Introduction: The Limited Transforming Potential of the Middle-Class Revolution

By the time of the 1979 Revolution, Iran had developed into a semi-peripheral country, following almost three decades of a dependent capitalist growth path. By semiperipheral, I refer to the middle sector in a trimodal world system in which core and periphery are the two extremes.¹ Semiperipheral countries are distinguished by, among other characteristics, their expanding, but limited, home and export markets, technological dependency, and integration into the world economy. Increasing politicization of the economic decisions on behalf of an expanding private sector, emergence of monopolistic and complex economic structures, uneven development, and speedy destruction of traditional cultures following rapid industrialization and urbanization are among other major characteristics of semiperipheral societies. Being in the process of a major transition, these societies also live through potentially explosive political conditions generated by a combination of domestic and external factors. Iran earned its semiperipheral status through import-substitution industrialization and export-promotion strategy back in the 1960s and 1970s. The process was aided by increasing integration into the world system through the oil sector, an industry that has become vastly internationalized since the 1970s.² The foundation for the country’s semiperipheralization had been laid down in the nineteenth century when the British and the Russian first penetrated and then dominated Iran’s political economy.³

As I have argued elsewhere,⁴ the Iranian Revolution reflected the failure of this model to benefit the majority, a cultural and nationalistic reaction to imperialism, a popular desire for political participation and social justice, and a strong will to alter the status quo and rebuild the society after an ideal homegrown model based on recreation of the forgone cultural values and ways of life. Factors
contributing to the Revolution not only included the Shah’s illegitimate return to power through a CIA-sponsored coup in 1953, and his despotic rule for over thirty years, but also influential memories of the failed democratic movements, unmet expectations, a long and continued legacy of revolutionary political activism, and the presence of potentially liberating ideologies. Moreover, the limited industrialization had been accompanied with rapid urbanization in the late 1960s and 1970s, leading to a significant concentration of dispossessed social groups in major cities, particularly Tehran, where they later joined the revolutionary movement, the religious forces in particular. The Shah’s rapid modernization strategy (a rather hasty Westernization program) had also led to the emergence of a two-culture nation in which there were hardly any mediating links between the so-called modern sector and the traditional society. Effective were also the changes in the larger world system of which Iran was a part. Fluctuations in oil prices in the 1970s had led to the 1973–75 economic boom and then to the unexpected 1976–77 economic bust. In the midst of the economic crisis, when the ruling class was divided on how to handle the situation and the dictator had to tighten his grip on the society to survive, President Jimmy Carter called for human rights and a limited democracy in Iran. Under these conditions, the Ayatollah Rouhollah Khomeini’s strong-willed leadership of the broad-based coalition became a potent force in overthrowing the ancien régime, or more specifically, the “neopatrimonial dictator.”

A revolution may be characterized by the class nature of its leadership as the state that emerges from it becomes, somewhat inevitably, the major agent of immediate postrevolutionary change; it participates in political struggles as a distinct social strata with specific interests. Thus, just like most other revolutions in the Third World today, the Iranian Revolution can be defined as a “middle-class revolution” because it was led by the middle-class intelligentsia, although a broad coalition of the people participated in the movement. However, what distinguishes a middle-class revolution from, say, a socialist revolution is the cross-class ideology that its leadership brings into the postrevolutionary state. Religion, nationalism, regional socialism (e.g., Arab Ba’athism and African socialism), and populism are among such ideologies.

By the middle-class, I refer to those people who do not fall in either of the following two categories: (1) owners of major means of production be it money, machinery, patents, land or any other type of asset, including commodities, who garner significant profit, inter-
est, or rent, and whose primary income source is nonwage-
nonsalary earnings; and (2) nonowners of means of production who
primarily subsist on wages or income earned through manual and
productive labor, are unemployed, or live in welfare. I shall refer to
(1) and (2) as the upper class and the lower class, respectively. The
middle class, therefore, comprises a variety of social strata who live
on their own mental or manual labor or on the labor of others.
These include small proprietors, the self-employed or small employ-
ers, nonproduction salaried personnel (e.g., bank clerks, and sales-
persons), professional in the service of business and government
including the military, and the intelligentsia. The last group in-
cludes the intellectuals, university professors, clergy and religious
leaders, teachers, students, lawyers, physicians, and literary people.
The intelligentsia tends to take a vanguard position within the
middle class.

