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How Iran Could Democratize

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How Iran Could Democratize

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Report

Presented to the Faculty of the Graduate School of

The University of Texas at Austin

in Partial Fulfillment

of the Requirements

for the Degree of

Master of Arts and Master of Global Policy Studies

The University of Texas at Austin

May 2015

Acknowledgements

This work benefited substantially from the supervision of Dr. Eugene Gholz and Dr. Faegheh Shirazi. Dr. Gholz provided invaluable support in helping me to both develop the theoretical structure of this report and in guiding me through the revising process. Dr. Shirazi imparted onto me her substantial knowledge on Iran and helped motivate me throughout the writing of the report. I am indebted to both of them for shepherding me through the production of this report.

Sara Damiano helped me to develop my research process for this report and provided crucial insights for strengthening my writing.

Abstract

How Iran Could Democratize

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The University of Texas at Austin, 2015

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In this report, I apply modernization and political institution-based theories of democracy to the Islamic Republic of Iran to look at the conditions under which Iran could transition from authoritarian rule to democratic rule. I provide an overview of the unique features of democracy and argue that democracies have a better track record than authoritarian regimes in refraining from the use of violence against their citizens and avoiding disastrous economic policies, two areas where the Islamic Republic has a poor track record. I then provide an overview of theories that explain the most likely way Iran could democratize and theories that explain why Iran has persisted as an authoritarian regime. I argue that democracy results from the development of a strong private sector in which economic groups are independent from the state. I go on to provide an in-depth look at how the Iranian government has persisted as an authoritarian regime by thwarting the development of private sector growth and redistributing oil resources to the population. I further explain how President Rouhani's attempt to rescue Iran from the economic crisis created by his predecessor, Mahmoud Ahmadinejad, could lead Iran to democratize in the medium-term future by developing a strong private sector. I conclude by summarizing my findings and showing what the implications of a democratic versus an authoritarian Iran would be.

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Introduction

In this report, I apply modernization and political institution-based theories of democracy to the Islamic Republic of Iran to look at the conditions under which Iran could transition from authoritarian rule to democratic rule. I provide an overview of the unique features of democracy and argue that democracies have a better track record than authoritarian regimes in refraining from the use of violence against their citizens and avoiding disastrous economic policies, two areas where the Islamic Republic has a poor track record. I then provide an overview of theories that explain the most likely way Iran could democratize and theories that explain why Iran has persisted as an authoritarian regime. I argue that democracy results from the development of a strong private sector in which economic groups are independent from the state. I go on to provide an in-depth look at how the Iranian government has persisted as an authoritarian regime by thwarting the development of private sector growth and redistributing oil resources to the population. I further explain how President Rouhani's attempt to rescue Iran from the economic crisis created by his predecessor, Mahmoud Ahmadinejad, could lead Iran to democratize in the medium-term future by developing a strong private sector. I conclude by summarizing my findings and showing what the implications of a democratic versus an authoritarian Iran would be.

The Islamic Republic has persisted as an authoritarian regime by balancing a dual structure of unelected and elected institutions. The unelected institutions hold the power to overrule policies set by elected officials and are subordinate to Iran's Supreme Leader, a

post that over the last 26 years has been held by Ayatollah Ali Khamenei. The clerical and Islamist elite have shown remarkable resilience, preventing democratic challenges to their rule. During Khamenei's tenure as Supreme Leader, he has survived protests against Iran's economic crisis under President Rafsanjani, prevented reformists from bringing about democracy during Khatami's Presidency (1997-2014), survived the post-2009 presidential election protests, and most recently oversaw a stable election in 2013 in which a moderate conservative regime insider, Hassan Rouhani, came to power.

However, the Iranian presidency has served as a continual challenge to the power of Supreme Leader and his unelected allies. The presidency is the one position in Iran elected by the entire population. While the Supreme Leader controls who runs for president, Iranian presidents have an incentive to build up their base of support among the public to increase their power relative to unelected officials. Presidential candidates run on platforms of populist redistribution or political liberalization. If a strong private sector could prevent candidates from winning elections through populist platforms, presidents would need to implement political reforms that could bring Iran closer to democracy. Similarly, if presidents could no longer implement populist policies due to constraints on their power and lack of government resources, they would need to encourage private sector growth to meet the population's economic needs.

Mahmoud Ahmadinejad's presidency (2005-2013) was so disastrous economically for Iran that it created a coalition within the government willing to promote private sector development, which could lead Iran to democratize in the medium term future.

Ahmadinejad caused a large budget deficit and high inflation through inflationary monetary policy and by provoking sanctions against Iran. He further threatened the interests of many regime insiders by increasing the security force's role in the economy at the expense of the traditional elite. As a result, many regime insiders support private sector growth to solve the country's economic woes and to protect their own economic interests.

As president, Hassan Rouhani has sought to stabilize Iran's economy through policies that could lead to the development of a private sector strong enough to bring about democratization. Rouhani has pursued economic reforms to bring inflation under control and to improve the government's finances, responding to the fiscal troubles caused by sanctions against Iran and Ahmadinejad's expansionary monetary policy.¹ In particular, Rouhani has sought to expand the government's revenues beyond oil by increasing the government's tax enforcement and by taxing parastatal organizations such as bonyads - Islamic charities that have turned into economic conglomerates - and economic entities owned by the Islamic Revolutionary Guards. Rouhani has further sought to strengthen Iranian banks and the Management and Planning Organization. He has also emphasized the need for Iran to develop a strong private sector, and more than any president in the past, he has brought the business community into his administration. If Rouhani is successful in implementing his economic reforms, he could bring about creeping democratization by

¹ Parvin Alizadeh. "The political economy of petri populism and reform, 1997-2011." Alizadeh, Parvin, and Hassan Hakimian, eds. *Iran and the Global Economy: Petro Populism, Islam and Economic Sanctions*. (Routledge, 2013.) Nader Habibi. "Can Rouhani Revitalize Iran's Oil and Gas Industry?" *Middle East Brief* 80 June 2014. Accessed March 30, 2015. <http://www.brandeis.edu/crown/publications/meb/MEB80.pdf>

creating independent economic groups and by limiting the redistributive power of future presidents.

In chapter 1 of this report, I explain why democracy matters for Iran and what constitutes democracy. I argue that democracies are less likely than authoritarian regimes to use violence against their own citizens and less likely to implement disastrous economic policies. Iranian citizens would benefit from democratic rule since the Islamic Republic has a track record of using violence against groups that threaten the Islamic system and it has overseen several major economic crises despite having access to significant oil resources. I argue the benefits of democracy stem from allowing citizens to express their preferences to the government and to pressure the government to act on those preferences.

I then review procedural and substantive definitions of democracy and show why Robert Dahl's procedural definition of democracy best captures the unique features of democracy.² Dahl argued that governments become democratic when they conduct free and fair elections and respect their citizens' civil liberties. He listed seven prerequisites that governments must meet to be considered democratic, such as giving elected officials control over government decisions and respecting citizens' freedom of expression, right to information, and right to form independent groups.³ Based on Dahl's definition, I emphasize how the subordination of Iran's elected officials to unelected officials and the concentration of economic power in para-statal institutions outside the control of elected

² Robert Dahl. *After the Revolution: Authority in a Good Society* (New Haven: Yale University Press, 1970)

³ *Ibid.*, 11

institutions stifle Iranian democracy. In particular, the unelected Guardian Council's power to disqualify candidates for elections and veto laws passed by parliament means that elections do not serve as a tool for Iranians to vote for candidates who will represent their interests.⁴ Elected officials also only have limited control of the government's economic policy because the unelected Supreme Leader controls the bonyads and the Islamic Revolutionary Guard Corps (IRGC) owns many economic entities.

In chapter 2, I provide an overview of theories of democratic transitions and authoritarian persistence that apply to Iran, which has not democratized despite the major socio-economic progress it has experienced over the last thirty years. Based on modernization theory, I argue that private sector growth leads countries to develop economic groups independent from the state who force their governments to democratize.⁵ I further argue that authoritarian regimes can avoid democracy despite economic development by maintaining control of the economy, by effectively redistributing state resources and by suppressing the population. When authoritarian regimes own major industries, they can provide exclusive benefits to the capital owners and public sector workers.⁶ As a result both these groups will oppose democracy because they fear a loss of the privileges provided by the government. Further, when the authoritarian regime

⁴ Karim Sadjadpour, *Reading Khamenei: The World View of Iran's Most Powerful Leader*. (Washington D.C.: Carnegie Endowment for International Peace, 2008)

⁵ See Julian Wucherpfennig and Franziska Deutsch, "Modernization and Democracy: Theories and Evidence Revisited," *Living Reviews in Democracy* 1 (2009). Daron Acemoglu and James Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge: Cambridge University Press, 2006) and Eva R. Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52, no. 2 (2000) 175-205.

