billion off-shore oil and gas exploration contract in 1995. President Clinton however blocked the deal as part of the implementation of the new U.S. policy of the 'dual containment' of Iran and Iraq after 1993.[56]

As explained in Chapter 5, the compromise between the government and the bonyad-bazaar nexus broke down after 1992 and the internal fight had exacerbated during Hashemi's second term in office from 1993 to 1997, resulting in the resurgence of terrorist activities. With the aim of sabotaging the government's rapprochement with the West, the IRGC and the securities forces assassinated a Kurdish opposition group leader in Germany in September 1992 and Rushdie's Norwegian translator in October 1993 and allegedly planned the bombing of the Jewish center in Buenos Aires in July 1994 and of U.S. installations at the Khobar Towers in Saudi Arabia in June 1996.[57] While some argue that these actions were carried out independently from the government, two points are important to make.[58] First, undoubtedly, Hashemi and his close associates did not have any issue with these actions before the start of neoliberal reforms but they were considered damaging in the context of the new direction of foreign policy after 1990. Second, with and without the president's knowledge, these events indicate the collapse of the fragile compromise between different wings of power within the state that changed the balance of power and severely challenged Hashemi's reconciliation agenda. In February 1997, to make the situation worse, the Fifteen Khordad bonyad declared that the foundation would increase the blood money for assassination of Salman Rushdie from $2 million to $2.5 million. Although Hashemi reaffirmed that the bonyad had no bearing on official foreign policy, the foundation's statement prompted an international outcry.[59]

On the other hand, while the United States pursued the policy of 'dual containment', the EU was in favour of a 'critical dialogue', which ultimately forced the two parties against each other despite the dominance of transnational fractions on both sides of the Atlantic. Major points of

55 Hashemi, cited in Forozan, H. (2015). *The military in post-revolutionary Iran: The evolution and roles of the Revolutionary Guard*. London: Routledge, p. 175.

56 Mirbagheri, F. (2015). 'Iran and the West: A nuclear settlement and its aftermath'. In M. Elahee, et al. (eds.). *Reintegrating Iran with the West: Challenges and opportunities*. Emerald Publishing Limited, p. 109; Arjomand, S. A. (2009), p. 124.

57 Arjomand, S. A. (2009), p. 164; Forozan, H. (2015), p. 176.

58 Chubin, S. (2002). *Whither Iran? Reform, domestic politics and national security*. Oxford: Oxford University Press, p. 91.

59 Buchta, W. (2001), p. 6.

disagreement between the policies of the U.S. and the EU towards Iran included 'commerce, geostrategy and reinforcing the moderates.' In regards with the latter, by viewing the rise of moderate, neo-liberal forces in the country as potential allies, the Union challenged U.S. efforts to punish the Iranian state collectively, labelled it as an 'unhealthy obsession with Tehran.' The United States however justified its belligerent policy based on its belief in the inability of the Iranian government to control terrorist actions of its radicals abroad as well as the allegation of acquiring nuclear weapons which was backed by U.S. intelligence sources despite the fact that the International Atomic Energy Agency (IAEA) declared no breach in the safeguards regime following two visits to Iranian nuclear sites in 1995.[60] To put maximum pressure and isolate Iran from the international community, apart from its long-standing embargo, the Clinton administration passed unilateral extraterritorial sanctions that aimed to penalise any international firm that would invest more than $40 million in the energy industries of Iran and Libya, known as the 1996 Iran-Libya Sanctions Act. It is claimed that the unceasing pressure from the Republican-ruled Congress might have led to the capitulation of the Clinton government in issuing these extraterritorial sanctions. But it also reasonable to argue that restricting other counties' economic relations with the Islamic Republic could indicate a competition between European and American energy companies over the Iranian oil and gas sector. Alienated by the U.S. action, the EU then openly opposed the imposition of sanctions and threatened to take the United States to the WTO.[61]

Khatami came to office a few months after the Mykonos crisis in 1997 for which high-level Iranian officials were accused of having connections with political assassinations of Iranian dissidents in Europe, leading to the suspension of the 'critical dialogue' and recalling of all members states ambassadors from Tehran. The magnitude of Khatami's victory under the platform of a liberal politico-economic project at home and détente in foreign relations not only widened the scope of recently stained ties between Iran and the European Union, but it also softened the American stance. In line with the interests of the internationalist fraction, the new president vowed to alter Iran's external role with the intention of aligning with the post-Cold War order, arguing that Western values are compatible with Islamic Iranian values. By advocating a 'dialogue of civilizations', in his 1998 UN General Assembly speech, Khatami emphasised that the Islamic Republic had 'accorded the removal of tension the highest priority in its foreign policy.'

60 Sabet-Sadie, S. (2012). 'Iranian–European relations: A strategic partnership?'. In A. Ehteshami and M. Zweiri (eds.). *Iran's foreign policy: from Khatami to Ahmadinejad*. Berkshire: Ithaca Press, pp. 60-1, Drenou, A. T. (2012). 'Iran: Caught between European Union–United States rivalry?'. A. Ehteshami and M. Zweiri (eds.). *Iran's foreign policy: from Khatami to Ahmadinejad*. Berkshire: Ithaca Press p. 79.

61 Arms Control Association Report. (2013). Solving the Iranian Nuclear Puzzle, p. 14; Drenou, A. T. (2012). p. 76.

One the same trip, during his interview with the CNN, the U.S. embassy takeover in 1979 was considered as a regrettable action, calling therefore for breaking the wall of distrust between Tehran and Washington.[62] Beyond rhetoric, the new government found a diplomatic resolution for the Rushdie issue that led to the resumption of full diplomatic relations between Iran and the United Kingdom for the first time after the Revolution.[63] This followed by the rapprochement with Saudi Arabia, close cooperation with the United States in its fight against Taliban, post-war political settlement in Afghanistan[64] and endorsement of 'King Abdullah's peace plans by stating that Iran would not stand against a two-state solution if it was acceptable to the Israelis and the Palestinians.[65] The E.U. welcomed the new direction of Iran's foreign policy by resuming the talks under the name of the 'comprehensive dialogue'. The central part of the negotiations was a discussion over the expansion of trade and investment, framed as the Trade and Cooperation Agreement (TCA)[66] through which the European pushed for further liberalisation of the Iranian economy by promising to support the country's accession to the WTO.[67] At the same time, the U.S. government had made a number of conciliatory statements, most notably the Secretary of State Madeleine Albright' remark about bringing down the walls of mistrust between the two states in order to develop a road map for the normalisation of relations. Later, she apologised for the U.S. role in the 1953 coup d'état against Mohammad Musaddiq[68] and recognised that 'aspects of U.S. policy towards Iraq during its conflict with Iran appear now to have been regrettably short-sighted.'[69] By distancing from the previous policy of the 'dual containment', the Clinton administration then listed Iran's main military opposition group, the *Mojahedin-e Khalq* (MEK), as a terrorist organization, waived sanctions against foreign firms investing in the Iranian oil industry and lifted rustications on the sale of agricultural and medical goods as well as some civilian passenger aircraft parts, among others.[70]

While there appeared to be a silent cooperation between Iran and the new U.S. administration regarding Afghanistan, Tehran was accused of pursuing weapons of mass

62 Ehteshami, A. (2017). pp. 200-1

63 Rundle, C. (2012). 'Iran–United Kingdom relations since the revolution: Opening doors'. In A. Ehteshami and M. Zweiri (eds.). *Iran's foreign policy: from Khatami to Ahmadinejad*. Berkshire: Ithaca Press, p. 97.

64 Joyner D. H. (2016). *Iran's nuclear program and international law: Farm confrontation to accord*. Oxford: Oxford University Press, p. 20; Clawson, P. and Rubin, M. (2005), pp. 152-3

65 Arjomand, S. A. (2009),p . 123; Rundle, C. (2012). p. 100

66 Kaussler, B. (2008). European Union constructive engagement with Iran (200-2004): An exercise in conditional human rights diplomacy, *Iranian Studies*, 41(3), pp. 269-72.

67 Kaussler, B. 2(013), p. 22.

68 Clawson, P. and Rubin, M. (2005), pp. 151-2.

69 Sick, G. (2011), p. 368.

70 Ibid, pp. 367-8.

destruction (WMD) and exporting terror while denying its people's hope for freedom by George Bush in his famous January 2002 State of the Union Address, calling thus the Islamic Republic, along with Iraq and North Korea, a part of an 'Axis of Evil'.[71] This was part of the Bush Doctrine that was proposed through the 2002 National Security Strategy, which emphasised pre-emption rather than deterrence and a reliance on military power and unilateralism rather than multilateralism to promote 'American values', especially in the Middle East.[72] Under the auspices of this doctrine, 'the United States arrogated to itself the right to employ pre-emptive military intervention as a tool of counter-proliferation and to effect regime change as a means of ensuring disarmament.'[73] The Bush administration exploited Irans' close ties with militia groups in the region as well as its intelligence-generated concerns about a hidden WMD program as justifications for the announcement of the regime change policy. The revelation of the scale of the Iranian clandestine nuclear program in June 2002 led to the intensification of the U.S. aggressive rhetoric against Iran, reiterating that 'Tehran is the next on the list' before and days after the invasion of Iraq.[74]

What is fascinating is that IRGC was extensively involved in both overseas military and terrorist activities and the development of the nuclear program that largely undermined the reconciliation policy of the internationalist wing of power. For the start, it is worth noting that the assassination of several prominent writers and dissidents in 1998 and detention of a number of Jews on espionage charges that caused a vocal international condemnation were part of this coordinated campaign of sabotage against the reformist government.[75] To make the situation even worse, whereas Iran officially supported King Abdullah's peace plans, the IRGC sent arms to the Palestinian groups without the knowledge of the government, which was discovered by Israel Defence Force in January 2002. The impairment of the republic's turn towards rapprochement by the military and security forces reached another level as a result of wars in Iraq and Afghanistan. In contrast to the government approval of the U.S.-led coalition attack on the Taliban, a number of al-Qaeda leaders fleeing Afghanistan were sheltered at Revolutionary Guard bases.[76] While the

71 Joyner, D. H. (2016), p. 21.

72 Simpson, K. (2016). *US nuclear diplomacy with Iran: From the war on terror to the Obama administration*. London: Rowman & Littlefield, pp. 25-34.

