

# AN EVALUATION OF THE ISLAMIC ECONOMIC SYSTEM OF IRAN, ITS DYNAMICS, AND DIRECTION

## INTRODUCTION

The Islamic Republic of Iran (IRI) as a theocracy that codifies Islamic principles was created in December 1979 and, for the first time in modern world history, a new economic and political system was born. Its governmental *setting* and economic structure were unique and distinctively unparalleled in the modern world. At the present time, the IRI is an evolutionary system combining the Islamic religion and government into unique political, economic, and cultural synthesis. At this juncture, it is important to investigate and evaluate the performance of the IRI as an economic system; to objectively determine its dynamics, direction, and success to date.

This evaluation will provide information regarding the performance of this theocracy, and possible future directions. It also provides guidance regarding the continuation of the system, and the likelihood that it will be imitated by other countries. The goal of this paper is to evaluate the Islamic Republic of Iran (IRI) using historical criteria, *geography*, *integration*, and *institutions that* have been proved theoretically and empirically. While the Islamic theocracy has been studied by diverse scholars, its performance using proved empirical criteria has not been investigated. The findings of this investigation suggest that the IRI has changed the social and economic fabric of Iranian society, but has failed in its performance. This paper begins by summarizing the assessment criteria, and follows with an evaluation of the IRI based on those criteria.

## ASSESSMENT CRITERION

Today there are wide differences in income and standard of living between the rich and the poor countries of the world. The results of extensive theoretical and empirical studies by economists have concluded that, historically, the *fundamental* causes leading to historical economic evolution and development of countries toward prosperity or poverty depends on three distinctive factors: 1) *geography*, 2) *integration*, and 3) *institutions*.

The first factor, *geography*, influences the long term destination of a country location. It is the key determinant of climate, natural resource endowments, transportation costs, and ecology. Geography can determine the extent of diffusion of technology and knowledge across borders. It also can influence productivity, advancement, and incentive of its population. Geography emphasizes forces of nature as a primary and completely exogenous factor influencing the level of prosperity or poverty of nations. Notable research in this area has been performed by Jared Diamond (1997), and Jeffrey Sachs (2001, 2003).

The second factor, *integration*, focuses on the role of international trade to influence economic growth, productivity enhancement, and the fostering of economic convergence between the rich and poor regions of the world. This view emphasizes the merit of trade in the globalization debate, and incorporates the experience of exports and trade promotion measures that have coincided with the high economic growth of East Asian countries.

The third factor is the human influence that centers on *institutions*, which establish the rule of law and property rights. It further emphasizes the explicit and implicit behavioral norms of society and the ability to create incentive for desirable economic activities. This factor is perhaps most often associated with the work of Nobel prize winning economist Douglass North

(1997), and empirical studies by Daron Acemoglu (2003a, 2003b), and Daron Acemoglu, et. al. (2002, 2001, 2000).

Recent empirical work in support of these three factors offers some strikingly clear and robust results. The findings suggest that the quality of institutions is the only positive and statistically significant determinant of income level and standard of living, and it in fact, overrides all other factors. Dani Rodrik, and Arvind Subramanian (2003) found that when controlling for institutions, geography has, at best, weak direct effects on income, although it has a strong indirect effect through institutions, due to its influence on institutional quality. Similarly, they found that trade has a significant effect on institutional quality, but it has no direct positive effect on income (pp. 31-32). Edison (2003) found that, if developing countries strengthened the quality of their institutions, their economic development could be substantially improved. In addition, he found that the better the quality of institutions, the lower the volatility of per capita economic growth. This influence may partly reflect the role of institutions in enhancing the sustainability of policies and confidence of the population.

North (1997) describes institutions as the formal and informal rules governing human interactions. Empirical work on the role of institutions used a broader subjective measure from country experts or assessments made by residents responding to surveys. Edison (2003) summarizes three relatively broad measures of institutions that many researchers have used in their empirical work as follows:

- A. The quality of governance, including the degree of corruption, fairness, political rights, public sector efficiency, and regulatory burdens;
- B. The extent of legal protection of private property and how well such laws are enforced.
- C. The limits placed on political leaders, and the elite.