⁶ Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries"

provides wide scale social welfare benefits to the public, it reduces the incentive the public has to demand democracy. However because these benefits cannot guarantee the public's loyalty, authoritarian leaders rely on the security forces to suppress anyone who challenges the regime. In exchange, the security forces demand extra resources from authoritarian leaders to remain loyal. These theories of democratic transition and authoritarian persistence set the stage for the next chapter where I show how Ayatollah Khamenei and his allies has avoided the modernization theory narrative and used state resources to stay in power.

In chapter 3, I draw on these theories and provide an in-depth look at the political and economic structures of Iran that have allowed for authoritarian persistence. I argue that Ayatollah Khamenei and his allies have avoided democratization by using their control of the state's economic resources and security forces to prevent the development of powerful economic groups that could challenge the regime. I show how oil wealth has allowed the Islamic Republic to limit pressure to democratize. The regime has used its access to oil revenues to provide social welfare benefits to the population as a whole and targeted benefits to groups it deems likely to be pro-government, such as families of martyrs, security force members, and the rural population.⁷ Oil revenues have also limited the regime's need to tax the Iranian public, which reduces Iranians' incentives to demand accountability from their government. I further detail how unelected institutions such as the Guardian Council, the Expediency Council, the IRGC, and the bonyads prevent

⁷ Kevan Harris. "Lineages of the Iranian Welfare State: Dual Institutionalism and Social Policy in the Islamic Republic of Iran." *Social Policy & Administration* 44, no. 6 (2010): 727-745.:

challenges to Ayatollah Khamenei's rule. Through Khamenei's direct control over a large portion of the government, he has managed factional competition among elites to ensure no one faction can dominate the government or unite with the public to bring about democratization. Under Khamenei, the IRGC has morphed into a security institution primarily concerned with internal threats to the regime and which uses both violence and its economic power to preserve the Islamic Republic. Finally, I show how Khamenei allows elites to compete for state rents to limit the incentive they have to demand democracy.

In chapter 4, I use the development of independent economic groups as the key independent variable to explain whether Iran will democratize or not. In particular, I look at whether President Rouhani's reforms could cause sufficient private sector growth to bring about democratization. I focus on how private sector growth and the limited ability of future Iranian presidents to redistribute resources to the public could lead Iran to democratize. I emphasize that the real legacy former president Mahmoud Ahmadinejad left for Iran is neither the disputed 2009 elections nor the Green Movement. Rather his failed economic policies and his empowerment of the security institutions in the economy mean that his successors face barriers to redistributing resources to the wider population rather than just regime supporters. If future Iranian presidents cannot use government resources for populist projects and they face oversight from a strong private sector, they will have a greater incentive to push for democracy as a way to attract the public's support.

Additionally, I demonstrate how the IRGC's increased role in the economy combined with the impact of sanctions has convinced many of Iran's moderate conservatives of the need for reforms to encourage private sector growth. However, the moderate conservatives' success in encouraging this growth will remain contingent on the outcome of the nuclear negotiations and the price of oil. If the US and EU remove sanctions against Iran's financial sector, Iran will be more likely to develop a vibrant private sector that could challenge parastatal organizations' hold over the economy. However if Iran's oil revenues increase after the removal of sanctions, the government will have less incentive to support the private sector's development, because it will be able to rely on oil revenues to preserve high employment in the parastatal and public sectors. The longer the government can avoid encouraging private sector development, the longer it can avoid facing independent interest groups that can demand democracy.

In sum, Iran's democratic future depends on whether its unelected leaders can continue to thwart the traditional modernization theory narrative: democracy comes from the development of a powerful private sector, something that Iran has thus-far avoided. If President Rouhani can implement the economic reforms that he promises, if he is successful in taxing bonyads and security institutions, if he can protect the independence of Iran's financial institutions, and if he can fully privatize Iran's state-owned enterprises rather than selling them off to parastatal institutions, Rouhani could limit the power of future presidents to rely on redistribution as a governing strategy. If Iran has a stronger private sector, parastatal organizations that are monitored by elected officials, workers who face increased incentives to mobilize, a wider population that does not trust the government

to redistribute, and conservatives who prefer allying with the public rather than Iran's principlist faction, Iran could undergo gradual democratization as elected officials slowly strip away at the power of unelected officials. Unfortunately, this is a very long list of ifs.

Chapter 1: Why Democracy Matters for Iran

DOES IT MATTER IF IRAN DEMOCRATIZES?

Democracy is not a savior for a society's problems, but Iranians would be better off living under a democracy, as democracies have a better record than autocracies in protecting citizens' basic liberties and promoting long-term economic growth. Democracies provide people a peaceful way to compete for power and clear procedures through which they can seek to resolve economic and social conflicts. As a result, democracies have a better history of respecting their citizens' civil rights than non-democracies.⁸ Individual liberty is desirable in its own right regardless of other outcomes. Further, democratic governments produce more stable economic growth than autocratic governments.⁹ While some scholars have argued that autocratic governments can produce higher rates of economic growth than democracies, democracies have avoided the economic disasters that happen during the rule of dictators such as Robert Mugabe. Democracies also protect against disasters such as famines by protecting the free flow of information.¹⁰ Finally, when countries democratize due to internal pressures from society, they are likely to redistribute resources more equitably to their citizens.¹¹

⁸Amartya Kumar Sen.. "Democracy as a universal value." *Journal of democracy* 10, no. 3 (1999): 3-17.

⁹ William Easterly. "Benevolent autocrats." Working Paper, *New York University* (New York, 2011). Accessed March 27, 2015. <http://nyudri.org.s115733.gridserver.com/wp-content/uploads/2011/12/driwp75.pdf>

¹⁰A Sen.. "Democracy as a universal value." 3-17.

¹¹Daron Acemoglu and James Robinson, *Economic Origins of Dictatorship and Democracy* (Cambridge: Cambridge University Press, 2006)

Iran faces two major barriers to becoming a democracy: first, unelected bodies maintain sovereignty over elected officials, and second, state-owned enterprises (SOEs), military entities, and bonyads (Islamic charities) control huge swaths of Iran's economy. As long as Iran's unelected guardian institutions maintain veto power over who can run for office and what decisions elected officials can make in office, elections will not serve as a tool for Iranians to express their preference to government officials. Iran's parastatal organizations also need to come under the regulation of government officials, and the government needs to privatize SOEs. As long as elites control these parastatal organizations and Iran lacks a vibrant private sector, elites can continue to use their economic power to limit elected officials' control over the state. Even if Iran's elected officials become more powerful than unelected officials, elites' control of bonyads, parastatal organizations, and SOEs will allow them to manipulate elections.

In the remainder of this chapter, I will provide an overview of different definitions of democracy and argue on behalf of Dahl's procedural definition of democracy. I will review theories on why some countries conduct free and fair elections, but stop short of becoming full democracies. I will then explain why countries must maintain an economic balance of power between the public and private sectors and develop constraints on the power of elected officials to remain stable democracies. In the final section, I will explain why we should view Iran as an authoritarian regime and what benefits Iran would see from becoming a democracy.

WHAT IS DEMOCRACY?

Scholars define democracy based on either substantive or procedural considerations. Substantive definitions focus on the type of relationship that democracies should foster between citizens and elected officials. Procedural definitions focus on the type of elections and institutional arrangements countries need to become democracy. The notion of liberal democracy blends both substantive and procedural definitions of democracy by encompassing the legal arrangements by which citizens can restrain government officials from behaving autocratically and can also prevent mob rule.

Supporters of substantive definitions of democracy believe democratic government requires that citizens oversee the government's decisions and that government respond to citizens' demands.¹² Amartya Sen goes even further and argues that democratic government requires more than responsive government. He believes we should judge democracies based on the degree to which they allow political and social participation. He sees democracy as requiring the government to hold free and fair elections and protect civil liberties, freedom of discussion, and freedom of the press.¹³ Other scholars also emphasize that democracy should lead citizens to spread this belief in public discussion to younger generations.¹⁴ In sum, those who advocate for a substantive view of democracy largely agree that democracy requires more than just majoritarian rule and competitive elections; rather, democracy should foster an engaged citizenry.

¹² Lisa Wedeen.. "The politics of deliberation: Qat chews as public spheres in Yemen." *Public Culture* 19, no. 1 (2007): 59-84.

¹³ Amartya Kumar Sen.. "Democracy as a universal value."

¹⁴ Feyzi Karabekir Akkoyunlu. *The Rise and Fall of the Hybrid Regime: Guardianship and Democracy in Iran and Turkey*. (London School of Economics: 2014), 21.

While substantive definitions of democracies allow democracy to encompass a wide variety of institutional arrangements, they set the requirements for a democracy so high that few countries meet the standard. A country may only develop levels of citizen participation necessary to meet the substantive requirements for democracy decades after it has developed political institutions that meet the procedural prerequisites for democracy. Moreover, countries can regress from higher to lower levels of engagement between elected officials and the public without experiencing changes to their political institutions – for example, in developed countries as voter turnout rates dwindle due to apathy rather than repression. While governments should strive to achieve better outcomes for their citizens, this does not mean we should base our understanding of democracy solely based on these desired outcomes. Rather we should define democracy based on its unique procedural features and then measure the outcomes that these procedural features produce to assess the relative benefits of democracy.