73 Takeyh, R. (2004). 'Iran builds the bomb. *Survival*, 46(4), p. 54; see Anghie, A. (2004). The Bush Administration Preemption Doctrine and the United Nations. *Proceedings of the ASIL Annual Meeting,* 98, p. 326; Pierson, C. (2004-2005). Pre-emptive self-defence in an age of weapons of mass destruction: Operation Iraqi freedom. *Denver Journal of International Law and Policy*, 33(2), pp. 157-61; Feinstein, L. and Slaughter, M. (2004). A duty to prevent. *Foreign Affairs*, 83(1), p. 137.

74 Ehteshami, A. (2017), pp. 166-7 and 209-11.

75 Axworthy, M. (2012). 'Diplomatic relations between Iran and the United Kingdom in the early reform period, 1997–2000'. In A. Ehteshami and M. Zweiri (eds.). *Iran's foreign policy: from Khatami to Ahmadinejad*. Berkshire: Ithaca Press, pp. 110-11.

76 Arjomand, A. (2009), pp. 165-6

government looked for a common ground to take part in the political process of post-invasion Iraq, the IRGC, through its Quds Force, which is responsible for its extraterritorial operations, orchestrated 'guerrilla warfare against invasion modelled on a decentralised-defensive doctrine known as the Mosaic doctrine.'[77] Above all, it was the clandestine nuclear program and its allegedly military aspects[78] that put the final nail in the coffin of the government détente policy. It has been claimed that the nuclear program, instigated by the Shah in the 1970s, was resumed in the mid-1980s after Saddam's use of unconventional weapons during Iraq's war with Iran.[79] But the Islamic Republic practically re-started working on it after the end of the war and the IRGC was put in the charge of the nuclear and missile programs as part of the post-war compromise to assure the compliance of military forces with the government. Throughout the 1990s, the IRGC's intelligence units 'were reportedly involved in the acquisition of military materials and nuclear weapons' from abroad and built 'ties with a wide range of organisations, such as defence industry organisations, university laboratories and companies engaged in Iran's nuclear research.'[80] With a strong hold over Iran's national defence policy that bypassed the government, the then-Commander of the IRGC publicly reprimanded Khatami's rapprochement policy, the dialogue of civilizations and 'signing conventions to ban the proliferation of chemical and nuclear weapons', labelling them as policies incapable of withstanding the threats from 'America and international Zionism'.[81] The Head of the Iran Section of the Foreign and Commonwealth Office of the United Kingdom between 1998 and 2000 sums up the illusion of a monolithic conception of the state: 'through this period, we felt as though we had been invited to dinner by a warring couple. As we tried to enter the door, one of them was trying to open it and welcome us in, while the other was trying to jam it shut again.'[82]

As far as American neoconservatives were concerned, the disclosure of extensive nuclear activities even before the IAEA confirmation was a craved gift. For, as Kumuda Simpson observes, 'it was becoming increasingly clear that while the international community was still attempting to establish whether Iran had been in violation of its commitments under the NPT, the Bush administration had already decided that it had.'[83] It is not surprising that under this political environment in which the U.S. administration found a valuable additional pretext for regime

77 Forozan, H. (2015), p. 183.

78 Fitzpatrick, M. (2006). Assessing Iran`s nuclear programme. *Survival*, 48(3), pp.8-11.

79 Bowen, W. and Kidd, J. (2004), pp. 263-4.

80 Forozan, H. (2015), p. 189 and pp. 181-2

81 Commander Rahim Safavi, cited in Forozan, H. (2015), p. 182.

82 Axworthy, M. (2012), p. 109.

83 Simpson, K. (2016), p. 42.

change and the Iranian Supreme Leader publicly denounced any concessions on the nuclear issue, the diplomatic efforts of the reformist government and the European Union were doomed to failure right from the start. In May 2003, the Iranian government allegedly offered the U.S. the so-called 'grand bargain' initiative to deal with all unresolved issues between them including the nuclear program, regional insurgent groups such as Hamas, Hezbollah and al-Qaeda, the Arab-Israeli peace process and the post-war Iraq and Afghanistan political settlements.[84] One may argue that the initiative was not taken serious by the United States because of the little degree of the leverage of the Khatami's government over most of these contentious issues. Equally, it could be argued that the offer was rejected by Washington as the violation of the NPT obligations provided a desirable basis for the neoconservatives within the U.S. state to get rid of the regime through a military option.[85] With the escalation of relations between Europe and the U.S. following the invasion of Iraq, Iran's turn to the EU for a diplomatic approach to the crisis was warmly welcomed on the grounds of avoiding another war. Against this background, the foreign ministers of Germany, France and the United Kingdom together visited Tehran in October 2003 while the Bush administration was aggressively pursuing the referral of Iran's dossier to the Security Council, which considered by the EU as 'an almost inevitable path toward conflict.'[86] As a confirmation of its good intentions, the reformist government of Khatami agreed to completely suspend uranium-enrichment activities, implement the IAEA's 'Additional Protocols' and provide a wide-ranging account of its nuclear activities.[87] This was followed by the November 2004 accord, often referred to as the Paris Agreement, whereby Tehran voluntarily decided to continue and extend its suspension of all nuclear enrichment-related and reprocessing activities in return for resuming of the TCA negotiations for the deepening of economic ties, support of its application to join the WTO and placing the MEK on the list of terrorist organizations.[88] The coinciding of the deal with the re-election of Bush with the promise of completing the 'mission' in the Middle East led to its swift rejection by the U.S. in February 2005. Before the victory of Ahmadinejad, another round of negotiation also failed despite the Iranian government concessions.[89] While the internationalist wing of power in Iran and its European allies pushed for a workable accord, Jack Straw, the then-Foreign Secretary of the United Kingdom acknowledged in 2013 that if 'had it not been for major problems within the US administration under President Bush, we could have actually settled the

84 Kaussler, B. (2013), pp. 23-4.

85 Arjomand, S. A. 2(009), p. 127.

86 Kaussler, B. (2013), p. 29.

87 Clawson, P. and Rubin, M. (2005), p. 142.

88 Drenou, A. T. (2012). p. 81; Simpson, K. (2016), p. 46.

89 Arjomand, S. A. (2009), p. 168.

whole Iran nuclear dossier back in 2005, and we probably wouldn't have had President Ahmadinejad as a consequence of the failure as well.'[90] In a visible indication of using the nuclear program for their advantage, the internationalist fraction encouraged Europe to intensify its efforts to strengthen their position at home against the nationalist wing. An Iranian top diplomat stressed that his government desired to 'move closer to the West and wants European business, especially in the energy sector, to invest' but the way Iran was being treated by the U.S. 'was playing into the hands of the fundamentalists in Tehran.' The Iranian Embassy in London similarly portrayed the coercive foreign policy of Bush as a dangerous strategy that would move Iran 'to go down the same path as North Korea rather than towards 'Westernization'.[91]

For the early 1990s to 2005, rather than representing the interests of a unified ruling class, the foreign policy of Iran reflected an uneasy balance between the imperative of pragmatism and the revolutionary ideology that mirrored the contesting interests of the emerging internationalist fraction and the bonyad-bazaar nexus respectively. Whereas the internationalist wing in control of the government had pushed for a conciliatory approach towards the West which was considered to be vital for further integration into the global economy, the bonyad-bazaar nexus alongside the IRGC had done everything to hamper such prospect by deliberately alienating the West and strengthening the position of forces in the US that advocated an aggressive approach to isolate Iran. Put differently, this dualist foreign policy illustrates the structure of the Iranian state as the condensation of class fractions with different class interests rather than symbolises different policies and tactics that intent the same objective. While certainly conceding the importance of other factors, not only does this confirm the internal relations between the material interests and geopolitical tensions, but also it illuminates how the Iranian class forces had played an active role and influenced the direction of the 'international community' regarding the nuclear program.

During the same period, Europe's policy geared towards the normalisation of relations with Iran and backing of the moderate and pragmatist political forces within the Iranian state who pursued the détente policy. With the supremacy of transnationality fractions in the EU and as the champion of globalisation, Europe had lambasted the U.S. sanctions and criticised the flip-flop of the Clinton admiration and the hardline stance of the Bush administration against Tehran. As far as the Union was concerned, the rise of Iranian anti-globalist forces in the expanse of losing internationalist social class forces in government following the victory of Ahmadinejad at the end

90 Jack Straw (3 August 2013) cited in Oborne, P. and Morrison, D. (2013). US scuppered deal with Iran in 2005, says then British Foreign Minister, *Open Democracy*; See also *ILNA News Agency*. (31 October 2017). Ex-UK FM Straw sees Iran-West relationship missed opportunity.