## AN EVALUATION OF THE ISLAMIC SYSTEM

This section evaluates the performance and dynamics of the Iranian theocracy based on the three criteria of *geography*, *integration*, and *institutions* described previously. As mentioned earlier, these criteria have passed the theoretical and empirical test of history with robust result. <sup>1</sup>

### 1. TEST OF GEOGRAPHY

Iran is located in the northern hemisphere, half way between the North Pole and the Equator, and between Europe and Asia. It has a temperate climate, with rare extremes of hot or cold, and is connected to the sea through the Persian Gulf and the Indian Ocean. Iran has many natural resources: petroleum, natural gas, coal, chromium, copper, iron ore, lead, manganese, zinc, and sulfur. Iran is strategically located on the Persian Gulf and Strait of Hormuz, and is a vital pathway for crude oil transport. <sup>2</sup>

Thus, with its location as the pathway between Europe and Asia, its moderate climate, and its vast natural and human resources Iran passes the test of geography, and has the potential to achieve one of the highest standards of living in the world. Its success as a system depends upon its performance relative to *integration* and *institutions*.

### 2. TEST OF INTEGRATION

There is a vast body of literature on the policies of the Islamic regime regarding trade and integration with the rest of the world. Full analysis of those policies is beyond the scope of this study. However, we will summarize the actions of the IRI that are representative of its policies. First, the Islamic revolution grew from open hostility against the super economic power of the world, the United States. It started with taking 32 American hostages for 444 days, completely occupying the Carter administration and costing President Carter reelection. <sup>3</sup> The Carter administration imposed a *trade embargo* against Iran, and froze its assets. This led to limiting

Iran's trade and integration with the United State and the rest of the world from the beginning due to its frozen assets.

Second, in the early days of its existence the Islamic government closed many foreign corporations, largely American that were conducting business in Iran. That action itself led to a complete loss of or reduction of production in many sectors of Iran's economy. In addition, Iran was charged large fines by those corporations for contract violations which were paid from the frozen assets. The violations included confiscation of those corporations that were already established and had their own networks in Iran before the revolution.

Third, trade constraints including frozen assets still exist today, and have been very costly to Iran on multiple levels. The IRI lost access to these frozen assets and the reserve currency. The loss of trade ties with the United States lead to an inability to buy strategic commodities such as arms and weapons that Iran badly needed for its war with Iraq. The Iranian regime was forced to purchase armaments through the black market at inflated prices.

Fourth, the policy of attempting, unsuccessfully, to export the Islamic revolution to other countries further isolated the regime politically and economically. It also limited trade ties for the export of oil and for essential imports, which had to be obtained at much higher cost. Industrialized countries, especially the United States, decided it would be prudent to limit the regime's influence on the oil rich neighboring countries. A policy of containment of the IRI through restriction of trade including technology which could lead to the attainment of weapons, particularly nuclear, was instituted. The trade restriction policy continues to be followed by industrial countries, but to a lesser extent beginning with the eight year period when Iran was occupied with the war against Iraq. After that war, the IRI was left militarily, economically and ideologically weak.

Fifth, during the war years, 1980-88, the world started to undergo substantial technological advancement, deregulation and privatization which tended to cause the IRI to become even more isolated in the world economy. The IRI created a state monopoly on foreign trade by forming “Procurement and Distribution Centers,” that were in charge of importing, and functioning as intermediaries between foreign suppliers and state industries. Those centers were paid by public funds. This huge state bureaucracy resulted in many wasteful procedures; these included importing the lowest quality raw materials at noncompetitive prices and delays in distribution, which are contrary to the laws of a free market (Karbassian, 2000).