Scholars who rely on procedural definitions of democracy debate the number of prerequisites required for democracy and how much these prerequisites should focus on elections or other institutions. When looking at democratic transitions, they often rely on Joseph Schumpeter's definition of democracy as "the institutional arrangements for arriving at political decisions in which individuals acquire the power to decide by means of competitive struggle for the people's vote."¹⁵ Under this definition a government becomes democratic if it holds free and fair elections even if it does not respect the civil

¹⁵ Joseph Schumpeter. *Capitalism, Socialism and Democracy* (London: George Allen and Unwin, 1943), 269.

rights of its citizens. The strength of this definition of democracy is that scholars can use changes in power due to elections as a proxy measurement for whether a country has democratized and holds competitive elections. Based on this proxy measurement, they can then measure whether this form of democracy outperforms other government systems.

However only looking at elections to measure democracy ignores whether elected officials behave tyrannically once in office. Guillermo O'Donnell has distinguished between representative and delegative democracies to capture how countries can have free and fair elections in which elected officials act with few constraints.¹⁶ O'Donnell looks at new democracies that emerged in South America and parts of Central Europe in the late '80s and early '90s. These countries had competitive elections in which power exchanged hands. However, the legislative and judicial branches lacked the power to constrain the executive branch, and presidents routinely violated state laws with impunity. Further, presidential candidates ran on the idea that they would serve as leaders of the nation rather than on the idea that they would serve as the people's highest elected representative. Even if presidential candidates made campaign promises, they felt no need to act upon them once they assumed office. These countries became delegate democracies rather than representative democracies as citizens could no longer use elections to influence government policy.

For countries to become democratic rather than just have competitive elections or be delegative democracies, citizens must be able to use elections to modify the

¹⁶ Guillermo O'Donnell. "Delegative democracy?" *Journal of Democracy* 5, no. 1 (1994): 55-69.

government's behavior. Robert Dahl has created a procedural definition of democracy that captures how democracy requires citizens to use elections to express their preferences and make elites act on those preferences. Dahl argues a government must hold both free and fair elections and respect civil liberties for it to be considered a democracy.¹⁷ Dahl further provides seven prerequisites that a country must follow for it to be considered a democracy:

- 1) "Control over government decisions about policy is constitutionally vested in elected officials.
- 2) Elected officials are chosen in frequent and fairly conducted elections in which coercion is comparatively uncommon.
- 3) Practically all adults have the right to vote in the election of officials.
- 4) Practically all adults have the right to run for elective offices in the government.
- 5) Citizens have a right to express themselves without the danger of severe punishment on political matters broadly defined.
- 6) Citizens have the right to seek out alternative sources of information. Moreover, alternative sources of information exist and are protected by law.
- 7) Citizens also have the right to form relatively independent associations or organizations, including independent political parties and interest groups."¹⁸

Schmitter and Karl have added two other preconditions to this list.

- 8) "Elected officials can exercise their constitutional powers without being subjected to overriding (albeit informal) opposition from unelected officials
- 9) The polity must be self-governing; it must be able to act independently of constraints imposed by some other overarching political system."¹⁹

¹⁷ Robert Dahl. *After the Revolution: Authority in a Good Society*.

¹⁸ Quoted from Phillippe C Schmitter and Terry Lynn Karl. "What democracy is... and is not." *Journal of democracy* 2, no. 3 (1991): p. 81. Originally found in Dahl. *After the Revolution*: 11.

¹⁹ Schmitter and Karl. "What Democracy Is and Is Not." 81 -82.

These procedural requirements capture how if citizens do not have the right to information and the right to form groups based on their preferences, then elections no longer are an avenue through which citizens can make demands on elites. Similarly, if unelected officials maintain veto power over elected officials, elections no longer serve as a tool for citizens to force the government to act on their preferences. While free and fair elections make elites more likely to peacefully compete for power, Dahl's prerequisites related to the rights of both elected officials and citizens captures how democratic elections allow citizens to express their preferences to elites.

Although Dahl does not include any economic factors in his definition of democracy, his second prerequisite emphasizes how democratic elections must include minimal coercion. This prerequisite may be violated if elites have such extensive control over society's resources that they do not have to rely on coercion to win elections and maintain power. In John Gaventa's study looking at miners in the Appalachian Valley in the mid-20th century, he shows that the mining companies and union leadership controlled miners to such a degree that miners could not grasp how local leaders acted against the miners' interest.²⁰ As a result, the miners never voted for local politicians and union leaders that would challenge the power of the mining company and the national union leadership. Gaventa's study demonstrates how when a society has extreme concentration of wealth, citizens lack information on elites' wealth and lack the independence to challenge the elites' activities. While Gaventa focuses on wealth controlled by the private sector,

²⁰, John Gaventa. *Power and powerlessness: Quiescence and rebellion in an Appalachian valley*. University of Illinois Press, 1982.

government officials' control of most of society's resources can lead to a similar scenario. In such situations of concentrated wealth outside the public oversight, even if elections are free of violence, they no longer serve as a way for citizens to express their preferences.

Regardless of whether citizens can use elections to voice their opinions to government officials, Fareed Zakaria has critiqued election based definitions of democracy for ignoring the danger of majoritarian rule.²¹ Based on the idea that democracy should not allow the majority to suppress the minority, Zakaria differentiates between liberal and illiberal democracy. Liberal democracy means that the government protects individual rights, preserves the rule of law, and does not pursue majoritarian rule. Zakaria sees constitutional liberalism, where government officials face constitutional constraints to their power, as the roots of liberal democracy. Zakaria argues that such governments use violence less often against their own citizens and produce better long-term economic results.

While Zakaria captures the importance of constraints on the power of elected officials, liberal democracy does not capture the universal institutional arrangements that are necessary for governments to prevent unrestrained majority rule. Most liberal democracies are western countries that first developed constitutional liberalism and democratized gradually as governments slowly extended the franchise to larger portions of the population. However, constitutional liberalism is only one way that countries can develop restraints on majority rule and it requires that government institutions enforce the

²¹ Fareed Zakaria. "The rise of illiberal democracy." *Foreign affairs* (1997): 22-43.

constitution. Even Zakaria acknowledges that countries can develop alternative safeguards against majority rule by having active civil societies, strong political parties and independent judiciaries. Zakaria's view of liberal democracy does not represent a unique type of democracy, rather it captures how elected officials must face restraints on their power in order for them to enforce Dahl's procedural prerequisites for democracy.

Besides limits to the power of elected rulers, democracies need to develop institutions that lead elites to accept what Schmitter and Karl have called “contingent consent” and “limited political uncertainties.”²² Under contingent consent, election winners agree that they will not use elected office to prevent opposition figures from coming to power in the future, and elections losers accept that those who hold office have the right to make decisions.²³ Further, citizens agree to obey the decisions that elected officials make as long as they can continue to express their preferences through fair elections or repeated negotiations with government officials. Countries are likely to develop contingent consent and limited political uncertainties as part of what O’Donnell has argued is a second longer transition to democracy.²⁴ Under this process, countries develop institutions to regularize behavior between elected officials and citizens. O’Donnell defines institutions as the patterns in which agents regularly interact with one another based on the assumption that they will continue to act based on the rules and norms that these patterns require.²⁵ He emphasized that institutions both have the power to include

²² Schmitter and Karl. “What Democracy Is and Is Not.” p. 82

²³Ibid., 82.

²⁴ Guillermo O’Donnell. “Delegative democracy?” 59-60.

²⁵ Ibid., 59-60.

and exclude groups, limit possible outcomes, aggregate preferences, and lengthen time horizons. He sees parties and parliaments as the type of institutions that could help stabilize and aggregate preferences in democracy. Without these institutions, procedural democracies may become destabilized as elites are less likely to accept elections outcomes and citizens are less likely to respect the government's decisions.

Looking beyond government institutions, Robert Putnam has theorized that the quality of a country's civic culture determines whether it remains a democracy or regresses to a delegative democracy. Putnam argues that the strength of a country's social capital determines the quality of its democracy.²⁶ He measures social capital by using the presence of active civil associations, comparing their abundance in Northern Italy to their absence in Southern Italy to explain why Northern Italy has more responsive government institutions than Southern Italy. Carles Boix and Daniel Posner have elaborated on Putnam's theory to argue that civil associations must allow group members to build trust with non-group members for the groups to have a positive impact on democratic quality.²⁷ While Putnam's focus on democratic quality is more closely tied to substantive definitions of democracy, civil associations represents another way that citizens can constrain the power of leaders to ensure that they respect the procedural requirements necessary for democracy.

²⁶ Robert Putnam. *Making Democracy Work: Civic Traditions in Modern Italy*. (Princeton: Princeton University Press, 1994).

²⁷ Carles Boix and Daniel N. Posner. "Making Social Capital Work: A Review of Robert Putnam's *Making Democracy Work: Civic Traditions in Modern Italy*."