In so far as the middle class occupies an intermediate position
between the upper and lower classes, it tends to share a common,
though loosely defined, economic interest. Moreover, as the middle
class does not own any major means of production, it finds eco-

demic nationalization a precondition for holding on to the political
power and controlling the economic society. Monopolization of the
political society thus becomes a necessity for the middle-class lead-
ership. The class is, however, divided into various strata with differ-
ing economic positions and prospects. The internal heterogeneity of
the middle class is further exacerbated by divisions along ideological
and political stands. The class, for example, includes secular and re-
ligious tendencies, highly literate and illiterate people, modernists
and traditionalists, and Leftist, Rightist, and Centrist groups. This
extreme internal heterogeneity is a major source of interstrata con-
flict within the class. It is also the main reason why the middle class
lacks a coherent and strictly middle-class ideology (i.e., a system of
ideas) or a reasonably stable political stand. Lacking its own ideol-
ogy (instead, the class has a lot of ideas!), the middle class employs
an existing ideology and in so doing creates dislocation, that is, non-
correspondence, between its class interest and the borrowed ideol-
ogy, a situation that leads to ideological factionalism and practical
difficulties for the postrevolutionary leadership.

What ideology is borrowed is a conjunctural matter and depends
on the relative strength of the various strata, their authenticity and
ability to legitimize their drive for hegemony in the larger society,
and the nature of the political movement. As this dislocation takes
place in the context of a highly politicized revolutionary society, its
effect is to exacerbate the intraclass conflict that, in turn, becomes the main source of opportunistic radicalism and aimless policy pronouncements. In cases where the middle-class leadership of the revolution adopts a cross-class ideology, additional difficulties may be expected to emerge including the leadership's inability to formulate a coherent and unified development strategy for reconstruction of the postrevolutionary society. However, as most within the middle class tend to look upward (i.e., in the direction of the upper class) and are motivated by advancing their socioeconomic and political position, they eventually, and after a long period of political vacillation, move toward moderation, pragmatism, and reformism, away from radicalism and strictly ideological considerations. The length of time this may take will depend on many factors including the leadership's ideological strictness and the amount of pressure exercised on the Revolution by its international and domestic opponents. The shift indicates that the leadership is willing to give up the utopia in favor of realism and what is actually possible.

These shortcomings aside, among the forces contending for the leadership of the Iranian Revolution, the middle class, its vanguard intelligentsia in particular, was most prepared and able to lead the Revolution. They were quantitatively and qualitatively superior to other social groups: they included both religious and secular tendencies, were active in criticizing the Shah's policies, and adhered to the nationalistic, culturalistic, and democratic aspirations of the Revolution. In sharp contrast, the upper-class intelligentsia lacked authenticity, for they were identified with the largely discredited ancien régime, and the relatively small vanguard of the lower class (Left intellectuals) had neither a unified leadership nor a popularly understood alternative to the ideals of the crowds in the streets. The Left had particularly suffered from the Shah's dictatorship and antisocialism.

Middle-class revolutions often adopt an indigenous ideology and are largely nationalistic. In the case of Iran, a revolution that sought to dispel foreign influences would only naturally rely upon a native ideology such as Shi'ism. The cross-class and universal character of the ideology and its identification with Iranian nationalism made it particularly attractive to the ordinary Iranians. Islamic ideology, which had already been revived by the uprising against the Shah led by the Ayatollah Khomeini in 1963 and through the extensive religious educational programs in the 1960s and 1970s, also promised reintegration of most dispossessed social groups into mainstream society. This perceived reintegrative capability of Islam provided the religious middle-class intelligentsia, including the clergy, an added
opportunity for the leadership of the Revolution. It is this particular Islamic strata of the middle class, not to any particular individual, whom I refer to as the middle-class leadership throughout this book.