Implementation of procurement and distribution centers put the private sector, mostly merchants (Bazaris), at a great disadvantage. In 1989, the powerful Guardian Council reversed itself and issued a ruling that state monopoly of foreign trade was “contrary to Islam.” However, this change was accompanied by more restrictions on foreign trade, which effectively continued limitations on participation by the private sector. For instance, exporters were required to insure the return of foreign exchange proceeds and required to sell to the Central Bank of Iran at rates below market. Furthermore, importers were required to deposit one hundred percent in cash deposits prior to opening letters of credit (Karbassian, 2000).

The historical trend of the world as a whole in the last quarter of the century has been toward greater integration and globalization. However, during this period the IRI has not moved in that direction. In fact, it has moved away from globalization to greater isolation in all areas: economic, political, and cultural. Although in recent years the IRI has attempted to reverse this trend, it appears that their efforts have been too little and have come too late.

In sum, the IRI’s policy has resulted in a weakening of integration of the IRI with the world economy, and thus the Islamic regime has failed the test of *integration*.

### 3. TEST OF INSTITUTIONS

The IRI began as a controlled market economy with a traditional and feudal flavor originating from Islamic codes that go back to its roots of 1,400 years ago. These flavors infiltrated the new institutions, particularly the laws and the structure of the government, and the political and economic system of the IRI. This section examines the institutional changes that have been taking place due to actions of the regime during the last twenty five years. 4

#### **Quality of Governance, Effectiveness, and Competence**

During the early days of the revolution, officials of the old regime were dismissed and many in the top ranks were executed. They were replaced with those loyal to the regime regardless of their knowledge or qualification for the position they occupied. Confiscated corporations and enterprises of the former regime fell into the hands of inexperienced individuals with no managerial training. The only requirements for the top positions were a rigid Islamic ideology and a certain political correctness; being a Muslim cleric, a “true Muslim,” or related to someone with religious standing was the only prerequisite. This policy, combined with commonplace corruption in the workplace, resulted in low morale and low productivity among workers, especially public employees; thus, there was a deterioration of the quality of governance.

Since the beginning of the Islamic regime, government effectiveness and competence, measured by the provision of the traditional functions of security and law enforcement, has declined substantially. Duplications, overlapping of functions, and inefficiency are common among the many branches of the public sector. In contrast, the regime’s effectiveness in oppressing the opposition has substantially increased. According to Karbassian (2000), the size of the inefficient and corrupt government is almost 2/3 of the GDP (p.5). Thus, it is common

knowledge that the only way people can obtain government services is to bribe government employees, including officials at all levels. In terms of civil service, the regime is completely incompetent due to the fact that obtaining civil service jobs has, from the beginning, been based on religious ideology and political relationships, rather than experience, training, and demonstrated competence.

Consequently, with government corruption and waste, the economy remains overly dependent on oil; however, carpets and pistachios account for a large percentage of non-oil exports. The state of the government budget and the economy are highly dependent on the world price of oil, as well as the quantity of oil exports. Data strongly support the contention that when the price of world oil is high (low) there is good (poor) economic performance and good (poor) condition of the government budget. Thus, this regime caused deterioration in the quality of governance, effectiveness and competence.

### **Government Controls on Goods Markets, Banking, and International Trade**

Government, to a large degree, controls the markets for goods and services, international trade, and banking systems. To a great extent, enterprises that were confiscated from officials of the old regime now fall under the control of public foundations (Bonyads). These foundations have many privileges, including subsidy by the government, lower foreign exchange rate, and tariff free imports. All banking institutions have been nationalized resulting in gross inefficiency of those institutions.

Government remains heavily involved in production, distribution, and trade; policy makers fail to consider economic efficiency, price competition by producers, and public accountability of state-run enterprises (Karbassian, 2000). Government is also involved in international trade, including contracts with foreign oil companies, imports of arms, and basic

necessities such as wheat, rice, and meat. This market interference and government control are almost entirely kept secret from the public, and even from representatives of the Parliament.