In sum, substantive views of democracy emphasize that all citizens must be able to participate in the governing process for a country to become democratic. Procedural views of democracy, in contrast, emphasize the role of elections and institutions in determining whether or not a country has become democratic. While substantive definitions more explicitly emphasize citizen participation, citizen participation remains a subtle part of Dahl's procedural definition of democracy. If a country lacks active civil associations and political parties, it does not meet Dahl's procedural requirements as the government likely denies citizens the right to meet freely. Compared to other procedural views of democracy, Dahl's definition highlights the minimum requirements necessary for democracy to function without specifying institutional arrangements that apply to only a subset of democracies. Yet Dahl's procedural requirements for democracy should not be mistaken as capturing the factors that lead to democratic persistence. If elected leaders face few constraints to their rule, they are unlikely to respect the civil liberties necessary to sustain democracy.

WHY IRAN IS NOT A DEMOCRACY AND WHY IT MATTERS

Based on Dahl's procedural definition of democracy, Iran falls far short of democracy (see chapter 3 for more details). While the Islamic Republic has competitive elections, provides universal suffrage and does not make decisions based on the influence of outside powers, it does not meet any of Dahl's other procedural requirements for democracy. Iran's constitution only vests limited power in the hands of elected officials, and only Iranians who pass through the vetting process of the Guardian Council can run

for office.²⁸ Iranian citizens, and particularly journalists, face the risk of arrest or punishment if they criticize the Supreme Leader in public forums or behave in a way that the regime considers insulting to Islam. Further, Iranians do not have the right to information, as the judiciary branch has the power to close down newspapers, and the government filters the Internet to prevent Iranians from accessing foreign news sites. Finally, while Iranians face few restrictions on social gatherings, the government represses political movements that are too openly critical of the government.

Iran's economic structure also violates the procedural definitions of democracy. Bonyads – Islamic charities that also act as economic conglomerates – and the Islamic Revolutionary Guard Corps (IRGC) control large portions of Iran's economy. Both the bonyads and the IRGC are under control of the Supreme Leader and outside the oversight of elected officials. Bonyads and the IRGC's economic entities receive special privileges as they draw on the government budget for their activities, receive preferential access to credit from state banks, and do not pay taxes. Because these para-statal organizations restrain economic policy and draw on government resources, they violate the procedural requirement that elected officials have control over major government decisions.

For Iran to become democratic, elected officials must have the power to appoint unelected officials, and they must have the right to oversee bonyads and IRGC-owned economic entities. Iran could achieve these requirements under a variety of institutional arrangements. For example, the Supreme Leader could become a ceremonial position or a

²⁸ Said Amir Arjomand. *After Khomeini: Iran under his successors*. (Oxford University Press, 2009.)

position with recognized powers under the constitution but which remains under the oversight of elected officials. Similarly, unelected bodies such as the Guardian Council and the Expediency Council may continue to oversee decisions made by Parliament as long as elected officials appoint the members of these councils. In regards to Iran's economy, bonyads can continue to play a leading role in determining how the country allocates its economic resources if elected officials can appoint the bonyads' heads and oversee their activities. However as long as Iranians must pass major hurdles to run for office and have limited authority to influence government decisions while serving in elected offices, Iran will not meet the procedural requirements for democracy.

CONCLUSION

Democracy means that citizens can use elections to express their preferences and then have a way to pressure the government to act on those preferences. Democracy requires free and fair elections and basic civil liberties such as the right to information, freedom of speech, and freedom of association. These civil liberties ensure that citizens can maintain their independence from the state through civil associations and monitor government officials' activities. For democracies to respect civil liberties and not descend into mob rule, citizens must develop a way to constrain the power of elected officials. While citizens must maintain their autonomy vis-à-vis the government, elected officials must also have the power to govern without facing constraints from individuals unaccountable to the public. If elites control large swaths of the economy and prevent elected officials from monitoring these portions of the economy, democracy ceases to

function as elites have created a state within the state. In democracies, unelected officials may limit government decisions based on Schmitter and Karl's idea of limited political uncertainties. However, if citizens cannot use elections to make basic decisions about the economy and hence who gets what when and how, the core feature of politics, then a country is not truly democratic.

Chapter 2: Theories on Democratic Transitions and Authoritarian Persistence

INTRODUCTION

From the 1970s to the early 1990s, approximately thirty countries democratized in what Samuel Huntington labeled the third wave of democratization.²⁹ Even in the Middle East, a region dominated by authoritarian regimes, a number of countries experienced political reforms in the late '80s and early '90s. Notably in 1992, the Islamic Republic held its first presidential election in which the winner of the election was not preordained. Scholars assumed these regimes undergoing political liberalizations in the Middle East and elsewhere would either fully democratize or revert to complete authoritarianism. Samuel Huntington famously said of these regimes that the half-way house would not hold.³⁰ However by the late-'90s, non-democratic regimes that held some forms of elections appeared increasingly stable. In response to this trend, scholars created new categorization schemes for these regimes and new theories to explain why regimes were persisting and under what conditions they would democratize.

Among these different theories, structural theories looking at levels of socioeconomic development have the best record of predicting which countries will become democracies and which countries will remain authoritarian. According to Jason

²⁹ "Democracy's Third Wave." *U.S. State Department*. Accessed March 27, 2015.
<http://www.4uth.gov.ua/usa/english/politics/whatsdem/whatdm13.htm>

³⁰ Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991).

Brownlee, structural theories explain about half of the third wave of democracies.³¹ Further in 1991 only about 24 democracies existed in the world without the preconditions identified by structural theories.³² However in the Middle East, oil countries like Iran have not democratized despite high levels of income. Authoritarian persistence in the region does not contradict structural theories, because these countries maintain high levels of inequality and lack other factors associated with democracy such as powerful unions, a strong middle class, an independent media, and mobile capital.

Theories looking at political institutions further explain how regimes avoid democracy despite high levels of development. These theories deal with the three principal challenges authoritarian rulers face: how to keep elites within the government from overthrowing them or defecting to the opposition, how to keep the public from rebelling, and how to keep the military from launching a coup. Institutional theories show that rulers' success in solving these challenges depends on whether they develop institutions to redistribute resources to the public and to give elites a long-term time horizon when thinking about whether or not to stay loyal to this regime.

This chapter will examine democratization and authoritarian persistence theories that are most likely to fit the case of Iran: a resource-rich country that has high levels of socio-economic development, a small private sector, and that has experienced secular authoritarian rule under the Shah and more recently religious authoritarian rule under the

³¹ Jason Brownlee, *Authoritarianism in an Age of Democratization*. (N.p.: Cambridge University Press, 2007), 17 -20.

³² *Ibid.*, 17-20.

Islamic Republic. The chapter will first focus on modernization theory and related economic structural theories, which explain how most countries democratize and how oil producing countries like Iran have avoided democratization despite economic development. The chapter will then review transition theories from the third wave of democratization, which capture the challenges new democracies face but are less useful than modernization theory in predicting which countries will democratize. The last two sections of the chapters will focus on theories which explain how authoritarian leaders can use political institutions and the military to avoid democratization.

MODERNIZATION THEORY AND ECONOMIC STRUCTURAL THEORIES

Following the end of the World War II, modernization theorists focused on how countries could democratize as a result of economic growth. Lipset argued that when countries grow economically, urbanize, industrialize and develop educated populations, their citizens commit to democratic values.³³ Once citizens develop a democratic culture, the middle class forces the government to democratize. Working from Lipset's theory, modernization theorists have focused on how countries can democratize when they develop complex societies in response to economic growth, regardless of cultural changes.³⁴ As countries become wealthier, their societies develop labor unions, civic associations, and become differentiated based on profession. As a result, authoritarian rulers have a hard

³³ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* 53, no. 1 (March 1959).

³⁴ Julian Wucherpfennig and Franziska Deutsch, "Modernization and Democracy: Theories and Evidence Revisited,"

time gathering information and managing their increasingly complex populations.³⁵ Eventually, these different segments of society rebel against the dictator and establish democracy.

Under modernization theory, elites prefer to avoid democracy because they could face higher taxes and other redistribution threats from a government controlled by the masses.³⁶ When economic growth leads to more equal income distribution to society, democracy poses less of a redistribution risk to elites, because the middle class will often unite with elites in opposing redistribution to the poor. Industrialization further changes elites' willingness to avoid democracy. If elites depend on agricultural land for their wealth, they have immobile wealth that they cannot take out of the country and which the government can easily tax. Further, agriculture land requires little physical capital, meaning that elites can quickly replenish the capital they lose in a conflict. However if countries industrialize, elites' source of wealth will be tied up in industry. Since workers can sabotage machines and capital owners may lack the resources to rebuild factories destroyed in a democratization conflict, elites become more willing to accept democracy when they own factories rather than agricultural land. Further, elites can more easily take their profits from industrial production out of the country. Rather than fight the masses over democracy, elites simply leave the country with their wealth rather than face redistribution under democracy.