The distance between choosing Islam and accepting the leadership of the charismatic Ayatollah Rouhollah Khomeini was only a short one. He had remained uncompromising to the Shah and was able to articulate the various ideals of different social groups both in his speeches and through the practical leadership of the Revolution. The Ayatollah’s ordinary life-style and spirituality were additional sources of attraction for a people whose political leaders lived a spiritless material luxury. This Islamic leadership was also able “to rally behind him a wide spectrum of political and social forces” convincing them that their demands for national independence, social justice, and democracy would be realized in an Islamic Republic.6 Nothing significant in the historical memories of the Iranian people had suggested that this promise would be broken.

For the purpose of this book, I distinguish between a political revolution and a social one. By the former, I mean a transfer of state power, by whatever means, from the class holding it to a class below it in the social hierarchy. A social revolution, on the other hand, has its object in transforming the inherited socioeconomic, political, territorial, cultural, and ideological structures on the basis of the revolution’s stated objectives. It is my assumption that the political revolution was successfully implemented by the overthrow of the Shah’s regime. This book, therefore, concentrates on the social revolution, primarily on transformations in economic structures and policies, and forces that constrained such changes. Moreover, as the stated aim of the Islamic Republic was not to create a socialist economy, I shall use what I call the Islamic vision of the postrevolutionary state as a criterion for assessing the performance of the postrevolutionary economy. But such an evaluation is objective only if it accounts for both opportunities and constraints facing the Revolution and is placed within a framework of analysis that allows for criticism, comparison, and policy recommendations.

Among the widely proclaimed aims of the Revolution was to achieve economic development, sovereignty, and justice. This aim was subsequently translated into an Islamic vision reflected in the new Constitution (see especially Articles 43 and 44) and in the First Socio-Economic and Cultural Development Plan of the Islamic Republic among other official documents. The economy had grown fast under the Shah but had become increasingly dependent on the capitalist world economy and had developed unevenly among economic sectors, social classes, and territories.7
The main purposes of this book are to examine the relationship between revolution and economic transition, develop a balanced analysis of economic transformation under the Islamic Republic, indicate the forced responsible for the gap between the vision and the actual performance, and assess the prospects for the postwar reconstruction. I also wish to use this case study of Iran to reflect, in my conclusions, on the larger issue of postrevolutionary social change in the Third World.

Writers on revolutions as vehicles of social transformation may be grouped into three categories. First, there are scholars who argue that revolutions bring about only negligible or fleeting changes in societal structures aside from a change in the ruling elites. Standing in sharp contrast to this view are scholars who believe that revolutions are among the most effective means for durable and pervasive social transformation including redistribution of power and wealth. Between these two extremes is the moderate view that maintains that revolutions have variable impact in different societies and on different aspects of a given postrevolutionary country, and that revolutionary governments face problems similar to most governments and are forced to make policy choices and compromises that result in the less than perfect achievement of initial goals.

This book supports a modified version of the moderate view. Specifically, accepting the variable nature of revolutions' impact, I argue that the transforming potential of revolution is determined by (1) the social basis of postrevolutionary leadership, the geopolitical importance (or position) of the country, and the hegemonic ideology of the revolution; and (2) the nature (and extent) of compromises (and policy choices) dictated by such diametrically opposing forces as what I call opportunity (enabling) factors and constraining factors, either generated along with revolutions or inherited by them. In most cases, such compromises generally take the form of a movement away from initial ideological commitments toward pragmatism (i.e., realism), moderation, and conventional policies. Whereas some of these determinants exist in all postrevolutionary societies, others are specific to given contexts or conditions. Equally variable is the impact of these determinants on different revolutions: whereas some are heavily influenced by the first set of the determinants, others are largely checked by the second set.

In the particular case of Iran, the middle-class basis of the leadership, Islamic ideology, and the proximity to the Soviet Union and the Persian Gulf became major determinants in the extent of the Revolution's impact on postrevolutionary social change. Whereas the geopolitical factor reduced the possibility of the semiperipheral
Iran to live a more autonomous life within the world system, the contradiction between the cross-class and universal Islam and the narrow interests of the middle-class leadership prevented a systematic view of social transformation from emerging. However, post-revolutionary transformation was also determined by a number of opportunity (or facilitating) factors and, to a greater extent, constraining factors. Specifically, at the outset, the Revolution had generated enormous opportunities in terms of national unity and purpose, massive energy and enthusiasm, new and creative ideas, innovative means of cooperative social change, new institutions and tremendous volunteer forces. It had also generated significant international support particularly among Third World and socialist countries, national liberation movements, and progressive forces in the Western world.