### **Quality of Public Service, Degree of Corruption, Public Sector Efficiency**

At the present time the degree of corruption in the IRI has broadened and deepened well beyond that of the monarchy it replaced. A recent case was reported by the Norwegian press, “*Olav Fjell*, the chief executive of Statoil, Norway's state-owned oil company was voted to continue as the firm's boss following a 13 hour questioning session by the company's directors. There was concern about \$15.5 million in bribes paid to an intermediary group used to secure guaranteed access to the lucrative Iranian oil market. Interestingly, the man suspected to have opened the doors of Statoil to Iran's south Pars gas fields in the Persian Gulf is Mr. Mehdi Hashemi, one of the five children of Iran's second in command, Ayatollah Ali Akbar Hashemi Rafsanjani.”<sup>5</sup>

Although corruption is now rampant, it was rare at the beginning of the revolution, which was originally driven by a true desire to improve the lives of the citizens of Iran. There are several reasons for the expansion of this phenomenon. First, since the war with Iraq in 1980 there has been a shortage of almost everything, and rationing coupons are necessary for distribution of basic needs to the population. As a result, a black market has developed for all commodities, including food, construction materials, automobiles, domestic and foreign air tickets, foreign exchange, and imported goods. Although the war with Iraq was ended in 1988, the failed economic policy that started at the inception of the revolution has caused the situation described above to persist to the present time.

Secondly, Islamic-government employees suffer from a high rate of inflation year after years, and are faced with loss of purchasing power of their paychecks. This is often used to

rationalize their failure or delay in doing their jobs unless a bribe is received. Thirdly, gradual personal isolation and loss of trust in the regime due to wide spread corruption by top officials of the government has taught people to pay for what they need and/or want. The corruption and bribes have spread to other sectors of semi private and even private sector businesses faced with shortages.

### **Abuse of Public Power for Private Gain or Corruption**

During the tenure of this regime, public power has been used widely for private gains by top officials of the government. Some officials, such as Hashemi Rafsanjani, who has been the Speaker of the Parliament and President, had no wealth prior to the revolution, but was pictured as one of the millionaire mullahs on the cover page of July 2003 Fortune magazine. These new millionaire mullahs, as the magazine refers to them, have all the privileges of foreign trade, exporting and importing, and do so largely without payment of duties. Furthermore, high officials of the government and their relatives have privileges in all areas including high paying jobs for which they are unqualified.

### **Regulatory Burdens**

During its existence the Iranian regime has created massive economic, political, and social rules. Those rules include price setting, export and import controls, forbidding of all political organizations and gatherings not in favor of the regime, requiring women to wear a veil, punishment for producers, distributors and consumers of alcoholic beverages, and punishment for those who listen to or watch music videos and/or performances, even in gatherings such as weddings, birthdays and picnics. Relationships between men and women, men and men, and women and women, are all regulated and highly restrictive. Violations of these rules have been subject to severe punishment, including imprisonment, torture, stoning to death, and executions.

Adultery by women is severely punished. These punishments are regularly reported in TV and the newspapers, sometimes with pictures.

Since its creation and the war with Iraq, the IRI has had a shortage of domestic food products. The state policy of price setting has only made matters worse. As an example, the Islamic regime was the only remitted buyer of wheat and the price was set at about cost, far below world market price. This has penalized and discouraged domestic farmers, resulting in production far below the country's needs. Thus, the state has been forced to import wheat at world market price, subsidizing it at a lower price to consumers. This has resulted in substantial cost, especially in foreign currency, to the government.

The IRI also regulates private sector investment which results in corruption of all kinds. Private investment and private businesses are at a comparative disadvantage vis-à-vis public institutions (Bonyad) that have been subsidized in many ways including tax exemptions. Those regulations that have led to a comparative disadvantage for the private sector have discouraged investment, resulting in lower economic growth, lower labor productivity, and lower growth in wages,.

### **Extent of Legal Protection of Private Property and Independent Judges**

In the new Islamic Constitution, all properties that had been acquired by “un-Islamic” means were declared illegal and made eligible for confiscation by the cleric-dominated regime. Accordingly, during the early days of the revolution, all private properties that belonged to officials of the old regime and properties belonging to those suspected of “wrong doing” were automatically confiscated.

Confiscated factories, corporations, and enterprises were transferred to public foundations (Bonyad). Confiscated homes were occupied by the officials of the new regime.