91 Cited in Kaussler, B. (2013), p. 28.

of this period meant the management of the situation by advocating the implementation of international sanctions. Apart from putting pressure on the Ahmadinejad government, the policy was designed to delegitimise a military action against Iran by Washington as the EU and in particular Germany reiterated that 'the military option is not an option.' Given the high level of trade between Iran and the EU, this position should come as no surprise. As well as this historical commercial relationship, Iran also potentially was and still is one of the best destinations of European foreign investment due to the availability of a large pool of cheap skilled labor power, access to cheap inputs such as land and raw materials, most notably oil and gas, as well as intermediate goods thanks to the presence of the large number of domestic small and medium-sized enterprises. On the other hand, changing the balance of social forces within the U.S. state during this period had dramatically affected its policy towards Tehran. Although the U.S. globalist class forces had an upper hand in the Clinton administration, the unease legacy of the past and the different assessment of the power of the Iranian moderate forces led to the continuation of the hostile policy against Tehran. The U.S. position had softened at the end of Clinton's tenure but it rapidly altered when George W. Bush entered the White House. With favourable conditions for the nationalist fraction of U.S. capital links to the military-industrial complex, oil-service industries and nationally based infrastructure and defence industries, the Bush administration took a radically different approach since militarism and threats of war are viewed by these capital groups as ways for the continuation of military expenditures to ensure the accumulation of capital.[92] By no means does this suggest that the Bush administration blindly followed the interests of these capital groups as others forces and factors were involved in the process of decision-making. Rather, this hints at the fact that the internal relations between capital accumulation and foreign policy should not be side-lined in the analysis.

7.4.2. Nationalism, Crippling Sanctions and the Threat of War (2005 – 2013)

As described in the previous chapter, against all odds, Ahmadinejad came to power on a platform of anti-corruption that depicted the liberalisation policies of the two previous administrations anti-revolutionary and Khatami's compromise over Iran's enrichment rights treacherous. In the context of U.S. intimidation and constant threats of regime change and invasion, by portraying the 'indigenously' developed nuclear program as historically pronounced as the nationalization of the Iranian oil industry, 'popular indignation and demands for the assertion of Iran's national rights

92 Hoseein-zadeh, I. (2006). *The political economy of the U.S. militarism*. London: Palgrave, p. 4; Nitzan, J. and Bichler, S. (2002). *The global political economy of Israel*. London: Pluto Press, pp. 208-12.

and dignity' were effectively provoked.[93] Unsurprisingly, throughout Ahmadinejad's tenure, a security-oriented approach to foreign policy that intended to halt further absorption into the world order was implemented in line with the rising power of the nationalist fraction of capital following the reconfiguration of the bonyad-bazaar nexus into the military-bonyad complex. With strong nationalist, anti-imperialist and Islamic Revolutionary themes, as well as generating intoxicating nationalist sentiments, the new administration pursued public diplomacy that aimed to conquer the hearts of Muslims in the region who loathe the U.S. military presence and interventions and dispute the legitimacy and actions of the Israeli state. Accordingly, in a series of deliberately antagonist remarks against Israel, Ahmadinejad not only dismissed the two-state solution to the Israeli-Palestinian conflict, he also questioned the right of the existence of Israel by stating that 'it must be wiped off the map' and challenged the authenticity of the Holocaust by depicting it as a myth fabricated for the creation of an illegal and illegitimate state.[94] These comments generated strong opposition and outrage in the West, as was intended. With regards to the nuclear issue, the new government immediately abandoned the Paris Accord and declared that it resumed the uranium enrichment program in August 2005 to unequivocally bury the détente approach of the previous administrations.[95] This combative position triggered the referral of Iran's case to the U.N. Security Council in February 2006, but Ahmadinejad disdainfully labelled the first round of UNSC sanctions as a 'worthless piece of paper' and the Supreme Leader described it as 'an opportunity' for the development of independent foreign policy and national economy.[96] Distancing from the European Union as a potential partner against the Bush aggressive policy by turning to the East (Russia and China) and African and Latin American counties was another major axis of the foreign policy of the nationalist wing.[97] Perhaps the most significant element of their strategy was to stretch challenges against the United States military and political agendas in the Middle East. In so doing, with IRGC's ascending role in the defence and foreign policy related institutions and apparatuses and the parliamentary commission on national security following the replacement of neoliberal bureaucrats of the previous administrations with its veterans personnel, the Revolutionary Guard intensified its supports and links with Iraqi and Afghani militia and insurgent groups, encouraged and heavily sponsored Hezbollah's military campaign against Israel in summer 2006, which

93 Arjomand, S. A. (2009), p. 169.

94 Axworthy, M. (2016). *Iran: What everyone needs to know*. Oxford: Oxford University Press, pp. 140-1; Ehteshami, A. (2017), pp. 220-21.

95 Simpson, K. (2016), p. 47

96 Borszikp, O. (2014). International sanctions against Iran under President Ahmadinejad: Explaining regime persistence. *The German Institute of Global and Area Studies*. Working paper, no. 260, p. 10.

97 Sabet-Saeidi, S. (2012), p. 57.

remarkably put Israeli military forces on a defensive footing, and signed military and strategic treaties with Syria two year later to fortify the so-called 'Shia Crescent' in the region.[98]

These sets of policies were in harmony with the Bush administration's perception of the Islamic Republic. However, while still publicly asserting the likelihood of military action in the wake of Iran's increasing regional threats, Washington's hands were tied primarily for two reasons. Although the chaos of the 'war on terror', which significantly destabilized the Middle East, was in line with the class interests of the national fraction of U.S. capital, it produced at the same time a public backlash that seemed to impede any temptation in favour of another invasion in the region for the foreseeable future. What is more, the publication of a new U.S. National Intelligence Estimate (NIE) report regarding Iran's nuclear weapons program in 2007 radically mitigated the credentials of claims for a military intervention against Iran. The report specified that 'we judge with high confidence that in fall 2003, Tehran halted its nuclear program', while adding that 'Iran has the scientific, technical and industrial capacity eventually to produce nuclear weapons if it decides to do so'.[99] President Bush reacted angrily, arguing that the NIE report 'did not allow him to reasonably pursue the use of a military force as a response to a country that had been declared to not possess nuclear weapons.'[100] Consequently, his administration was practically left with the imposition of international sanctions as the best realistic option, especially in the context of the EU's push for non-military tougher measures against Tehran since, according to a European diplomat, 'Iran had entered a tricky phase following the elections. It could no longer be said there was a range of views within Iran's ruling elite – all institutions are now in the hands of the hard-line/radical camp.'[101] Thereby, three Security Council resolutions were unanimously passed during Ahmadinejad's first presidential term. The first round of the UN Security Council sanctions targeted certain entities and personals related to the nuclear and ballistic missile programs such as the Iranian Atomic Energy Organisation.[102] The IRGC affiliated entities and key individuals connected to the program were the central objectives of the second resolution passed in March 2007.[103] Iran's unvaryingly maverick stance invited the third Security Council Resolution in early 2008 that stretched sanctions on Iranian banks and instructed an asset freeze on various state officials.[104] Despite being under pressure to resolve the Iranian nuclear predicament in the final

98 Forozan, H. (2015), pp. 185-6.

99 National Intelligence Estimate Report (2007). Cited in Simpson, K. (2016), pp. 58-9.

100 Joyner, D. H. (2016), p. 38.

101 Cited in Kaussler, B. (2013), p. 42.

102 Security Council Resolution 1737. (2006).

103 Security Council Resolution 1747. (2007).

104 Security Council Resolution 1803. (2008).

months of his leadership, Vice President Dick Cheney still demanded to deal with matters militarily,[105] Bush handed the office to Obama who was calling for negotiations without imposing preconditions.

Obama's first proposal was a fuel swap deal which was rejected by Tehran in protest against Hillary Clinton's critical remarks. The lack of interests from the Iranian government for improving relations became apparent when Ahmadinejad announced that Iran had become a 'nuclear state' in early 2010. In the face of the violent repression of peaceful protesters following the 2009 presidential election, which put Washington in an uneasy position, the new administration still seemed to encourage the efforts by Turkey and Brazil to strike a fuel exchange deal with Iran in 2010. After turning down the successful negotiations of Turkey and Brazil with Iran on the grounds of being too late to be accepted, Obama set in motion the so-called 'dual-track approach' of direct engagement coupled with harsher sanctions.[106] Hence, following the Security Council Resolution 1929 in June 2010 that further prohibited Iran's access to proliferation-sensitive items, technical assistance and technology,[107] the extremely broad and damaging unilateral U.S. and EU sanctions were introduced. With the explicit intention of crippling the Iranian economy by targeting the country's key sectors, namely the oil and financial and banking sectors, a series of sanctions passed between 2010 and 2102 by the Obama administration and the Congress whereby the U.S. post-1979 various extraterritorial sanctions were extended. Besides subjecting foreign firms involved in the Iranian oil industry to serious restrictions that limit their access to the U.S. market or services, financial sanctions were imposed on foreign banks that would conduct transactions with all Iranian banks, hindering therefore the export of oil and gas. Likewise, the European Council passed several crippling sanctions, most notably the sanctioning of all Iranian banks, including the central bank, and denying Iran access to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in 2012, which to a large degree cut off the country from the international economic system.[108] This new set of UN, U.S. and EU sanctions had had significant consequences for the state as they aggravated the conditions of the economy to the point of a catastrophic crisis. With an over 50 per cent reduction in Iran's oil exports to a less than one million barrels a day in 2012, which cost the country more than $5 billion in lost revenue every

[105] Simpson, K. (2016). p. 59.