³⁵ Adam Przeworski et al., "Modernization: Theory and Facts," *World Politics* 49, no. 2 (1997): 158.

³⁶ Carles Boix and Susan C. Stokes, "Endogenous Democratization," *World Politics* 55, no. 4 (2003).

However, when countries experience economic growth driven by oil wealth, they tend not to experience the socio-economic changes that Lipset and other modernization scholars expected would lead to democracy. Timothy Mitchell has shown how workers face bigger challenges to gaining rights in oil economies.³⁷ Oil production is typically located far from population centers and is resistant to worker sabotage, which allows oil producers to easily suppress worker strikes. As a result, oil workers in Middle Eastern countries have struggled to mobilize for their rights the way coal workers once did in Western countries. Oil production can also hurt industrial workers in non-oil sectors by causing Dutch disease. Oil exports raise the value of the exporting country's currency, which makes the countries' other exports less competitive.³⁸ Due to these unique features of oil, oil-producing countries have higher levels of income inequality than non-oil economies and have not developed the large middle classes of other countries with similar levels of wealth. The gap between the types of development Lipset argued led to democracy and the type of development oil countries experience shows why oil producers like Iran are less likely to develop democracy despite high income levels.

More broadly than oil, Eva Bellin has sought to look at how class relations will determine whether or not countries will democratize in response to economic development.³⁹ Bellin draws on Barrington Moore's *The Social Origins of Democracy and Dictatorship*, which argued that the sequencing of events and relations between social

³⁷ Timothy Mitchell. *Carbon Democracy: Political Power in the Age of Oil*. (Brooklyn:Verso, 2011)

³⁸ Michael Ross. "Oil, Islam, and Women." *American Political Science Review*. 102 (2008): 107-123.

³⁹ Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries."

classes matters for democratization more than specific levels of national wealth and inequality.⁴⁰ Bellin looks at capital owners' and formal sector workers' relationship to the state. When private capital owners depend on the state and fear redistribution under democracy, they will oppose democracy. Among the privileges capital receives from the state include subsidized inputs, monopoly-like protections, and the state's support in limiting labor's demands. When authoritarian rulers support private capital as in Japan and Korea as part of an industrialization plan to strengthen the state, the rulers have a close relationship with private capital. In patrimonial states, the rulers support private capital as a way to further enrich themselves by taking bribes from capital owners. In such states, private capital opposes the threat to their profits from increased transparency under democracy. In regards to formal sector labor, the more the state controls labor organizations and the higher the wages that labor receives relative to informal and agricultural sector workers, the more workers will oppose democracy out of fear of losing their privileged position within society. If both formal sector workers and private capital oppose democratization, a country is unlikely to democratize even as it grows richer.

The outcome of the Arab Uprisings largely supports Bellin's theory about the importance of capital owners and labor position to the state. Writing almost a decade before the Arab Uprisings, Bellin noted that in Tunisia the powerful UGTT labor union (the Tunisian General Labor Union) had consistently supported Ben Ali, despite his harsh

⁴⁰ Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (n.p.: Beacon Press, 1966).

rule, due to his support for the union in wage negotiations.⁴¹ However in the decade leading up to Tunisia's Jasmine Revolution, branches within the UGTT became increasingly willing to protest for more workers rights and higher wages.⁴² Further the UGTT began organizing unemployed youth to protest against the regime and sided with the youth against the regime at the start of the Jasmine Revolution.⁴³ Similarly in Egypt, Bellin noted the deteriorating condition of Egyptian workers with Mubarak's National Democracy Party. In the last two years before Mubarak's ouster, Egypt had over 400 strikes as workers demanded better pay and working conditions.⁴⁴ In both Egypt and Tunisia, unions' decision to more openly oppose autocratic rule in response to a loss of economic privileges supports Bellin's theory about the contingent nature of formal labor's support for democracy.

In the case of Iran, modernization theory and the limits to the theory shown by Mitchells' theory of carbon democracy and Bellin's theory of contingent democrats explain why the country has remained authoritarian and under what conditions it could democratize. Iran has a high level of socio-economic development. However, it lacks independent unions and civil associations. Iran has a large public and cooperative sector (see following chapter for more details). Consistent with Bellin's theory, neither Iran's working class in the public sector nor capital owners in the cooperative sector and real estate market have pushed for democratization. Based on these theories, if Iran's economy

⁴¹ Eva R. Bellin, "Contingent Democrats."

⁴² Jason Brownlee, Tarek Masoud, and Andrew Reynolds. *The Arab Spring: Pathways of Reform and Repression*. (New York, Oxford University Press, 2015), 67-70.

⁴³ Ibid.

⁴⁴ Ibrahim Saif. "Micro-Revolution and The Arab Spring. *Al-Montior*. June 7, 2012. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/fa/politics/2012/06/micro-revolution-and-the-arab-sp.html#>

restructured so that capital owners and the working class became independent economic groups that did not depend on the government for their well-being, Iran would be likely to democratize.

THE THIRD WAVE OF DEMOCRACY AND TRANSITION THEORY

The phenomena that Samuel Huntington labeled the third wave of democratization challenged the idea that democracy has socio-economic prerequisites and occurs in response to mass mobilization.⁴⁵ In the early 70's, Portugal and Spain transitioned from monarchical rule to democracy, while Brazil and Greece transitioned to democracy from military rule.⁴⁶ During the 80's, South American countries that experienced military coups in the preceding decades reverted back to democracy, and by the end of the decade Eastern Europe had also democratized. Unlike early waves of democratization in Western Europe where the masses had to mobilize to overthrow autocratic regimes, many of the third wave transitions occurred without large-scale violence or public mobilization. Instead, democratization resulted as a result of protracted negotiations between elites and the opposition. Since countries with different geographic, cultural, and political regimes all democratized within this short period of time, no one factor could explain why all these countries moved away from authoritarian rule.

In response to the third wave of democratization, scholars developed new democratic transition theories that focused on elite decisions. These scholars draw on

⁴⁵ Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century*.

⁴⁶ *Ibid.*, 5.

Rustow, who rejected structural prerequisites for democracy and who argued that the only requirement was that a country have a cohesive national identity.⁴⁷ The primary feature of transition theories is that elites grant democratization rather than being forcefully overthrown and that elite cleavages can lead to the transition.⁴⁸ Mainwaring argues that such cleavages can result from the regime losing its legitimacy or from elites within the regime not being able to reach agreements and appealing to the public for help.⁴⁹ Transition literature scholars then see the transition as resulting from a competition between elite factions within the regime, opposition factions and the masses. The elites compete for public support to avoid or limit the scope of a democratic transition, while the opposition seeks to limit regime incumbents' role in the new government.

Haggard and Kaufman have further divided democratic transitions between those that follow an economic crisis and those that occur gradually.⁵⁰ Under a crisis transition, the authoritarian regime can no longer provide economic support for its population in exchange for them sacrificing their political rights. The end of this authoritarian bargain leads the population to support the opposition in large numbers. As a result, the opposition prevents old elites and the military from preserving enclaves of power that remain outside elected officials' oversight. The new democratic regime faces the challenge of creating

⁴⁷ Dankwart A. Rustow, "Transitions to democracy: Toward a dynamic model," *Comparative Politics*, 2, no. 3 (1970): 337-363

⁴⁸ Larry Diamond et al. "Discussion: Reconsidering the Transition Paradigm." *Journal of Democracy* 25, 1 (2014) 86-100.

⁴⁹ Scott Mainwaring. "Transitions to Democracy and Democratic Consolidation and Comparative Issues." *Kellogg Institute*. Working Paper 130 (1989) 1-43. Accessed March 27, 2015. <https://kellogg.nd.edu/publications/workingpapers/WPS/130.pdf>

⁵⁰ Stephan Haggard and Robert R. Kaufman. "The Political Economy of Democratic Transitions." *Comparative Politics*. 29, No. 3 (1997) 263-283.

parties that connect elites to the people.⁵¹ Since the old elite coalition fell apart during the transition, it cannot serve as the base for a new party. Further, political parties proliferate in such an environment because the opposition does not seek to create entry barriers upon seizing power. These parties then compete for power in a weak economic environment in which the parties lack the social base in society to make the type of compromises that would allow the country to experience long-term economic growth.

In a non-crisis transition, the authoritarian regime allows democracy to occur in response to political demands for liberalization.⁵² However, if incumbent elites remain united and have preserved their legitimacy among the population, they can dictate the transition process to the opposition and maintain enclaves of power within the government outside of elected officials' control. For example, Fukuyama argues that the Egyptian military's popularity allowed it to stay in the political process following Mubarak's ouster, while the Tunisian military's lack of political popularity led it to play little role in the Jasmine Revolution.⁵³ As a result, the Egyptian military prevented the Mubarak's successor, Mohamed Morsi, from reducing the military's economic privileges and, eventually, with the public's support launched a coup against Morsi. In non-crisis transitions like Egypt, in order for incumbent elites not to destabilize the new democracy, the new government must weaken centers of concentrated wealth in society and gain control over these authoritarian enclaves.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Larry Diamond et al. "Discussion: Reconsidering the Transition Paradigm."