The public foundations include Bonyad-e-Mostazafan va Janbazan (Foundation of the Deprived and War Veterans), and Bonyad-e-Shahid (Foundation of Martyrs). According to Karbassian (2000) the Islamic state has become one of the richest, and possibly the strongest state-owned and controlled economies in the world. In the 1980s the government was responsible for approximately three thousand companies and businesses, most of which continue to remain under monopoly control. The economic activities of the Bonyad now account for some 11 percent of the Iranian GDP.

Under Article 49 of the Constitution, thousands of profit making, privately owned enterprises, were transferred to the state, making property and capital insecure. Massive capital fled the country and that has continued over the past two decades. This has resulted in a largely absent market economy where state regulations and controls abound. Anti-private ownership slogans can still be seen on the walls of Tehran and occasionally in the press.

In the IRI, judges are appointed by the unelected *Supreme Leader*, and are accountable only to him. The only qualification for that position is to be a “good Muslim,” as determined by the *Supreme Leader*. Judges are typically chosen from the extreme right-wing of the regime. This implies that judges and the courts are in agreement with the *Supreme Leader* regarding punishment including beating, torture, and execution of political prisoners. In addition, any disputes regarding the action of the President and/or Parliament that go to the courts are generally resolved in favor of the right-wing fundamentalists, although they are in the minority. Since the *Supreme Leader*'s term is for life, there is no change, no opportunity for change, and no chance of a shift toward reform. This has resulted in hopelessness, despair, anger, and a polarization of the Iranian people.

### **Political Rights, Civil Right, and Independent Press**

During the early days of the revolution the Islamic government created a variety of paramilitary forces, the Sepah and the Basige, employed largely to oppress domestic opposition to the regime. It also created a force of civilian vigilantes that interrupt all public gatherings and public speeches against the regime. These “civilians” have several organizational and operational tasks, but it is widely believed that they operate under the command of the office of the *Supreme Leader* and therefore, are accountable only to him.

Using sticks, knives, and other cold weapons, they brutally beat and injure the speakers and participants in any meetings and gatherings. Frequently, the speakers and some of the participants are prosecuted and severely punished. These “civilian” groups are outside the police, the regular army, and the army of Sepah and Basige which thwarts the formation of any nongovernmental political organization or public gatherings. Therefore, all gatherings are planned by the regime and/or for the regime.<sup>6</sup>

The IRI not only created these paramilitary forces and the vigilantes, but also formed secret killer squads composed of military and intelligence agents used to eliminate enemies of the regime. This comes to light through confessions made by intelligence agents of the regime. Between 1988 and the present, a series of individuals opposed to the regime were killed as were those who confessed that they got their orders from the regime.<sup>7</sup> The mullahs in command “truly believe and behave” as though they are the intermediaries between God and man. Thus, those who question governmental affairs are considered to be against God. Very often the verdict of political trials has been to brand political prisoners and those who were executed by the regime as: “The Enemy of God.”

Initially, the regime had majority political support and the enthusiasm of the Iranian people. The first purge started in the far left wing with the collusion of Mojahedin Khalgh and Fedeon Khalgh. In order to solidify their power, fundamentalist hard liners eliminated former more centrist comrades, permanently. Political divisions and purging continue today. Purging of any opposition, often by the use of force and fear, has led to a radical decline in public support. The IRI has silenced all opposition in all areas of life: politics, economics, education, social, art, and theater. Political divisions within the fundamentalist clergy itself have evolved into the formation of two widely divergent groups: the conservatives who have military and other power and resources, and the reformists, who have no power and no resources.

This Islamic government has been constantly in a *stage of crisis* with continual political upheaval since its beginning in 1979. The regime uses crises as justification for the harsh treatment of its opposition. Since its beginning, the IRI has sentenced thousands of dissidents to death. It began with mass executions of the top military and political elite from the former regime, including those in the armed forces who made a truce and signed neutrality pledges during the popular uprising against the Shah. Those military leaders were executed swiftly through a summary revolutionary court during the early days of the revolution.