But, before these facilitating forces could be translated into purposeful practices for the realization of the vision (or goals of the Revolution), equally powerful constraints began to develop. Added to the burden of the Shah's economic legacy were the Revolution-induced expectations, unrealistic promises by the new regime, and increasing pressure from imperialism and domestic politics. The war with Iraq and dependency on oil and international markets were particularly damaging to the economy. Other constraining factors included infrastructural, material, managerial, and institutional bottlenecks. Struggles over state power and the social question of the Revolution (including workers councils, regional autonomy, land reform, housing for the poor, and a new international policy) and factional contests within the ruling power bloc created additional obstacles. Equally harmful were the state's inability to formulate a coherent economic policy and regulate its relations with the domestic opposition and the international community. Each of these economic, political, ideological, cultural, institutional, and international factors had its specific impact, and their intensified interaction in the postrevolutionary environment created additional powerful and complex obstacles. Finally, among these constraining factors, the war, fluctuations in oil revenue, the lack of a coherent development strategy, and the fractured domestic politics have been the most destructive.

These factors have hindered economic transformation in both production and policy areas, and only moderate changes have resulted. Most postrevolutionary economic indicators are characterized by wide fluctuations, tenacious problems, and variable but largely negative trends particularly with respect to such objectives as growth, stability, self-sufficiency, and equity. The real quantitative
decline of the economy may indeed be greater than what is revealed by the rial figures, as the Iranian currency has greatly depreciated in value relative to foreign currencies, notably the U.S. dollar, since 1979.\textsuperscript{10} At the risk of oversimplification, I maintain that the major economic cycles in the postrevolutionary period and its corresponding major determinants may be conceptualized as depicted in figure 1.1. Note that the economy has experienced three distinct periods: sharp decline (1977–80), strong growth (1981–83), and sharp decline (1984–87). Note also that the sharp decline had begun in 1977, the year preceding the revolutionary movement, and that impact of the oil factor, war with Iraq, and domestic politics has been the most devastating to the economy. However, the correlation between the economic cycles and the movements in oil prices or revenue is the most striking.

The transformation of the state's economic policies (fiscal and monetary) has been equally frustrated by the constraining factors including factionalism within the leadership. The result has been eccentric economic objectives, major policy reversals, and the Republic's gradual move away from its initial ideological commitments and radicalism (i.e., its Islamic vision) toward pragmatism, moderation, and conventional policies. This change in direction has

\textbf{Figure 1.1}

\textit{Three Major Economic Cycles and Their Determinants, 1977–88}
also come about because of avoidable *and* inevitable compromises that the middle-class leadership has had to make with its powerful domestic and international rivals and enemies. The urgent need for speedy adaptation to mostly unconventional and surprising movements in the economic and extraeconomic spheres was also responsible for the change. The middle-class leadership also faced the dilemma of reconciling its vision with the cross-class and universal ideology of Islam; and this tension, along with the internal heterogeneity of the middle class, prevented the leadership from maintaining its coherence and the coherence of its initiatives. Factionalism, in turn, opened the door wide for the political influence of the big bazaaris such as the profit-hungry merchants and their increasing ability to shape, change, paralyze, or neutralize major policies of the Iranian government.

However, trends in production and policy areas mask significant changes in the structure of the economy, redistribution of resources, and redefinition of national priorities and the state's objectives and policies. Significant changes have also been introduced in societal relations and institutions. For example, defense-related industries have experienced significant growth, most large-scale economic units (industries and banks) have been nationalized, almost all basic needs are subsidized (or were at some point); the less privileged places, rural areas and deprived regions in particular, have received added attention, and various grass-roots organizations have been established. Moreover, although the vision has not been fully realized, the Republic has been able to muddle through without accumulating any significant amount of long-term foreign debt despite the war, reduction in oil revenue, and economic decline, a rather remarkable achievement. It should be also pointed out that the 1980s have been the worst post-WWII years for most Third World economies (including socialist postrevolutionary societies). Given this fact, although Iran lost tremendous opportunities in these years, the Iranian economy under the Islamic Republic is not the only case of disappointment for economic development.