According to the transition literature, Iran could democratize without the type of socioeconomic developments associated with modernization theory. Such a transition could follow the path of the 2009 presidential elections, where presidential candidates Mir Hussein Mousavi and Mehdi Karubi used the elections to side with the public against regime insiders. However when the regime arrested Mousavi and Karubi following the post-election protests, it showed that soft-liners siding with the opposition were not strong enough to cause democratization in Iran. Hence based on the transition literature, either more soft-liners would have to defect to the opposition or a larger percentage of the public would have to mobilize for Iran to democratize. The following two chapter will show how Ayatollah Khamenei has largely eliminated such a threat of elite defection and how Iran needs to develop independent economic groups to democratize.

THEORIES OF POLITICAL INSTITUTIONS AND AUTHORITARIAN SURVIVAL

As the third wave of democratization came to a halt in the nineties, scholars increasingly used theories looking at political institutions to explain why some authoritarian regimes persisted while others collapsed. Among theories looking at political institutions, the ability of authoritarian rulers to effectively redistribute resources has been central to whether the regimes can survive. In particular, rulers need political institutions to redistribute resources to the population at large, to channel resources towards their supporters, and to keep elites focused on long-term time horizons.

Benjamin Smith uses the case of Singapore to argue that authoritarian rulers can use social welfare services to reduce the public's demand for democracy. Smith relies on

this case study to critique Acemoglu and Robinson's theory that authoritarian rulers cannot credibly redistribute resources to the masses.⁵⁴ Acemoglu and Robinson have famously theorized that as inequality increases, authoritarian rulers cannot credibly promise to redistribute resources and must provide democratic concessions to the public. As part of their argument, they argue that Singapore avoided democratization due to low levels of inequality, while Argentina and Great Britain democratized due to middle levels of inequality. However, Smith compares Singapore's level of inequality with Argentina's level of inequality when it democratized in 1973 to show that Singapore had higher levels of inequality.⁵⁵ He shows, however that the ruling People's Action Party (PAP) diverted significant spending to social welfare programs such as housing to reduce inequality. Smith shows that as a result of this social spending program, the PAP avoided the threat of democracy.

Supporters of institutional theories of authoritarian persistence further emphasize that rulers can rely on political parties to avoid democracy. Brownlee uses qualitative case studies of Malaysia, Egypt, and the Philippines to argue that authoritarian leaders in factionalized regimes have a harder time controlling soft-liners than leaders in single-party regimes. Brownlee argues that single-party regimes cause elites to accept short-term political defeats because they believe they can use the party in the future to gain rewards.⁵⁶

⁵⁴ Benjamin Smith. "Rethinking the Economic Origins of Dictatorship and Democracy: The Continuing Value of Cases and Comparisons." *APSCA-CP* 19, no 1 (2008) 16-21 discussed in Yannick Pengl. "Strong Theories, weak Evidence: The Effect of Economic Inequality in Democratization." *Living Reviews in Democracy* 4 (2013).

⁵⁵ Pengl. "Strong Theories, weak Evidence: The Effect of Economic Inequality in Democratization." 6.

⁵⁶ Brownlee, *Authoritarianism in an Age of Democratization*.

As a result, elites in the single-party regime are less likely to defect to the opposition. However when authoritarian leaders lack parties, elites have less certainty in the future and are more willing to try to rally public support to achieve political victories. Yet even if factional regimes may appear less stable, if the softliners are unwilling to risk overthrowing the system, the authoritarian leader can remain in power. In the case of Iran, Brownlee argued that because Khatami was ultimately unwilling to encourage full-scale public mobilization after the 2009 election, the regime remained intact.

Based on a case study of the PRI in Mexico, Greene theorizes that single-party rule can also weaken the threat of the opposition by causing more ideological individuals to control opposition parties.⁵⁷ In democracies, parties form around major social cleavages and tend to compete for the median voter to win elections. However, Greene argues that in semi-authoritarian regimes, where the dominant party uses control over state resources and the state bureaucracy to win elections, opposition parties have no chance of winning elections even if they hold platforms close to the median voter. As a result, politicians concerned about maximizing their own success choose to join the dominant party. The opposition party then forms around ideological politicians who care more about sticking to the party platform than about winning elections. Even if the dominant party weakens over time, the opposition parties will struggle to attract new supporters due to their ideological rigidity.

⁵⁷ Greene, *Why Dominant Parties Lose: Mexico's Democratization in Comparative Perspective* (n.p.: Cambridge University Press, 2009)

In the case of Mexico, Greene shows how the PRI created an electoral advantage through control of state enterprises and state media sources, giving public sector jobs to supporters, using state resources for campaigning, and taking bribes from businessmen.⁵⁸ As a result, the rightist catholic party (PAN) and the leftist party (PRD) formed extreme policy platforms and could not gain the support of Mexican unions. Even when the PRI began to weaken in the '80s due to the economic decline of SOEs, PRD and PAN did not move to the center. Instead, the PRI only lost the presidency in 2000, much later than theories of democratic competition would predict.

While Greene and Brownlee focus on the way dominant parties can stabilize authoritarian regimes, other authoritarian rulers can use the same strategies as dominant parties to stay in power without relying on such a party. In particular, elites can use control over social welfare organizations, SOEs, parastatal organizations, and the state bureaucracy to keep workers loyal and to get bribes through non-transparent business deals. If states do privatize SOEs, the regime can use the one-time infusion of privatization funds to continue to buy support through social services spending. Further, Brumberg argues that elites can rely on informal connections to reward supporters rather than official institutions.⁵⁹ The stability of dominant party regimes ultimately captures how authoritarian leaders must develop effective strategies to reward supporters and to make elites have long-term time horizons.

⁵⁸ Ibid.

⁵⁹ Daniel Brumberg, "Theories of Transition," in *The Arab Uprisings Explained: New Contentious Politics in the Middle East*,.

While Iran does not have a dominant party, the regime has other institutions that allow it to carry out many of the functions of a dominant party. Regime insiders control a large portion of the economy through SOEs, bonyads (Islamic charities), and military-owned economic entities. The regime further has a way to conduct targeted distribution through the basij, a paramilitary organization that enforces Islamic morals. Finally, through the vetoing of political candidates the regime similarly encourages extreme ideological parties. Elites who wish to win elections and gain access to spoils do not challenge the power of unelected officials, while more ideologically motivated candidates prefer to be isolated from elections rather than compromise their ideals. Based on theories of dominant parties and social welfare spending, as long as the Supreme Leader and his allies maintain the ability to target state resources towards supporters and can make elites think about future gains, Iran will be unlikely to democratize.

THE ARAB UPRISINGS AND THE ROLE OF THE MILITARY IN AUTHORITARIAN PERSISTENCE AND COLLAPSE

In the Arab Uprisings, whether or not authoritarian leaders could rely on their militaries to suppress the protestors determined to a large degree whether they stayed in power or not. Brownlee, Masoud, and Reynolds use hereditary succession as a proxy variable for whether the military stayed loyal to the authoritarian leader in the Arab Uprisings.⁶⁰ They argue if an Arab leader successfully passed on his rule to a family member, the leader had maintained enough control of the military that it would not turn

⁶⁰ Brownlee, Masoud, and Reynolds. *The Arab Spring*

against the regime in a crisis. During the Arab Uprisings, hereditary leaders in Saudi Arabia, the Arab Gulf States, and Syria all used their militaries to suppress protests. However in the non-hereditary Mubarak regime in Egypt, the military sided with protestors against both Mubarak and Morsi and forced both leaders to leave office. In Tunisia, the far weaker military had historically stayed out of politics and decided not to intervene to save Ben Ali.

Svolik uses the reliance of autocrats on the military to suppress mass protests to theorize under what situations the military intervenes in politics.⁶¹ The more autocrats need to rely on the military as a force-in-waiting to suppress mass protests, the greater resources the leader should devote to the military and the more active in politics the military is likely to become. However because authoritarian leaders wish to avoid a military coup, they tend to accept some risk of mass protests to prevent further empowering the military. Leaders also rely on creating parallel security institutions as coup-proofing measures. Svolik argues that these parallel security agencies only work when the authoritarian leader has developed them before the military becomes active in politics. Notably, Svolik describes leaders' attempts to control the military not as an organization problem but as a political one, based on the leaders' need to suppress protestors.

Geddes has further focused on how the institutional integrity of the military impacts its willingness to intervene in politics.⁶² She emphasizes how military leaders tend to

⁶¹ Milan W. Svolik, *The Politics of Authoritarian Rule* (Cambridge: Cambridge University Press, 2012).

