CHAPTER THREE

FACTIONAL RIVALRIES AND ECONOMIC POLICIES

3.1 Introduction

This chapter discusses the varying approaches of the different political factions in Iran to economic issues and the impact of the rivalries for power, between the factions, on economic developments since the Islamic revolution.

In the early years after the Islamic revolution the position on economic policies that became dominant in the IRI was that of the Radical Left faction which promoted state intervention, high taxation, and the limitation of property rights. This was followed by comprehensive economic restructuring policies in all sectors of the economy: industry, services, and agriculture. The expansion of the governmental role in the economy, in the first ten years after the revolution, was not primarily characterized by a shift from private to public ownership but by direct state intervention in the economy. However, this did not mean that a market economy was replaced by a planned economy. To the contrary, it was the first time since 1949 that no medium-term development planning was applied. Economic restructuring in the first ten years after the Islamic revolution had a great impact on economic developments in Iran (see Karshenas and Pesaran 1995: 97 and Karshenas and Hakimian 2000: 34–35). By the end of the 1980s the country was confronted with high unemployment rates, inflation, a large budget deficit, and a wide balance-of-payments gap.

In the late 1980s gradually a new political faction, the Pragmatist faction, emerged, led by Hashemi Rafsanjani. The election of Rafsanjani as president in 1989 and the appointment of Ayatollah Khamenei as the new supreme leader, after the death of Ayatollah Khomeini, had a decisive impact on the course economic policies would take. The Pragmatist faction, under the leadership of President Rafsanjani, aimed at market-based rapid economic reform and a non-isolationist foreign policy, for full reintegration of Iran into the international economy. In his two terms of presidency (1989–1993 and 1993–1997) Rafsanjani
was able to remove some constraints on the economy, but could not resolve its structural problems, including a poor production sector, reliance on oil and gas revenues, uncompetitive markets, and an improper budgeting system. When Mohammad Khatami won the presidential elections in May 1997, in a nationwide popular longing for change, he was considered as the ideal agent to bring about that change. Though the economy was in a much better condition than during the first ten years of the IRI, when President Khatami took over the economy from Hashemi Rafsanjani, it was still badly planned and managed, centralized, and structurally distorted. During his presidency Khatami was relatively successful in pushing forward his political, socio-cultural, and especially foreign policy agenda, but failed on the economic front. Since the election of Mahmoud Ahmadinejad as president in 2005 the economic situation in Iran has not changed for the better. Ahmadinejad is even criticized by his neo-Conservative allies of the Conservative faction for his poor economic policies.


From the early days in post-revolutionary Iran, the economy1 became a central point of rivalry among the various political groups who had supported the revolution. In general, two positions on how to organize the economy could be distinguished:

1. The first position promoted the protection of private-property rights and limited nationalization policies. From this viewpoint the state should provide sufficient space for the private sector to function. The representatives of this position were democratic secularists like the National Front and also Mehdi Bazargan’s Liberation Movement

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