[106] Joyner, D. H. (2016). pp. 44-49.

[107] Arms Control Association Report. (2013), p. 13.

[108] Ibid. pp. 13-19. For a detail account of all U.N. Security Council, the United States and the European Union sanctions on Iran see Davenport, K., Himball, D. G. and Thielmann, G. (2015). Solving the Iranian nuclear puzzle: The Joint Comprehensive Plan of Action. Arms Control Association Briefing Book, pp. 38-9.

month,[109] inflation and unemployment had drastically surged. Coupled with the plunge of the value of the national currency against the dollar by more than half, the 'purchasing power had dropped by 72 per cent', 'prices rose by over 40 to 50 per cent on average after 2010' and 'the country's GDP contracted by over 5 per cent a year in 2012 and 2013'.[110]

As should be cleared thus far, in contrast to the internationalist fraction of capital that acted to redefine the Islamic Republic as a non-revisionist actor of the international community in accordance with its class interests, the military-bonyad complex in control of the large segment of the Iranian economy supported an adventurous foreign policy to obstruct the integration into the global order. While the anti-globalist approach of the complex practically functioned for a few years, the international pressure ultimately turned it on its head. Because the sanctions not only curbed the economic interests of the military-bonyad complex by directly targeting its major entities such as Khatam al-Anbiya, but also threatened the integrity of the state and jeopardized the survival of the Islamic system. By casting doubt on Iran's nuclear diplomacy under Ahmadinejad, the international sanctions thus considerably altered the balance of power in the society in favour of the internationalist fraction of capital. As space opened up, the moderate forces stridently yet again promoted its conciliatory approach regarding the nuclear program through direct negotiations with the major powers, particularly the United States. With the characterization of the complex-backed foreign policy of the government as a detrimental strategy for the national interests, returning to meaningful talks was put forward as the key means to reverse Iran' economic and diplomatic isolation. In other words, in the context shaped by the external pressure, the concept of nationalism was redefined in favour of 'openness' and 'dialogue' with other nations and even enemies at the expense of its 'isolationist' and 'belligerent' denotation.[111]

7.4.3. Back to Square One Following a Short-lived Euphoria (2013 – Present)

More than any other election, the severity of the external threats made foreign policy one of the most important aspects of the 2013 presidential election campaign. With the sweeping victory of Hassan Rouhani representing the internationalist fraction of capital, the new administration used the power of the ballot box as a political card to enter negotiations with the major powers, including the United States, to end the crisis as the newly-appointed foreign minister Javad Zarif

[109] Arms Control Association Report. (2013), p. 17.

[110] Ehteshami, A. (2017), p. 232.

[111] Here, it is worth restating that the struggles of the internationalist social forces within the state following the formation of the Green Movement was equally important in the changing of the balance of power inside the state, as examined in the previous chapter.

pointed out: 'In our recent presidential election, which was a proud manifestation of the ability of an Islamic model of democracy to bring about change through the ballot box, my government received a strong popular mandate to engage in constructive interaction with the world, and particularly with our neighbours. We are dedicated to making use of this mandate to instigate change for the better.'[112] Hence, just a few months after the inauguration, the new Iranian nuclear negotiation team entered talks with the 5+1 (the five permanent members of the Security Council plus Germany) in Geneva, reaching a provisional agreement named the Joint Plan of Action (JPOA) in November 2013. As part of this interim agreement, Iran suspended uranium enrichment above 5 per cent level, halted working on its heavy-water reactor and building new centrifuges and agreed to allow U.N. inspectors daily access to its facilities in exchange for $6–7 billion in sanctions relief from the United States.[113] This successful first round of negotiations that facilitated a direct dialogue between the Islamic Republic and the U.S. for the first time after the Revolution put in place a mechanism that precipitated a definitive agreement. The Joint Comprehensive Plan of Action (JPCOA) thus signed in Vienna in July 2015 between Iran and the P+1, which was hailed as a historical achievement of international cooperation.[114] Moving far beyond the interim agreement, under the JCPOA, Iran committed to put significant limits on the development and expansion capacity of its nuclear program, which practically diminished the possibility of building nuclear bombs, including the reduction of the uranium enrichment level to less than 3.67 per cent, decreased the number of operational centrifuges from twenty thousand down to under six thousand and acceptance of continuous supervision of existing sites as well as unrestricted access to other facilities on request, among other things.[115] In return, the 5+1 and the European Union vowed to coordinate the lifting of the post-2006 economic and financial sanctions on a gradual basis depending on the fulfilment of Iran's obligations.[116] Less than a week later, the U.N. Security Council unanimously endorsed the JCPOA by adopting Resolution 2231.[117]

Throughout the negotiations, there were enormous pressure and resistance to undermine the process inside Iran and the United States, namely from the Majles in the control of the military-bonyad complex and the Congress where the national fraction of U.S. capital had more room for manoeuvre. While the 'talk of succumbing to Western charm and exposing the country to Western

112 Cited in Ehteshami, A. (2017), p. 237.

113 Joyner, D. H. (2016), p. 60.

114 Simpson, K. (2016), p. 132.

115 Axworthy, M. (2016), p. 172; Simpson, K. (2016), p. 133; Joyner, D. H. (2016), pp. 62-3.

116 For a detailed account of the key requirements and actions mandated by the JCPOA for involved parties see Davenport, K. et al. (2015), pp. 35-36.

117 Security Council Resolution 2231. (2015).

influences have become frequent accusations' against the Rouhani government,[118] in Washington, Republicans with the support of Israel and Saudi Arabia lambasted Obama's handling of the talks, claiming that the agreement only temporarily postpones the Islamic Republic's desire for building nuclear weapons. Nevertheless, the relative supremacy of the internationalist social forces inside Iran thwarted the threats of the impediment from some revolutionary, nationalist forces. Likewise, the inability to assemble required votes to overrule a presidential veto led to the failure of the Republican opposition in the Congress.[119] Meanwhile, the Iranian foreign minister advocated an intertwined economic tie with the western countries in the shortest possible time as the best enforcement mechanism for the nuclear deal.[120] In line with this, even before the IAEA approval of Iran commitments, during a business opportunities event in Austria a few days after the deal, the Iranian minister of Industries and Mines presented a strictly pro-market package to 400 potential investors from Europe, the U.S. and Asia in an attempt to encourage foreign investors. By referring to Iran's remarkably liberal Foreign Investment Promotion and Protection Act of 2002, Namatzadeh 'promised his audience that basically everything except the country's national oil company theoretically was for sale.'[121] In the same meeting, to ensure the trust and confidence of foreign investors, he reiterated the determination of his government to restrict the economic activities of the military forces and bonyads to projects that are not desirable investment opportunities for the private sector.[122] This enthusiasm for greater economic integration shared by European counterparts more than other parties as several ministers accompanied with numerous economic delegations from Germany, France, the United Kingdom, and Italy visited Tehran shortly after the accord, declaring their strong interests in rekindling commercial relationships with Iran. With the announcement of the IAEA in January 2016 that Tehran had met the necessary conditions for the implementation of sanctions relief, the influx of transnational firms to Iran expectedly precipitated.[123] Accordingly, until President Trump's withdrawal from the nuclear agreement in May 2018, hundreds of lucrative deals had been signed with Iran in almost all sectors of the economy, including oil and energy, finance and banking, insurance, aviation, automobile, and infrastructure.[124] In contrast to the common perception, it is worth noting that Iran's economy

118 Ehteshami, A. (2017), p. 241.

119 Axworthy, M. (2016), p. 173.

120 *BBC Persian.* (4 August 2015). Zarif: Economic relations with the West guarantee the enforcement of the nuclear deal.

121 Erdbrink, T. (21 August 2015). Iran prepares to lure foreign investors after nuclear deal. *New York Times*.

122 *BBC Persian.* (24 July 2015). The privatisation is a good opportunity for foreign investors.

123 Axworthy, M. (2016), p. 173 and 180.

124 For a detailed account of foreign investments in Iran after the nuclear deal see *Reuters.* (15 October 2017). Factbox-Iran's deals with foreign firms since easing of sanctions; *BBC Persian.* (4 November 2018). Return of sanctions: fifty companies that left Iran because of U.S. retaliation; *BBC Persian.* (12 May 2018). Europe's billion contracts under threat.

is 'surprisingly diverse' as 'the oil and gas industry made up only 10 per cent of GDP in 2014' with 'around 30 other sectors listed on the stock exchange.'[125]

Following the successful U.S. strategy under the dual-track approach which brought on board European states as well as China and Russia in the implementation of unprecedented international sanctions against Iran, this international cooperation was central in the formation of the Iran nuclear deal. That said, rather than attesting the conviction of the Neo-Kautskyite conception of the neoliberal world order as an ultraimperialism based on a 'peaceful' collaboration among all the major capitalist powers that also equally shared by many liberals, this cooperation should be viewed in the context of post-2008 global financial crisis which necessitated finding of new, fresh avenues for capital accumulation. What is equally important was the form of these states with the ascendency of the transnational factions of capital within the U.S. state, the European Union as well as the growing power of Chinese SOEs that have become increasingly integrated into transnational circuits of capital, including global networks of production, finance, trade and infrastructure.[126] The case of Russia is worth mentioning too as the Kremlin made it clear during the negotiations that it only 'agreed to hold the US$1 billion project at the Bushehr nuclear facility [Iran's oldest nuclear site]' in exchange for 'a substantial stake in Iran's economy' after the sanctions.[127] Against this backdrop, the opening of the Iranian market through resolving the nuclear program was considered to be 'an economic game-changer, providing global investors' access to one of the most promising markets in the developing world.'[128] The same line of argument echoed by the then UK Secretary of State for Business, Sajid Javid, who similarly pointed out that 'we have to secure new markets for British goods, new sources for foreign investment', arguing that the post-sanctions Iran would be 'the biggest opportunity among the emerging markets in the last quarter century.'[129] Needless to say that lifting sanctions would not only benefit TNCs in the aftermath of an ongoing global economic crisis, particularly the European and to some degree Chinese companies due to their traditional trade links that made their return easier and quicker, but also the internationalist fraction of capital in Iran. It points to the fact that how the relative supremacy of a particular social class force within any given state in specific historical conjunctures can utilise geopolitical confrontations for the realisation of its class interests.