⁶² Barbara Geddes, "Authoritarian Breakdown: Empirical test of a Game Theoretic Argument," *Paper Presented at the Annual Meeting of the American Political Science Association*, 1999

emphasize the well-being of the military as an institution over maximizing power. As a result, military leaders intervene in politics or launch coups as way to protect the military's interests rather than to seek personnel gain. If military leaders fear that their intervention in politics could threaten the military unity, they will seek to withdraw from politics. However, Geddes argues that when military service becomes a way to accrue personnel wealth, military leaders are more willing to intervene in politics and threaten the military's institutional integrity in order to preserve their own personnel wealth. Based on Geddes theory, if authoritarian leaders can provide privileges to military leaders that would be threatened under democratization, the military leaders should be more willing to intervene in politics to save the leader even if they risk undermining the military's unity.

While Iran has not had a hereditary secession, it had a clerical secession when Ayatollah Khamenei became Supreme Leader following Ayatollah Khomeini's death. During the Green Movement, the Revolutionary Guard sided with the regime rather than the protestors. Based on Svobik's theory, since the regime has become more dependent on the Revolutionary Guard to suppress protests, it should receive more resources and become more active in politics. Due to the Supreme Leader's appointment of non-military officials to head the IRGC and his use of clerical commissars to monitor its behavior, the IRGC is unlikely to launch a coup.⁶³ However since the rise of the IRGC has come at the expense of other elites within Iran, if the regime becomes further dependent on the IRGC for regime

⁶³ Saeid Golkar. *The Islamic Republic's Art of Survival*. The Washington Institute for Near East Policy. Policy Focus 125, June 2013. Accessed March 27, 2015. <http://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyFocus125Golkar2.pdf>

protection, the IRGC is likely to further infringe on these elites' power. Chapter 4 will show how the IRGC's large-role in the economy has convinced many elites of the need for private sector development, which could cause Iran to develop the type of independent economic groups that bring about democracy under modernization theory.

CONCLUSION

Structural and institutional based theories have the best record of showing why countries democratize or remain authoritarian. Under modernization theory, as countries become rich, powerful groups develop outside the control of the state that can demand democratization. However, authoritarian regimes can prevent development from leading to democratization if they use control of economic resources to keep capital and labor dependent on the state and effectively redistribute resources. Transition theory shows that under economic stalemates, authoritarian leaders' ability to maintain elite unity may collapse as elites within the regime choose to side with the public. In the case of Iran, it has remained authoritarian despite a level of development that modernization theory would predict would bring development. However rather than signaling a lack of fit between modernization theory and regime outcomes in Iran, this outcome reflects the way Iran's authoritarian rulers have undermined this narrative by preventing the development of powerful groups outside the state. The next chapter will apply these theories in more detail to show how exactly how Iran has thwarted the modernization theory paradigm.

Chapter 3: How Khamenei Rules and Why the Islamic Republic

Persists

Under modernization theory, economic development leads to the creation of a strong middle class, which challenges the power of elites and brings about democratization. Since the Islamic Revolution, Iran has experienced many socioeconomic developments that modernization theory predicts would lead to democracy. From 1980 to 2012, life expectancy in Iran rose from 51.1 years of age to 73.2 years of age, and Iranian's mean years of school rose from 2.1 years to 7.8 years.⁶⁴ Similarly, Iran's urban population rose from 50 percent of the population in 1980 to 72 percent in 2014.⁶⁵ Iranians also have achieved incomes that compare favorably to the rest of the world. In 2008, Iranians who were in the 20th percentile of the country's income distribution had higher incomes than 55 percent of the world's population.⁶⁶ Yet despite these socioeconomic developments, the Islamic Republic has persisted as an authoritarian regime with unelected and elected structures. This chapter will focus on how Ayatollah Khamenei has prevented challenges to his rule and how he has thwarted the modernization theory narrative for democracy by

⁶⁴ UNDP "Iran Extract from Human Development Report 2013". *Human Development Report 2013*. Accessed March 30, 2014.

<http://www.ir.undp.org/content/dam/iran/docs/Publications/Inclusive%20Growth%20&%20Development/I%20of%20Iran%20Extract%20in%20HDR%202013%20ENG.pdf>

⁶⁵ World Bank. "World Bank Development Indicators" Accessed March 30, 2015. <http://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS>

⁶⁶ Djavad Salehi-Isfahani. "Iran's place in the world distribution of income an update." December 18, 2011. Accessed March 30, 2015. <http://djavadsalehi.com/2011/12/18/irans-place-in-the-world-distribution-of-income-an-update/>

preventing the development of independent economic groups that could challenge the regime.

In order to prevent independent economic groups from emerging and to stay in power, Khamenei has to solve three principle challenges. He has to keep the elites from defecting from the regime, he has to keep the security forces loyal, and he has to keep the Iranian public dependent on the government. If Khamenei fails to preserve the elites' or the security forces' loyalty, these groups will likely replace him with a new Supreme Leader. If Khamenei allows independent economic groups to emerge among the citizenry, they could bring about democracy.

In this chapter, I will show how Khamenei has solved each of these challenges. I will first argue that Khamenei has used government rents and unelected institutions to prevent elites from turning against his rule, although the presidency has served as a continual challenge to his power. I will then demonstrate how Khamenei has preserved the security forces' loyalty by relying on parallel security forces and by giving the Islamic Revolutionary Guard Corps (IRGC) a greater role in the economy. Lastly, I will show Khamenei relies on bonyads and social welfare services to prevent independent economic groups from emerging.

KHAMENEI'S CONTROL OF FACTIONAL COMPETITION UNDER THE ISLAMIC REPUBLIC AND THE THREAT OF ELECTIONS

Authoritarian rulers face the central challenge of preventing elites from challenging their rule. As noted in the preceding chapter, transition theory predicts that authoritarian

regimes can collapse when splits within the elites leads soft-liners to side with the opposition and encourage public mobilization.⁶⁷ Authoritarian rulers can prevent such defection by making elites focus on the long-term horizons rather than short-term losses, by preventing elites from organizing, and by punishing elites for defecting from the regime. In this section, I provide an overview of Iranian factions within Iran. I then argue that Khamenei has relied on government rents and unelected institutions to prevent any one faction from challenging his rule. I further demonstrate, however, that the office of the presidency has presented a continued threat to the Supreme Leader.

Over the last two decades, Iranian elites have competed within four loosely organized political factions: traditional conservatives, moderate conservatives, principilists and reformists.⁶⁸ The principilists represent the generation of Iran-Iraq War veterans who believe in an Islamic society and who believe that the revolution has failed to accomplish its redistributive goals. The principilists are dominant within the IRGC and served as former President Ahmadinejad's base of support. The traditional conservatives are led by the clerical founders of the Islamic Republic. They support an Islamic society and their power is tied to the bonyads. Both the principilists and the traditional conservatives support an antagonistic relationship towards the west and remain close to Ayatollah Khamenei. The pragmatic conservatives support a closed political environment and economic liberalization. They support improved relations to the west but they do not embrace all out

⁶⁷ Larry Diamond et al. "Discussion: Reconsidering the Transition Paradigm."

⁶⁸ Raket, "The Political Elite in the Islamic Republic." *The Political Elite in the Islamic Republic of Iran: from Khomeini to Ahmadinejad.* *Comparative Studies of South Asia, Africa and the Middle East* 29, no. 1 (2009): 104-24.

democracy. Pragmatic conservatives have been willing to unite with the reformists when it suits their interests. Reformists include former members of the Islamic left who following the Islamic Revolution had sought to create an Islamic socialist state.⁶⁹ Gradually, many of the Islamic radicals became reformists who now demand civil society development, political liberalization and a loosening of social restrictions. They also support economic liberalization in order to create interest groups that could challenge the state. The reformists have posed the biggest threat to the regime, as they are the one faction that supports political liberalization.⁷⁰

Khamenei has sought to keep these factions loyal to the system and focused on the long run by having them compete for government rents derived from Iran's natural resource wealth. Iran has the second largest reserves in conventional oil in the world after Saudi Arabia.⁷¹ Since 1999, oil revenues have accounted for more than 20 % of Iran's GDP, and during the oil price boom from 2004 to 2008 oil accounted for as much as 40 % of the country's GDP.⁷² Further Iran has the world's second largest gas reserves after Russia,⁷³ and it has received more than 10 % of its GDP from natural gas since 2008.⁷⁴ The government receives most of this oil and gas revenue through its ownership of the National Oil Company and the National Gas Company. These revenue streams create significant

⁶⁹ Ibid. 118-120.

⁷⁰ Ibid. 118.

⁷¹ Jahan Amuzegar, "Iran's Oil as a Blessing and a Curse," *Brown Journal of World Affairs* 15, no. 1 (2008)

⁷² "Oil rents (% of GDP)" World Bank Development Indicators. Accessed April 1, 2015.

<http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS>

⁷³ Amuzegar, "Iran's Oil as a Blessing and a Curse,"

⁷⁴ "Natural Gas Rents (% of GDP)" World Bank Development Indicators. Accessed April 1, 2015.