The revolutionary court, under the control of the *Supreme Leader*, is currently as active as it was early on. The arrest and execution of political prisoners continues at virtually the same level as at the beginning of the revolution. The current regime has imprisoned and executed more mullahs than any other regime, including that of the Shah, in Iranian history. Any criticism of the government, regarding freedom, democracy, validity and legitimacy of *Supreme Leader*, *Council of Guardians*, and *Council of the Expedience* is considered “anti Islam and enemy of God.” Critics are treated harshly, including long term imprisonment, torture, and execution.

Even members of the parliament who are “elected” are not immune from prosecution and imprisonment for criticism of the *Supreme Leader*.

Revolutionary courts created during the revolution in 1979 still exist and behave in much the same way. The function of the revolutionary courts is to prosecute political opponents of the regime secretly and apply harsh punishments, including imprisonment, torture, and execution. The President and members of Parliament are without any substantive power, unless they are politically aligned with the *Supreme Leader*. Over the tenure of this regime, many who were originally supportive have become critics; either openly resulting in imprisonment, torture, and execution, or subversively, working against the regime. A number have been forced to escape abroad. Many supporters who have chosen not to become politically active have become passive. Thus, the political base of the regime has decreased continuously since its creation. Over time, the Islamic regime has eliminated or outlawed its rivals, all those on the left, republican nationalists, and along the entire political continuum who are not on the extreme right, although these outlawed groups participated in the fight against the Shah’s regime, helping the current regime to take power.

This harsh policy of political oppression has transformed a large portion of the population into politically passive individuals. Furthermore, the high rate of unemployment and low labor participation rate during the years of this regime has caused a high rate of drug addiction, specifically to opium and heroin. This has been reported in the newspaper and confirmed by statistics provided by the regime. According to a Central Intelligence Agency report, Iran is a key transshipment point for Southwest Asian heroin to Europe, and its domestic narcotics consumption remains a persistent problem.

Ayatollah Khomeini came to power as the first *Supreme Leader*, though not through open election. His successor, Ayatollah Khameni, was appointed for life by an unelected fundamentalist group, the Assembly of Experts. The *Supreme Leader* has vast power without oversight or accountability. He is the commander-in-chief of the armed forces, as well as other shadow forces discussed earlier. The office of the *Supreme Leader* has its own bureaucracy accountable only to the *Supreme Leader*, regardless of the magnitude of its policies or impact on people's lives. The *Supreme Leader* has the power to wage war, plan war strategy, and conduct secret negotiations with other governments, such as the United States regarding the release of the hostages. He also has vast economic power in buying arms, negotiating oil contracts, and spending of oil revenue. He also has total control over political prisoners: arresting, treatment, sentencing, torture, etc. As yet, the IRI has not been required to discuss meetings, negotiations, or arms purchases from the United States and other countries, like Israel, during the war with Iraq and following, although their actions are public knowledge.

Newspapers are free to praise the regime, but not free to question or criticize the policies of the regime. Those who oppose the regime have been imprisoned and prosecuted behind closed doors; this activity continues to the present time. Recently some members of Parliament wrote to the *Supreme Leader* to open the prosecution of journalists to the public, rather than continuing the secretive and closed prosecutions. Those requests were not answered. Also, in 2003, the Parliament whose members' candidacy were approved by the *Council of the Expedience*, voted and requested the prohibition of torture of political prisoners. The request was denied by the *Council of the Guardians*.

This evolutionary change during this regime does not alter the fact that there remain a large number of fanatic followers, who justify any actions taken for their cause, and /or their

survival. Gradually, even less politically active Iranians have realized lack of political and civil rights, and the depth and breadth of corruption and oppression which has resulted in disappointment, distrust, passiveness, addiction, and emigration.

### **The Limits Placed on Political Leaders, and Elite**

The *Supreme Leader* of the IRI is not an elected official and has a lifetime position. His scope of authority is limitless, although he is not accountable to the population for his policies and actions. The regime created a new body called *Council of the Expedience* (Maslehat Nezam) that “supervises” the laws passed by the Parliament and “guides” institutions of the government. This body is very powerful, second only to the *Supreme Leader*: its members are religious conservatives appointed by the *Supreme Leader* also for life.