125 Webb, M. S. (11 March 2016). Is Iran really one of the world's best investments?. *Financial Times*.

126 Three Chinese SOEs were in the top five companies in the 2018 Fortune Global 500. See http://fortune.com/global500/list/

127 Kaussler, B. (2013), p. 31.

128 Heydarian, R. J. (8 April 2015). Iran after Sanctions: An Emerging Economy Giant? An Iranian nuclear agreement could be an economic game changer. *The Diplomat*.

129 Pickard, J. and Mance, H. (9 March 2016). Sajid Javid to lead high-level export push to Iran. *Financial Times*; See also *BBC Persian.* (11 March 2016). Nahavandian's trip to London: Is Iran the heaven of investment?

The victory of Donald Trump however has largely shortened the jubilation of internationalist and transnationally-oriented forces. After several months of warning, in May 2018, the United States pulled out from the nuclear accord and re-imposed sanctions with the aim of cutting Iran's oil exports to zero. While initially offering short-term exemptions for some counties including Japan, South Korea, China and India to still import Iranian oil, the Trump administration ended sanctions waivers in April 2019 following negotiations with Saudi Arabia and the UAE for minimizing the impact of the elimination of Iranian oil in the market.[130] With the falling of oil exports coupled with the departure of many TNCs in an attempt to escape Washington's punitive measures including 'France's Total, Airbus, and PSA/Peugeot; Germany's Allianz, and Siemens; Denmark's Maersk, Italy's Eni; Japan's Mazda and Mitsubishi UFJ Financial Group; and the UK's BP',[131] the IMF predicted a 37 per cent annual inflation and '6 per cent fall in gross domestic product' for this year which 'would mark the economy's worst performance since 2012'.[132] Despite insisting that the 2015 nuclear deal is not yet dead, the escalation of the collapse of the economy has forced the Iranian government in early May 2019 to announce its termination to comply with parts of the deal by giving Europe, Russia and China a 60 day uranium to develop a mechanism for Iran to sell oil and conduct banking transactions before leaving deal.[133]

The new U.S. administration threats initially was utilised by the internationalist fraction of capital during the 12th presidential election which led to the re-election of president Rouhani in June 2017. By constructing the duality of 'Rouhani or war', the internationalist social forces convinced the public that voting for the rival candidate, Ebrahim Raisi – who was the head of one of the most powerful revolutionary foundations, the Imam Reza Shrine – expedited the prospect of a war.[134] However, the re-imposition of crippling economic sanctions and branding the Revolutionary Guard a foreign terrorist organisation have to some degree changed the balance of power in favour of the military-bonyad complex within the Iranian state. This is because not only has the new U.S. policy boosted the role of the IRGC again in foreign policy as 'the guards now can mobilise the whole country behind it by saying they are directly targeted by the enemy',[135] but

130 Sevastopulo, D., Williams, A., Sheppard, D and Crooks, E. (22 April 2019). US to eliminate sanctions waivers on Iran oil imports, *Financial Times*.

131 For a comprehensive study of the impacts of the return of U.S. sanctions on foreign investment in Iran, see Adesnik, D. and Ghasseminejad, S. (September 2018). Foreign Investment in Iran: Multinational Firms' Compliance with U.S. Sanctions, Research Memo. *The Foundation for Defense of Democracies*. Washington, pp. 1-47.

132 Kerr, S., England, A. and Bozorgmehr, N. (29 April 2019). Iran's economy slumps as US sanctions pile on the pain. *Financial Times*.

133 *Financial T*imes. (8 May 2019). Iran nuclear decision raises tension with US.

134 *Fars New Agency*. (29 April 2017). Rouhani: people decide if they want dignity or the shadow of ominous war; Shariatmadari, H. (9 May 2017). If there wasn't that duality. *Kayhan*.

135 Direct quote from a business executive affiliated with the IRGC, cited in Williams, A. Bozorgmehr, N. (8 April 2019). US designates Iran's Revolutionary Guard a foreign terrorist organisation. *Financial Times*.

it has also allowed opportunities for the complex to expand its grip on the country's economy by filling the vacuum created following the exodus of foreign firms. Regarding the latter, for instance, the Iranian Oil Ministry recently announced that the development of phase 11 of the South Pars gas field will be handed to the Ghorb to replace the French Total despite enormous previous efforts of the Rouhani administration to curb its economic influences, which had led to arrest of some senior members and business associates of the guard.[136]

Allegedly, the U.S. policy is designated to bring about a 'grand bargain' with Iran that includes the nuclear and ballistic missile programs as well as its regional role. Planned to be crumbled by demanding 12 tough conditions,[137] which, according to a European diplomat, 'If the Shah was in power, he wouldn't [agree to] all these things [either],'[138] the strategy seems to realise the longstanding policy of regime change promoted by neoconservatives. What is thus apparent is the escalation of the risk of confrontation either directly or indirectly, deliberately or inadvertently in the near future between Iran and the United States given the regional operations of the Quds Force through militias and proxies from Syria and Iraq to Yemen. Even if one casts doubt on the waging of any form of conflict, the Trump administration has industriously portrayed the Islamic Republic as an existential menace for the Gulf States and Israel that has increased the arms race in the Middle East with the objective of the continual of military expenditures in line with the accumulation strategy of the U.S. national fraction. A clear manifestation of this is the authorization of an arms deal worth $110bn between the United States and Saudi Arabia in 2017. As part of a series of deals between the two counties with the total value of $380bn within ten years, the then U.S. Secretary of State, Rex Tillerson, affirmed that the purpose of the arms agreements is to ensure the long-term security of the entire Gulf region 'in the face of malign Iranian influence and Iranian-related threats which exist on Saudi Arabia's borders on all sides.'[139] This is in direct contrast to the policy of the EU where the globalist social forces still have the upper hand, repeatedly referring to the nuclear deal as a key tool for the stability of the region.[140] It should be emphasised again that the above argument does not mean the U.S. foreign policy is directly dictated by specific capital groups since the state is never in the total control of any capital fraction, as agued in the theory section. As well as the role of other powerful state institutions such as the Congress under the control of Democrats, regional and religious factors including the

136 Khalaj, M. (21 March 2019). Revolutionary Guards drill into Iran's gas potential. *Financial Times*.

137 *Aljazeera*. (21 May 2018). Mike Pompeo speech: What are the 12 demands given to Iran?

138 England, A. and Bozorgmehr, N. (9 May 2019). Iran-US tensions: Trump gambles on curbing Tehran's reach. *Financial Times*.

139Cited in *Aljazeera*. (20 May 2017). US and Saudi Arabia sign arms deals worth almost $110bn.

140 The latest example is the recent remarks of German foreign minister Heiko Maas. See *Financial Times*. (8 May 2019). Germany says Iran nuclear deal is key in regional stability.

hostility between Iran and Saudi Arabia and Iran and Israel have been noticeable determinants in the process. The point is that reducing the tensions surrounding the nuclear program to ideational structures and unchanging structure of international politics as social constructivists and structural realists often argue does not portray the entire picture.

In short, the history of the last few decades of Iran's nuclear program and other geopolitically-related issues such as the charge of terrorism and regional instability illuminates the interiority of relations between geopolitics and capitalism and the centrality of the struggles of social forces in this process. As demonstrated, throughout this period, various class fractions have employed geopolitics in a hunt for the realisation of their interests in which the non-Western social class forces have played an active role. Challenging Eurocentrism of the existing accounts, it is conspicuously illustrated that the military-bonyad complex has been the force behind the development of the nuclear program and strategically utilised other geopolitical means to halt the neoliberalisation and counter the inclusion of Iran in the liberal world order. Equally, the internationalist fraction of capital has taken the advantage of the nuclear program by disseminating the danger of a short-sighted glorification of the program as a national achievement without considering the long-term economic development of the country inside the Iranian society while at the same time bargaining with the West for further economic integration into the global economy. The severity of the external pressure to the point of the disintegration of the Islamic Republic certainly led to the increase of the relative autonomy of the state, i.e. the rejection of short-term class interests of a particular fraction for the sake of the system, as manifested itself in the case of the nuclear deal. Even then the critical condition brought about the superiority of the internationalist wing of power because the long-term survival of the regime was framed in line with its interests. The current situation might once more make possible the discounting of immediate interests of each fraction by bringing the bonyad-military complex and the internationalist fraction of capital closer together against the real threats of the current U.S. administration. This does not however overshadow the fact that the revolutionary foundations and military forces are conscious of the fact that an enduring conflict and tension surrounding the nuclear program and their regional influence can ensure their monopoly over the national market. Likewise, the pressing needs of the internationalist fraction of capital for technology and foreign investments always lead to the construction of a discourse with which nuclear program is constituted as a project that not only isolates Iran from a globalised world, but it also increases the possibility of a devastating war. The presence of the two factions within the state has ultimately produced a rather unclear and contradictory policy about the nuclear program.