The preceding analytical framework offers a far more complex analysis of the forces that face the Islamic state in transforming the society than those proposed by various Iranian Left groups and scholars in the mainstream tradition. In particular, although the majority among the latter group concentrate on religious "fundamentalism" of the new state as the main reason for its inability to continue in the path of "modernization," most, if not all, Left organizations focus on the class nature of the new state to predict its teleology. A few small leftist groups considered the new state an-
other "bourgeois state," thus arguing that no social change may be expected. They called for the overthrow of the Islamic Republic in favor of a socialist state. Most Left organizations, however, regarded the new state as dominated by the "petty bourgeoisie," but were divided on what it could actually achieve. Overstating the detrimen
tal effect of imperialism, some believed that the "petty bourgeois
democrats" had ideals similar to socialists and if supported in its struggle against imperialism and domestic reaction, and further rad-
icalized, they could lead the society in the direction of a "noncapita
talist way of development."12 Others, however, were less optimistic, arguing that the petty bourgeoisie suffers from inherent limitations that would prevent it from making major strides in the direction of radical social change. They called for a protracted two-stage revolu
tion, where the second, socialist stage, would take place at the end of a long road.

My analytical framework is also informed by what I wish to call a modified world-system perspective. According to this perspective, the self-contained, trimodal capitalist world system has a single division of labor (capitalist mode of production) and exists on the basis of an asymmetrical interdependence between the core, the semiperiphery, and the periphery. To me, the most significant con-
tribution of the perspective is its emphasis on what Immanuel Wallerstein has called "the limited possibilities of transformation within capitalist world economy."13 The core, which has the most complex economic system and the strongest state, dominates other areas and is able to constrain their development. A revolution in ei
ther the semiperiphery or the periphery will not lead to an auto-
matic liberation from the constraining forces of the core as such forces are essentially economic in nature. However, they could make a difference in lessening the extent and impact of such core-imposed constraints, if the leadership followed a more prudent and planned strategy. Moreover, although active support from progressive states and other noncore capitalist nations can also be expected to mitigate certain limitations faced by the postrevolutionary societies, they are not guarantees for a successful social transformation.

The impact of structural constraints could also vary depending on the behavior of the leadership, which is why the role of person-
ality is so important in historical episodes. From the present case study, it also appear that such structural limitations are particularly powerful in postrevolutionary societies led by the middle-class intel-
ligentsia. At least initially, this leadership is hostile to both socialist and capitalist blocs and thus faces added pressure to demand in-
creased functional autonomy and independent development within
the world system. It is also shown that such limitations are imposed not only from the "outside," as indicated by most dependency theories, but also through the "domestic" arena and the interrelationships between the two contexts are structural and functional in nature. It must be noted, however, that world politics is in transition toward multipolarity of powers that, along with the current global economic and territorial restructuring, is providing new opportunities for social change in the Third World.\textsuperscript{14}

I am further guided by a dialectical methodology that combines inductive and deductive approaches for investigation and presentation of the research materials. I begin with a number of what I call \textit{fact-informed hypotheses} to guide data collection and my arguments. Such guiding principles are developed following a preliminary investigation of the research materials. The statistics and information are then organized and analyzed to identify recurrent patterns, relations, and trends, on the basis of which empirically-based generalizations are made for grasping the essence of the phenomenon including its inner laws of motion. The focus here is on the process and the interconnections of the various parts, which give birth to the outcome. Comparisons are also made with the corresponding patterns, relations, and trends in the immediate prerevolutionary years. Only then is it possible to establish the meditations and links between the essence and the appearance of the phenomenon under investigation, establish its uniqueness if any, and draw theoretical and policy-relevant conclusions. Finally, presentation of the findings follows a logical-historical sequence; that is, the empirical and theoretical materials and events are presented chronologically and in terms of their cause and effect relations.\textsuperscript{15}