The *Council of Guardians*, another body appointed by the *Supreme Leader*, must approve candidates for the Presidency and the Parliament. The *Council of Guardians* carefully investigates the candidates’ background. If they are not “true Muslim,” or if they oppose the regime, they cannot be candidates. It is public knowledge that the *Council* rejects many qualified candidates if there is even a minor opposition to the regime, as well as those not ideologically classified as fundamentalists.

In the election of 2004 about half of the members of parliament who applied for reelection were rejected by the Council. Consequently, although people vote for President and members of Parliament and their term in office is four years, they are elected officials in name only with no actual authority. This political structure has resulted in a President and Parliament who are powerless, and unable to generate political change. In essence, the elected officials are acting out the wishes of the *Supreme Leader*, rather than society at large. As the only available

method of protest, the voters have repeatedly voted against candidates who are supported by the *Supreme Leader* and the fundamentalists.

To conclude, the IRI has failed in virtually all institutional criteria commonly accepted as cornerstones of progress. The dynamics of these combined measures have been deteriorating, and exhibit continued movement in a negative direction, leading to dramatic and adverse changes to the fabric of Iranian society both quantitatively and qualitatively.

### SUMMARY AND CONCLUSIONS

This paper employed the theoretical and empirical criteria of *Geography*, *Integration*, and *Institutions* to evaluate the performance of the Islamic Republic of Iran since its inception in 1979. While Iran passes the test of geography, as an exogenous variable, the theocratic regime has completely failed on the other two criteria of *Integration* and *Institutions*. The regime's *integration* and trade policy with the rest of the world started with revolutionary changes of great magnitude. Its support of taking American hostages resulted in the freeze of Iranian assets and the trade embargo by the United States. These policies and the attempt to export its revolution to the neighboring countries isolated Iran from the rest of the world economically, politically, and culturally. It prevented diffusion of technological advancements into the country. Thus, the Islamic Republic of Iran, without doubt, failed the *integration* criterion.

Of greater concern, the regime failed according to the *institution* criterion. It has been, at best, unsuccessful on virtually all areas and, at worse, a miserable failure. Specifically, it failed on quality of governance, government effectiveness and competence, government controls on goods markets, banking, and international trade, degree of corruption, public sector efficiency, abuse of public power for private gain, regulatory burdens, extent of legal protection of private

property and independent judges, limits placed on political leaders and elite, political right, and independent press.

The evidence of the failure of IRI is evidenced by the deterioration of the standard of living of the Iranian people, in that most are forced to work two jobs in order to support themselves and their family, and the deterioration of the quality of family life that was highly valued before the revolution, and under the Islamic system. The failure is also reflected in political purges and separation of the regime from the Iranian people which is demonstrated by the voting pattern against those candidates who are supported by the *Supreme Leader*.

The failure of the system is also obvious in the current economic and social unrest expressed by regular and increasingly frequent demonstrations against the regime. This occurs even at great personal risk of beating, prosecution, imprisonment, torture, and execution. Thus, the Islamic Republic of Iran as a system of economic, political, and cultural ideals does not pass or meet those criteria theoretically or empirically and hence, does not meet the needs of its own people.

## NOTES

1. During its existence the IRI has gone through some difficulties, including trade embargo by the United States and the war with Iraq, causing serious economic and human hardship to the regime and the Iranian people. In addition, the IRI's windfall oil revenue has been steadily increasing, a helpful circumstance for the regime. While this paper recognizes the difficulties, and windfall revenues, they are beyond the scope of this paper. Furthermore, to be objective this paper evaluates the IRI based strictly on the stated criteria.
  