In the case of the United States, on the other hand, the national and transnational fraction have endeavoured to influence the U.S. policy on the Iranian nuclear issue in line with their long-term class interests. While the nationalist class fraction largely consists of 'military and defence industries, the oil industry and other internationally noncompetitive businesses', the transnational wing is linked to 'non-military transnational capital' in favour of neoliberal globalisation. Politically, whereas the nationalist fraction is mainly a major advocator of unilateralism and pre-emptive warfare, the transnational fraction generally promotes 'policies of coordination with allies to ensure stability within the international system in the interest of a fully functioning and integrated global economy.[141] As a result, throughout the last few decades, whenever the balance of forces within the state allows, the national wing of U.S. capital has pushed for a unilateral strategy grounded in the unrivalled pre-eminence of the US military power in favour of regime change and military threat to end the Iranian nuclear ambition and 'reckless regional behaviours' for the sake of the stability of the so-called 'international community'. By utilising the tensions surrounding the Iranian nuclear program, the U.S. nationalist fraction of capital has further fuelled conflicts in the Middle East, therefore intensifying an arms race in the region as for example 'six of the 10 countries with the highest military burden (military spending as a proportion of GDP) in the world in 2018 are in the Middle East',[142] and generating higher revenues for oil companies and the oil-rich friendly Gulf States resulting from fluctuated oil prices. In contrast, alongside the European transnational fractions, U.S. transnational fraction has pursued for a multilateral strategy to bolster the Iranian moderates and reformists in order to deepen neoliberal restructuring inside the country. Rather than having an interest in some measure of instability and war, by utilising of the nuclear crisis, these social forces have endeavoured to direct the foreign policy of these countries behind the mobilisation of an international coalition based on the discourse of peace and security. This is because, in direct contrast to the nationalist fraction, Iran with a large population of the skilled labour force has been viewed as an ideal place for investment by transnational fractions. It is utterly important to clarify that while transnational fractions generally are behind the globalist strategy and building of alliances between countries to create a stable global market, this does not imply that they are always in favour of peaceful and non-military solutions. The case of the war in Libya and to some extent the ongoing civil war in Syria clearly exhibit that the globalist forces are great advocators of peaceful resolutions so long as there are domestic class forces in these states that

141 Bieler, A. and Morton, A. D. (2018), pp. 206-7.

142 These six counties include Saudi Arabia (8.8 per cent of GDP), Oman (8.2 per cent), Kuwait (5.1 per cent), Lebanon (5.0 per cent), Jordan (4.7 per cent) and Israel (4.3 per cent). See the Stockholm International Peace Institute. (29 April 2019). World military expenditure grows to $1.8 trillion in 2018.

momentously facilitate and implement neoliberal policies as the internationally-oriented faction of capital in Iran has been thus far serving this function.

7.5. Conclusion

The central objective of this chapter was to propose an alternative account of the Iranian nuclear program that challenges not only the mainstream theorisations but also most of the dominant Marxist articulations of geopolitics. To achieve this, it was endeavoured to substantiate that the re-articulation of 'ultra-imperialism' under the framework of informal empire and the notion of 'inter-imperialist rivalries' based on the two logics argument cannot fully grasp Iran's nuclear program in its entirety, no matter how modified or stretched. Nor can the contingency theory be the best way to understand the geopolitical tensions surrounding the program as it assumes away the possibility of an internal relation between geopolitics and capitalist development, contrary to what I have empirically demonstrated throughout the chapter. Iran's nuclear saga has further shown why the contemporary return to the theory of inter-imperialist rivalries would run the danger of replicating the theoretical problems of classical Marxist theories of geopolitics, most notably the conceptualisation of the state as a monoblock entity representing the collective interests of the national capitalist class. Relatedly, it was stated that the modern ultra-imperialism theory to a large extent is not immune from this shortcoming as it leaves the theorisation of the state intact. There can be no doubt that the historical investigation of the Iranian nuclear program revealed the increasingly prominent role of the state in the process of capitalist competition. That said, it exposed at the same time the poverty of postulating national states as monolithic units by proving the necessity of theorizing the national state form and its complex and contradictory internalization. In other words, it attested that comprehending geopolitical struggles at each of conjunctures of capitalist development, in particular in the age of neoliberal globalisation, requires an analysis of the constellation of social class forces struggling over the control of the state. That is to say, the prevalence of specific social interest as the 'general/national' interest including foreign policy is not pre-given but is always subjected to perpetual antagonistic struggles of these classes. The form of state, which is the condensation of different class fractions, thus informs which geopolitical strategy can be utilised among various options available to 'resolve manufactured geopolitical crises'. There is no theoretical enigma to be found in the fact that the geopolitical rivalries among states are part of the class struggle and in the era of globalisation, class struggle does not only take place within state forms but also within 'the international'. Finally, the survey of the nuclear issue plainly disputed the complete silence about the role of the non-West in analyses of geo-territorial struggles in historical materialist canon by unearthing the undeniable

contributions of the Iranian class forces in the whole process. The dejected reality of Marxian tradition is not that the agency of non-West is not adequately drawn attention to, but that it is never included right from the beginning. For a non-Eurocentric Marxist account of geopolitics, however, the inclusion of the non-West as an active agent is a must.

Chapter Eight

Conclusion

8.1. Main Arguments of the Thesis Revisited

This thesis has set out to explore the political economy of Iran in the age of globalisation by focusing on the reorganisation of production, the rearrangement of the state, and the relationship between geopolitical tensions surrounding the nuclear program and its current developmental trajectory. To this end, it embarked on the critique of highly internalist explanations of mainstream accounts, which was put forward in Chapter 2. It was exhibited that the few existing political economy studies of the country have heavily relied on the pervasive methodological nationalism that separates the process of development in Iran from global dynamics. Varying from Eurocentric explanations such as the incommensurability of Iranian traditional values with Western individualist values to new institutionalist and neo-statist accounts that put national institutions and the bureaucratic rationality of the state at the centre stage of their analysis respectively, these explanations reduce everything to internal characteristics. Likewise, it was exposed that the overt focus on the nature of the Islamic Republic state, its controversial nuclear program and political/military influence in the Middle East, which has dominated both public and academic debates about the country, has run the risk of reproducing the same fatal mistakes by overlooking the effects of the wider space of economic, political and cultural globalisation. With regards to the issue of the Islamic Republic state, the dominant argument that conceptualises the state as a battleground for politico-ideological elites whose power emanated from formal institutions or interpersonal relations emerged following the 1979 revolution, was repudiated on the ground of being overly voluntarist and internalist. The conventional analysis of Iran's pursuit of a nuclear program was also considered to be highly problematic. This is because attributing it to either the revolutionary identity, which entirely rests upon an internal determinant, or the transhistorical motives of the balance of power or regional hegemony that thwart a historical analysis of geopolitics against the backdrop of neoliberal globalisation of the last few decades, has produced a distorted picture of the reality.

The promises of offering an original account of the political economy of contemporary Iran required a new analytical lens, which was achieved by adopting the radical social ontology of the philosophy of internal relations. Conceptually, therefore, the dominant thread of argument throughout this work has built upon a global perspective with a focus on a dialectical method of

analysis that problematises the dualism of internal/external, local/global, material/ideal, agency/structure, politics/economics and state/market. This social ontology provided a ground for the construction of the historical materialist approach of the study in Chapter 3 that called for the interrelated conceptualisations of the production process, class modality, state formation, and geopolitics. This approach allowed us to trace the neoliberal transformation of the country since the early 1990s. Rather than focusing merely on the documentation of neoliberal policies, it expedited scrutinising the ways in which the process of neoliberalisation has underpinned the modalities of class and state formation. Accordingly, it was possible to demonstrate how the implementation of neoliberalism with the aim of integrating into the new transnational circuits of accumulation has brought about a new contested class dynamics that has fundamentally reconstructed the ruling class and aggressively shaped/reshaped the production and development of other social classes, particularly the working class. The framework also offered the possibility to analyse how the same process has furthermore generated a fresh, pivotal impetus that has morphed the state apparatuses and institutions and directly contributed to Iran's volatile foreign policy, in particular opposing policies in relation to the nuclear program. Informed by this approach, the three central arguments of the thesis were developed in the following chapters, which I now turn to recapitulate.