The arguments and analysis are supported by specific data, examples, information, and policy statements largely obtained from a number of published and unpublished government economic reports.\textsuperscript{16} Unofficial sources, including my interviews\textsuperscript{17} and publications by international and commercial organizations and scholarly communities inside and outside Iran, have also been consulted for a more balanced presentation of the materials.\textsuperscript{18} On policy matters, I have also relied on Iran press digests in English, available through Echo of Iran and MENAS among other publishing houses,\textsuperscript{19} Iranian newspapers and journals,\textsuperscript{20} published books and articles, my interviews with the officials of the Islamic Republic, and discussions with friends and colleagues in the country. Systematic statistics on most aspects of the economy are not available to the public beyond 1986. The statistical secrecy was imposed by Iraq's war against Iran. To update the trend analysis, I have made cautious and limited use of
the government's projections and extensive use of actual figures cited by the government officials and representatives of the Parliament (Majles) in their speeches and interviews, or reported in various daily, weekly, monthly, and occasional publications. Keen eyes may, therefore, detect inevitable inconsistencies in reported data here and there as various sources give differing figure or accounts of the issue.

Although the paucity of independently produced data makes it impossible to verify every officially published statistic, in a number of cases where I was able to cross-check my data their accuracy and internal consistency were established. This is particularly true of statistics on trade, sectoral production, national income, investment, and the main items in the government budgets. Less reliable or inconsistent are statistics on military expenditures, war damage, inflation, unemployment, and income distribution. Another major problem with certain statistics, particularly government revenues and expenditures, concerns the huge gap between the official and free market exchange rates. I have assumed official rates throughout unless otherwise indicated. A more reasonable exchange rate would have given a better picture of the economy. The problem, however, is that no one has been able to establish such a rate in a volatile economy.

Clearly, such deficiencies along with other impeding factors tend to cripple a more comprehensive and accurate analysis of the economy. Included in such impeding factors are many unknowns about the complex forces influencing postrevolutionary Iran, the inner mechanisms of the Islamic government, the state's eccentric objectives and policy pronouncements, and information about the minute transformations that have occurred in small-scale operations and in the social relations at the class, family, and individual levels. As we shall see, a number of these influences have been imposed on the Revolution and are more or less beyond the control of the leadership, whereas others result from or because of the Revolution or its leadership. The postrevolutionary economy also eludes the existing theories or models of economic analysis as it has strongly been influenced by a variety of economic and extraeconomic forces originating from international and domestic sources. Nevertheless, I have, more or less, followed a Keynesian national income accounting framework and macroeconomic growth models, including the "Three-Gaps model," to organize and interpret my economic data and policy arguments.

As for the remaining part of this book: Chapter 2 focuses on seven categories of influences on the postrevolutionary economy.
They include (1) the economic legacy of the Shah, (2) the struggle over state power and the social question of the Revolution (i.e., social justice), (3) the Iran-Iraq war, (4) the oil and Saudi factors, (5) struggle for national sovereignty, (6) major bottlenecks and underutilization of the existing productive capacities, and (7) ideological dislocation and systemic indirection including the lack of a development strategy and planning and the state's eccentric policies and pragmatic solutions. The origin, nature, complexity, and tenacity of these factors are explained for a better understanding of their specific impacts on the economy. Chapter 3 then concentrates on such major economic indicators as production and sectoral shifts and policies, investment and consumption patterns, general budget and budget deficit, prices and antiinflation measures, employment and its sectoral shifts, per capita income and income distribution, provincial development and policies, and international trade and balance of payments. For each of these indicators, I identify and explain major trends, structural changes, obstacles, and the state's policies. My assessment of these indicators is offered in the light of specific determining factors. Chapter 4 outlines a framework for postwar reconstruction and then focuses on the ongoing debates among the three main political factions and options that are actually available to the Islamic Republic. I also evaluate the Republic's experience and the most intractable obstacles to the reconstruction including a shortage of foreign exchange and the existence of an obsolete political culture. The book is concluded in Chapter 5, where I give a synthesis and update (to 1989) of the empirical findings along with a discussion on the Islamic Republic's gradual movement away from ideology toward pragmatic and conventional policies. A few generalizations are also advanced about postrevolutionary societies in the Third World, focusing on the relationship between revolution and economic transition.