2. According to Central Intelligence Agency estimates as of July 2002 Iran's population was about 66,622,704, with labor force of 18 million. This is a very low labor participation rate of 27 percent, compared to 64 percent in the United States, indicating a vast untapped labor pool. Forty-five percent of its labor force is in service, thirty percent in agriculture, and twenty five percent in industry. The population age structure is *0-14 years*: 31.6 percent (male 10,753,218; female 10,273,015), *15-64 years*: 63.7 percent (male 21,383,542; female 21,096,307), *65 years and over*: 4.7 percent (male 1,633,016; female 1,483,606), with population growth rate of 0.77 percent.  
  
Iran has a birth rate of 17.54 births/1,000 population, death rate of 5.39/1,000 population, net migration rate of -4.46/1,000 population, male: female sex ratio of 1.03, average life expectancy at birth is 70.25 years: *female*: 71.69 years, *male*: 68.87 years. The population consists of Shi'a Muslim (89%), Sunni Muslim (10%), Zoroastrian, Jewish, Christian, and Baha'i (1%). The primary language is Persian and Persian dialects (58%). Other languages spoken include Turkic and Turkic dialects (26%), Kurdish (9%), Luri (2%), Balochi (1%), Arabic (1%), Turkish (1 %), others (2 %). The Literacy rate of the

*population* is 72.1 percent--*male*: 78.4 percent, and *female*: 65.8 percent (1994 CIA estimates).

3. There is speculation about a secret deal with the Reagan campaign during the 1980 election that postponed the release of the hostages. For more information see <http://www.angelfire.com/ca3/jphuck/BOOK3Ch7.html>, or <http://wjcohen.home.mindspring.com/otherclips/sick.htm>.
4. For the detail of the criteria of institutional quality see Edison (2003).
5. See <http://www.iran-press-service.com/> September 2003.
6. BBC News web cite, in its June 14, 2003 issue, regarding who Iran's vigilantes are wrote:
 

“As anti-government demonstrations escalate in Iran, the hard-line authorities are using Islamic vigilantes to suppress the students and their supporters. During the fourth night of protests in the capital Tehran, armed plain-clothes groups raided university hostels injuring a number of students. They attacked other protesters with clubs and chains. The militants pledge loyalty to Iran's *Supreme Leader*, Ayatollah Ali Khamenei. Conservatives in the Iranian leadership for many years have been using hard-line Islamic groups as one of the most effective tools to suppress any challenge to their rule. Whenever there is a pro-democracy gathering, member of this shadowy organization is brought to the scene. They normally arrive on motorcycles, wielding knives, chains and clubs. They are young men with distinctive features such as beards and untucked shirts. Their sheer presence causes panic. They attack their opponents viciously. It is widely believed in Iran that the vigilantes are paid and organized by people close to Ayatollah Khamenei. They are fiercely loyal to him, and see their role as defending Islamic values and the Iranian revolution. Because of their powerful connections, they feel free to openly attack their opponents without any fear of

prosecution. They are not like the normal police force, which is accountable for its actions. And the hard-line authorities often portray these militia forces as the true representatives of the Iranian people. But most Iranians regard them as young thugs. Therefore, as general discontent increases in Iran the action of these militant groups could backfire.”

[http://news.bbc.co.uk/2/hi/middle\\_east/2990786.stm](http://news.bbc.co.uk/2/hi/middle_east/2990786.stm).

7. For detail see [http://www.jebhemelli.net/news/2002/01-jan/torture\\_tapes.htm](http://www.jebhemelli.net/news/2002/01-jan/torture_tapes.htm).
8. For more information of the tortures of political prisoners, and freedom of expression and human abuses by the regime see Abrahamian (1999), and Amnesty International Annual report entries: 2004, 2003, 2002, 2001, 2000, 1999, 1998, 1997  
<http://web.amnesty.org/library/index/ENGMDE130082004>. For more information of the types of tortures including physical and psychological tortures, conditions obtain in the general cell block units, names of several inhumane and a few torturers, a brief description of the prisoners in prison of the Islamic Regime see nine parts of The Frightening Conditions for Political Prisoners in Iran.  
<http://www.daneshjooyan.org/english/communique/2003/260203a.html>. Also, see  
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