The focus on the reorganisation of production as the point of departure of the Marxist approach of the thesis necessitated the examination of the historical process of capitalist development in Iran prior to the instigation of neoliberal restructuring. After examining how capitalism had developed in Iran under the global order of Pax Britannica, Chapter 4 centred its attention on the impacts of the world structure of Pax Americana on the developmental trajectory of the country. By creating favourable conditions, it was documented that this global order materially, politically and ideologically equipped the second Pahlavi state to implement the radical land reform and execute the rapid industrialisation programme consistent with the recommended ISI strategy. The chapter also made the case for the continuation of the same industrial policy during the first decade of the revolution from 1979 to 1989 despite the major transformation in the composition of the ruling class and the structure of the new Islamic state. The class reconstruction of the post-revolutionary era had produced the two wings of the power inside the state, namely the strata of government managers and the bonyad-bazaar nexus. Drawing on this historical analysis, Chapter 5 contested that the crisis of the late 1980s, which resulted from the impasse of the ISI strategy and the direct and indirect geo-economic and geopolitical pressures from the United States, jeopardised the integrity of the state. Against the background of global neoliberal revolution that had provided material and ideological backbones for a new model of

development, some state officials had started propagating a radical renovation of the economic structure that challenged state ownership and the inward direction of the economy. This new pro-market strata of government managers made a pragmatist pact with the bonyad-bazaar nexus that led to the marginalisation of the 'Islamist leftist militants' within the government who were still in favour of the radical interventionist approach in the economy. Under this shaky consensus among the fractions of the ruling class, and in the presence of the lack of an organic equilibrium between the rulers and the ruled, the process of neoliberalisation was initiated in the early 1990s, attesting to the painfully slow and arduous implementation of neoliberal policies since then. Although the uneven development of capitalism has facilitated the process, it was exhibited that the neoliberal developmental trajectory has been fundamentally conditioned by the domestic class structure and the post-revolutionary state, which have triggered resistance from above and below. Empirically, the chapter substantiated that the dialectics of the external and internal and continuity and change have given rise to the formation of two rival internationalist capital fraction and the reconstruction of the bonyad-bazaar nexus into the military-bonyad complex. Whereas the internationalist wing of power emerged out of the first phase of neoliberalisation from 1991 to 2005, the complex was the result of the second phase of neoliberalisation during the Ahmadinejad administration between 2005 and 2013. Contrary to the internationalist fraction that is largely in control of SMEs and in favour of the expansion of non-oil exports and FDI, the military-bonyad complex owns most of the large enterprises of the country with domestic market orientation and anti-foreign capital policies. The chapter concluded by arguing that the recent reorganisation of production has resulted in the amalgamation of the monopolistic state capitalism of the 1960s to 1980s and the neoliberal capitalism of the late 1980s onwards. This peculiar form of development was characterised as 'hybrid neoliberalism'.

Taking into account these findings was significant in the construction of the argument about the form of the Iranian state since the end of the war with Iraq in Chapter 6. Conceptually, it was argued that because the source of power is located in class relations, the state is the compression of the relationship of class forces. But rather than constraining it to formal institutions, the state was conceptualised as the aggregation of inseparable realms of the 'political society' including state's apparatuses (government, judiciary, and coercive apparatus) and the 'civil society' consisting of media, education, and non-governmental organisations. Following this, it was claimed that both formal state institutions and civil society organisations have been the battlegrounds of the struggles of the internationalist fraction and the military-bonyad complex for the mastery and leadership in the society. Section 6.3 showed that although the post-revolutionary state structure may to some degree explain the control of unelected state entities by the military-bonyad complex and elected

institutions of the state by the internationalist fraction, the changes in the organisation of production and class structure following the process of neoliberalisation has consolidated and crystallised this institutional division of power. Given the importance of the government for the emergence and consolidation of the internationalist fraction of capital, as documented in Chapter 5, winning elections, especially presidential and parliamentary elections, has become the vascular life of this wing of power in the presence of the unlikelihood of controlling the appointed institutions. Consequently, disputes over free elections, electoral fraud and the legality of the preselection process have occupied the centre stage of Iranian politics in recent decades. Relatedly, section 6.4 maintained that while revolutionary and liberal interpretations of Islam have had a long history in modern Iran, their re-articulation since the early 1990s should be internally linked to the material interests of the two rival fractions of capital. Rather than implying that 'the base' has constructed the 'superstructures', it was accentuated that the emergence of the two dominant social class forces has provided the material base for the realisation and relevance of the discourses of 'democratic' Islam and 'radical' Islam. By employing the 'ideological-coercive-material matrix' to grasp the relationship between the two fractions of the ruling class and other social classes, the final section of Chapter 6 analysed the Green Movement of 2009-2011 and the recent wave of uprising across the country. With regards to the former, it was maintained that its conceptualisation as the battle of the people against the theocratic state for freedom does not portray the full picture. This is because the Green Movement more than anything else was a (short-term) alliance-compromise between the two fractions of capital with other classes in the battle for societal hegemony. Related to the 2017-18 social unrest, while conceding that the recent economic crisis as a result of the austerity programme of the government and the return of the crippling US sanctions has lent the ground for the complete breaking down of the power bloc, it was demonstrated that the Iranian working class is not yet transformed into a class-for-itself. Overall, the chapter problematised the dualism of material/ideal, state/civil society, politics/economic in the analysis of the state and society.

Challenging the separation of geopolitics from the development of capitalism, i.e. security and foreign policy from the economic, was at the heart of the development of my account of the Iranian nuclear program as the final contribution of the thesis. Having previously critically engaged with the mainstream explanations of geopolitics, Chapter 7 began with the review of existing Marxist theories of the issue. It rejected the notion of informal empire on the ground of the lack of a clear definition of the state and whether the informal form of territorial configuration is a permeant feature of global capitalism or not. The adherence of Political Marxism to the idea of the continuation of a pre-modern state system despite the needs of capital for a global state was

also conceived problematic. For it makes little sense to argue that capitalism cannot reconstruct the system of multiple states while it has gradually subordinated all previously non-capitalist relations to the logic of capital accumulation. Seeing the current state system as capitalist, it was argued that the uneven development of capitalism is the central force for the persistence system. Furthermore, the two logics argument of the theory of new imperialism was criticised for its rejection of the internal link between geopolitics and capital accumulation. Moreover, the tendency of conceptualising the state as a singular, monolithic entity in the service of a unified national capital among some proponents of the theory was viewed counterproductive since it does not reflect the reality of the existence of many capital groups and fractions within the state. Drawing on the framework developed by Bieler and Morton for understanding geopolitical tensions in their internal relations with the process of capital accumulation and the state as the condensation of class forces, two suggestions were put forward to advance the theory. As well as using transnational fractions of capital in plural (e.g. transnational fractions of the German capital, the British capital, etc.) instead of a unified transnational capitalist class, it was argued that the agency of non-West social forces should be part and parcel of any geopolitical study. Accordingly, the chapter has traced the changes in the foreign policies of Iran and the United States regarding the nuclear issue since the early 1990s. The chapter confirmed that various class factions on both states have utilised the program to realise their long-term interests. Whereas the military-bonyad complex has advocated a hard-line nationalist stance on the issue to sabotage the entrance of foreign capital in the country, the internationalist fraction has used the program as a bargaining chip for the complete integration into the global economy that could guarantee an increase in the level of foreign investment in the country. On the other side, while the transnational fraction of the US capital has deployed a multilateral strategy regarding the nuclear program to change the balance of power within Iran in order to deepen the liberalisation of the economy in favour of a stabilised world economy, the American national fraction of capital has pursued an aggressive policy that has further militarised the region and increased the possibility of war in line with the interests of the military-industrial complex, oil companies, and some financial groups. It is worth reiterating that the chapter did not make a case for a reductionist view that originates foreign policies in the 'economic base'. Rather, it aimed to show why ignoring the internal relations between class interests and geopolitics is ill-judged and fundamentally short-sighted.

8.2. Contributions to Knowledge

From this recapitulation, it is evident that the thesis has made several significant contributions. First, the theoretical discussions of Chapters 2 and 3, which problematised the conventional accounts of contemporary Iran and presented a critical political economy approach to analyse it, could provide a conceptual framework for the investigation of the processes of capitalist restructuring across the globe. Not only is the approach highly beneficial in challenging methodological nationalism, ahistoricism and ontological exteriority of mainstream narratives, it also offers an alternative conceptual lens for the study of the development, societal changes, state and foreign policy in other contexts. More specifically, the notion of incorporated comparison as the method of analysis of the thesis could open a new horizon for examining the processes of neoliberal restructuring anywhere in the world. As expounded in length, against the explanation of the global as a process or force that exists externally to the local and the pervasive approaches that privilege the national space as the ultimate terrain for the interpretation of social phenomena, this methodological approach rests upon assumptions that necessitate moving beyond the analytical distinction between the internal and external in the study of the neoliberalisation of the global economy. Deriving from the philosophy of internal relations, this dialectical method could rigorously incorporate the structuring conditions of global capitalism, domestic class structure and class agency in the analysis. However, it should be emphasised that as a historicist approach this method 'does not envisage any general or universally valid laws which can be explained by the development of appropriate generally applicable theories.'[1] That is to say, this is an *interpretive* method of inquiry and has to be the subject of empirical investigations. Accordingly, it is likely that the outcome of the interaction of the global and the local to differ from one to another society.

Based upon this approach, it has substantiated that although neoliberal restructuring in Iran has thrown up tensions and contradictions that have been seen throughout the world, it has produced a unique form of development, which is named hybrid neoliberalism. As the second major contribution of the thesis, this notion could fittingly direct our attention to the importance of the understanding of the complexity but at the same time particularity of the reproduction of neoliberalism in any given society despite its universal common features. Rejecting a pronounced distinction between different stages of capitalism, this condition of hybridity consequently could open up new avenues for sophisticated historiography of recent capitalist development in the Global South. While it was proposed above that the methodological approach of the thesis could be deployed for the analysis of neoliberal restructuring anywhere, it should be stressed that hybrid

[1] Cox, R. W. (1981/1986), p. 243.

neoliberalism is limited to certain societies. In this way, it is possible to widen the geographical scope of the notion without proposing a general law that is not sensitive to historical specificity.

The third major contribution of the study is the nuanced and original argument regarding the construction of different fractions of the ruling class, their accumulation strategies, and how these strategies have changed over time. This was crucial since it conceptualised the overarching power structure of the society by going beyond viewing it as the aggregation of its fragments. To put it more precisely, the trace of the emergence of the strata of government managers and the bonyad-bazaar nexus following the establishment of the Islamic Republic after the 1979 revolution and their gradual evolution into the internationalist fraction of capital and the military-bonyad complex as a result of the process of neoliberalisation fundamentally challenges the prevailing accounts of the power in contemporary Iran. Drawing on the categories of religious and revolutionary elites, these conventional narratives of the post-revolutionary Iran, and more generally the Middle East, downplay questions of class, and therefore fail to theorise the totalising unity and systemic coercion – that is the capitalist system. As this analysis of class formation serves to redirect our focus to the economic system of capitalism and paves the way for the rethinking of the origins of social and political power, it could open a whole new avenue of research about the Middle East.

The fourth contribution of the study is the new theorisation of the Iranian state and relatedly the nuanced explanation for its institutional divisions of power by looking at close links between the process of class formation and the nature and form of the state. The conventional line of argument justifies the institutional division of the state on the grounds of the existence of incompatible ideological stances regarding what constitutes an Islamic republic state articulated by different groups of elites, which results in a government within a government. By focusing on the class structure of the state, it was shown that the strata of government managers and the bonyad-bazaar nexus with conflicting interests that were in control of different institutions constituted the post-revolutionary state. Their gradual metamorphosis into the internationalist fraction and the military-bonyad complex has rearranged the operation over the state apparatuses and reshuffled institutional divisions of power despite some continuity since 1989.

The development of the ideological-coercive-material matrix for the analysis of the convoluted relationship between various fractions of the ruling class and other social classes is the fifth major contribution of the thesis. This approach could be vital for the study of the messy policies of the state as a result of the provision of some demands of the masses and other social classes by different fractions of the ruling class with the hope of either imposing solutions in their

favour or blocking solutions of rival fractions. More importantly, this analytical tool could convincingly unpack and decipher political unrests and revolts as it allows analysis to go beyond the outright separation the people and the state as well as the deceptive notion of false consciousness. The final contribution of the thesis was its insistence on the incorporation of the agency of the non-West in the study of geopolitics to overcome the pervasive Eurocentrism, a problem which still persists in almost all historical materialist schools of thought. The latter helped to produce an original explanation for the Iranian nuclear saga.

8.3. Going beyond the Thesis

The final section aims to outline the potentials for the future research agenda that could be grounded in this thesis. Considering the latest academic debates in the fields of Politics, IR, IPE, Historical Sociology, and Development Studies, there are at least two interrelated areas for further examination that are closely linked to this project, namely the 'authoritarian turn/de-democratisation' of world politics and progressive/reactionary counter-strategies. Building upon a well-founded criticism of methodological dualism and internalism of prevailing accounts and grounding in the philosophy of internal relations, I believe the theoretical and methodological framework of this thesis could be the base for the study of production and reproduction of authoritarianism and different forms of resistance and struggle in contemporary Iran.

One of the main spotlights of investigation in the thesis was the form of state in contemporary Iran through which the issues pertinent to democracy and authoritarian practices were touched upon. This analysis provides a sufficient launch pad from which a systematic research programme could be developed in line with the renewed interests in authoritarianism, the future of democracy, and the democratic transition in the region in the current global conjuncture. In the existing literature, the state's harsh response to all forms of discontents for a democratic opening, including the 2017-2018 nation-wide revolt and the Green Movement of 2009-2011, is attributed to the authoritarian nature of the Iranian state. The Iranian state is hence articulated as semi-authoritarian/pseudo-democratic, which is consistent with dominant explanations of the 'resilience of authoritarianism' in the Middle East. These accounts argue that the region remains under the rule of autocratic and theocratic regimes, in contrast to much of the world which, these theorists relate, had witnessed a transition to democracy throughout the 1990s and 2000s. Besides suffering from a liberal bias with a narrow focus on parliaments, parties, elections and other liberal institutions, relying on methodological nationalism is the key problem with these explanations. Ranging from strident Eurocentric narrations such as pre-modern Iranian collective values to more

modern explanations including particular post-revolutionary institutional setups, intra-elite division and natural resource endowment, these mainstream accounts of authoritarianism are based on assumptions that separate the country from global capitalism and attribute a causal link between the authoritarian nature of the state and the weakness of 'true' capitalism in Iran.[2]

Because the conceptual framework of the thesis was developed in conformity with an ontology that refuted methodological nationalism and centred a dialectical perspective, it could lay the foundation for a new interpretation of authoritarianism and democracy in Iran. To this end, by situating Iran in the political and economic crosscurrents of the world-system, it will be possible to unearth the extent to which authoritarianism in the Iranian context is intrinsically related to the neoliberal restructuring of the global economy. In other words, by investigating the link between authoritarian state practices and the process of neoliberalisation as the pivot of the analysis, there is a potential to show whether neoliberalism bolsters and actively reproduces authoritarian statecraft. This point of departure will be beneficial in producing an original argument about the 'authoritarian theocratic state' because not only does it challenge the treatment of 'economics' and 'politics' as separate spheres by bringing in the questions of political economy to the analysis of authoritarianism and democracy, but it also can contest the association of authoritarian practices with national/local dynamics separated from external processes and relations. Furthermore, needless to say that an understanding of the production and reproduction of authoritarian practices under the process of global neoliberal restructuring and its intensification in the context of the current global crisis for the protection of the circuits of capital accumulation in a country in which authoritarianism is a norm, challenges the assumption that the 'authoritarian turn' is necessarily novel in the capitalist world-system.

The related second research agenda that this thesis could help to formulate is a thorough analysis of the acts of resistance and mobilisations that neoliberalism had generated and continues to provoke. From the above summary, it is clear that the doctoral project has provided a rudimentary groundwork for an extensive analysis of the politics of labour in responding to the execution of neoliberal policies since the early 1990s and the intensification of the economic crisis in the last few years as a central aspect of another future research programme. Nonetheless, with an extensive focus on the state policies, its focal point of attention was intra-class struggles between the two main fractions of capitals within the state. While the reconfiguration of the Iranian working

2 See for Example: Zaccara, L. (2014). 'Elections and Authoritarianism in the Islamic Republic of Iran'. In Hamad and al-Anani (eds.). *Elections and Democratization in the Middle East*. New York: Palgrave Macmillan. pp. 153-178; Manocheri Rad, R. and Ghazaneh, N. S. (2017). *The Dutch Disease in Iran's Economy*. Tehran: Donyaye-Eghtesad Press (in Persian); Ghaninejad, M. (2017). *Economy and State in Iran*. Tehran: Donya-e-Eqtesad Press (in Persian); Rakel, E. P. (2008).

class was examined, it is fair to say that the project fleetingly discussed the role and resistance of the subaltern classes in the process of neoliberalisation and Iranian politics more generally.

Recalling the theoretical chapter, since capitalist social relations are not confined within the immediate relations between capitalist and worker but encompass 'the whole world of production, exchange and distribution, of power and culture', a vast varieties of practices and actions could be perceived as acts of resistance.[3] This interpretation of social relations of production has profound implications for the scope of class struggle. It challenges the 'workerist' understanding of resistance that excludes struggles for general emancipation against all forms of oppression spawned and reproduced through capitalism. Accordingly, struggles against oppression which are based on and around nationality, ethnicity, gender or sexuality 'are not distinct from or opposed to class struggle, but are mutually independent parts of the social movements against capitalism as a totality.'[4] This broad understanding of relations of production further contests viewing revolts and uprisings as essentially political in nature separated from the realm of the market and the economy. In terms of their format, struggles could be seen as a set of actions that may confine with sporadic and incoherent rebellions or move towards social movement projects that pose a challenge to the social totality. As highlighted before, these struggles unfold in a given set of structuring conditions of capitalism that constrains the strategies of agents and limits their actions. However, it is worth reiterating that subaltern workers and various social forces still have 'a range of strategies at their disposal, from which they can choose to go forward.'[5]

Based on the complex ideological, coercive and material relations between the ruling class and other social classes, Chapter 6 provided an analytical toolkit to study socio-political battles and the actions of social movements within the Iranian power bloc. Considering the severity of the economic crisis and the geo-economic and geopolitical external pressures in recent years, the new research project could investigate the possibility of the breakdown of the system and the actions and the role of the Iranian working class in this process. Therefore, the centre of attention will be given to the strikes between 2012 and 2019 and the popular uprising of 2017-2018. Drawing on the above perspective, the new research project will aim to find answers for the following important issues related to resistance. First, given the recent increase in the numbers of ethnicity and gender-related campaigns, the project will investigate the extent to which workplace conflicts

3 Barker, C., Cox, L., Krinsky, J., & Nilsen, A. G. (2013). 'Marxism and Social Movements: An Introduction'. In C. Barker, et al. (eds.). *Marxism and Social Movements*. Boston: Brill, p. 13.

4 Barker, C. (2013). 'Class Struggle and Social Movements'. In C. Barker, et al. (eds.). *Marxism and Social Movements*. Boston: Brill, p. 53.

5 Bieler, A. (2014), p. 120.

have articulated with class relations beyond the workplace and with non-class relations in the course of strikes in the last few years. Second, subjected to the similar degree of the state repression, it will aim to find out whether common experiences between factory workers and other subaltern workers have emerged during this period. Third, because the 2017-18 uprising was propelled against the authoritarian system and particularly the rule of the Supreme Leader of the Islamic Revolution, to what degree could this be seen as a struggle against the wide-ranging consequences of neoliberalisation? In other words, the objective of the third area of exploration will be to establish an argument regarding whether the general uprising of 2017-18 signified a move beyond 'sporadic and incoherent rebelliousness' of the subaltern classes towards a social movement project that might conjoin the calls for democratization with demands for alternative socioeconomic arrangements.

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