<http://data.worldbank.org/indicator/NY.GDP.NGAS.RT.ZS>

rent-seeking opportunities for elites, as they seek to use their power within the government to gain access to government contracts, receive cheap credit from state banks, speculate in real estate, and develop business empires.⁷⁵

The corruption scandal surrounding the former managing director of the Social Security Organization reveals how this process works. In 2012 Ahmadinejad appointed Saeed Mortazavi as the managing director of the Social Securitizing Organization, which through its investment organization, Shasta, oversees 208 companies.⁷⁶ As Managing Director, Mortazavi sold shares in companies owned by Shasta to supporters of Ahmadinejad at below market rates, which served as a mechanism for Ahmadinejad to create a loyal class of businessmen.⁷⁷ Although Mortazavi faced a parliamentary investigation for his actions, his actions represent how elites seek to use political power for their faction's personnel gain.

While Khamenei allows elites to compete for government rents, he uses his power to directly and indirectly appoint members of unelected bodies to prevent any one faction from becoming too powerful. Major unelected bodies include the Guardian Council (*Shora-ye Negahban-e Qanun-e Assassi*), the Expediency Council (*Majma'-e Taskhhis-e Maslahat-e Nezam*), the Judiciary and the National Security Council, which Khamenei

⁷⁵ David E. Thaler et al. *Mullahs, Guards, and Bonyads: An Exploration of Iranian Leadership Dynamics*. (Rand Corporation, 2010).

⁷⁶ "Iranian parliamentary corruption scandal implicates notorious figure." *Al-Monitor*. January 3, 2014. Accessed March 30, 2014. <http://www.al-monitor.com/pulse/originals/2014/01/iran-parliament-corruption-mortazavi.html#>

⁷⁷ *Ibid.*

typically fills with clerical members of the traditional conservative faction.⁷⁸ The Guardian Council determines who is eligible to run for elected offices such as parliament (*Majles*), the presidency, and the Assembly of Experts (*Majles-e Khobregan*), and it can veto laws passed by Iran's parliament. The Expediency Council resolves disputes between the Guardian Council and Parliament by passing modified versions of bills vetoed by the Guardian Council. The Judiciary Branch maintains broad power to arrest individuals for crimes against Islam and to shut down newspapers critical of the government. Finally, the Supreme National Security Council provides foreign policy recommendations to Ayatollah Khamenei that he can accept or reject. In total, Khamenei has relied on these unelected bodies to limit who can run for elected office and the policies that elected officials can implement once in office.

Over the last decade, Khamenei has become more reliant on the Guardian Council and the Expediency Council to ensure that no one political faction becomes powerful enough to threaten his rule. During the nineties, the Guardian Council was overwhelmed by the number of candidates running for office, which allowed the reformists to gain a majority in parliament in 1996 and in 2000.⁷⁹ In response, Khamenei increased the budget of the Guardian Council to improve its vetting credentials, and the council subsequently vetoed the vast majority of reformists who have run for parliament since 2004.⁸⁰ Further, the Guardian Council has prevented presidents from building centers of power by

⁷⁸ Akkoyunlu. "The rise and fall of the hybrid regime."

⁷⁹ Arjomand. *After Khomeini: Iran under his successors*.

⁸⁰ Ibid.

preventing their allies from running for office. Following the end of the principalist Mahmoud Ahmadinejad's presidency in 2013, the Guardian Council disqualified Ahmadinejad's close adviser Rahim Mashaei from running for president.⁸¹ If the Guardian Council were dissolved, Khamenei would have to much more overtly use force to control the outcome of elections.

When elites have clashed with Khamenei after winning elections, Khamenei has further relied on the Guardian Council and the Expediency Council to limit their influence over state policy. Under the constitution, the Guardian Council has the right to review all legislation passed by parliament to ensure that it does not violate Islamic law or the constitution.⁸² From 1996 to 2004 when reformists held a majority in congress, the Guardian Council repeatedly vetoed laws that would have increased Iranians' rights and allowed for more media freedom. In 2005, Khamenei turned towards the Expediency Council to create additional constraints to the power of elected officials. Khamenei expanded the council's mandate to include supervising the government as a way to limit Ahmadinejad's economic and foreign policy making ability.⁸³ Previously the Expediency Council's duties had been limited to resolving disputes between the Guardian Council and the Majles over legislation. Through the policymaking powers of the Guardian Council and the Expediency Council, Khamenei has ensured enough gridlock in the system that elites struggle to act cohesively.

⁸¹ "Rafsanjani and Mashaei barred from Iran presidency poll." BBC. May 21, 2013. Accessed March 30, 2015. <http://www.bbc.com/news/world-middle-east-22615000>

⁸² Akkoyunlu. "The rise and fall of the hybrid regime." 126.

⁸³ Bill Samii. "Iran: Systemic Changes Could Weaken Elected Officials, Balance Government" *RFERL* October 4, 2005. Accessed March 27, 2015. <http://www.rferl.org/content/article/1061869.html>

Khamenei also limits elites' ability to organize and develop broader connections to the Iranian population. Individuals seeking to establish a political party must register the party with the interior ministry, which often blocks the attempts of reformist groups to register new parties. Further, these parties face restrictions on their campaign activities and cannot produce a party list on the ballot for parliament. Traditional conservatives and the principlists have supported restrictions on parties because they use their control over key institutions to mobilize voters.⁸⁴ Notably, Khamenei appoints conservative clerics as Friday Prayer Leaders in each of Iran's provinces, a position the clerics then use to make speeches in favor of the regime's position.⁸⁵ Similarly, the principlists use their position within the security institutions to rally voters (see next section for more information). As elites close to Khamenei have other institutional mechanisms to attract votes, they have not forced Khamenei to allow political parties.

Among Iran's elected bodies, the president has demonstrated more independence than the Majles (parliament) from Iran's unelected bodies. The President serves as the chief executive in policy areas not under control of the Supreme Leader, nominates ministers and the central bank head, and makes extensive appointments throughout the government bureaucracy.⁸⁶ The president's main power comes from his role as the one official elected by Iran's entire population. In comparison, members of parliament are elected as part of

⁸⁴ Kevan Harris. "How to Reform a Theocracy." *Foreign Affairs*. January 20, 2014. Accessed march 30th. <http://www.foreignaffairs.com/articles/140663/kevan-harris/how-to-reform-a-theocracy>

⁸⁵ Akkoyunlu. "The rise and fall of the hybrid regime." 123.

⁸⁶ Akkoyunlu. "The rise and fall of the hybrid regime." 130-32.

multi-seat districts.⁸⁷ On paper, parliament maintains extensive power. Parliament drafts legislation, ratifies treaties, and approves states of emergencies, loans, and the annual budget.⁸⁸ Further, parliament has the power to impeach the president and members of cabinet and demand that these officials answer parliaments' questions. However, members of parliament face more constraints on the type of policies they can support than the president. While the Guardian Council routinely prevents sitting members of parliament from running for reelection, it has never declared a first-term president ineligible to run for re-election.

In order for Iranian presidential candidates to win office, they have needed to campaign either on platforms of making Iran a more open and democratic society or on platforms of redistributing state resources to the poor and working class. In 1997, Mohammad Khatami was elected to office based on his pledge to strengthen civil society and allow increased political competition.⁸⁹ By contrast, Mahmoud Ahmadinejad's 2005 campaign emphasized that he would put "oil money on people's dinner tables" and that he would stop corruption by taking on Iran's economic mafias.⁹⁰ The economic crisis at the end of Ahmedinejad's presidency forced Hassan Rouhani to emphasize bringing inflation under control and solving Iran's nuclear crises with the West as part of his campaign of "hope and prudence" (*omid va tadbir*) – that is, his best strategy to appeal to voters was to promise to restore economic stability, not to provide more populist redistribution. To a

⁸⁷ "A Review of Laws Regulating Political Parties in Iran." Accessed March 27, 2015.

<http://www.gozaar.org/english/articles-en/A-Review-of-Laws-Regulating-Political-Parties-in-Iran.html>

⁸⁸ Akkoyunlu. "The rise and fall of the hybrid regime." 127.

⁸⁹ Said Amir Arjomand. *After Khomeini: Iran under his successors*. 93.

⁹⁰ *Ibid.*, 152.

lesser degree, he also supported reformist ideas such as freeing political prisoners and protecting Iranian's civil rights.⁹¹

Such promises of political reforms have proven a bigger draw to the ballot box than populist rhetoric. During Khatami's campaign for reelection in 2001 and Rouhani's campaign for election in 2013, voter turnout was 72.71 % and 72.76 % respectively.⁹² However in the more circumscribed elections of 2005 when no major reformist candidates ran for office and in which Ahmadinejad defeated former president Rafsanjani in the second round of voting, voter turnout was only 59.76 %.⁹³

Regardless of whether Iranian presidential candidates have run on platforms of political liberalization or economic redistribution, once in office they have clashed with the Supreme Leader. While Iranian presidents rely on the ballot box for their legitimacy, Khamenei relies on the support of elites in the unelected bodies and security forces. Each time that Iranian presidents have pursued policies that go against the interest of elites, Khamenei has sided with these guardian institutions. When presidents confront the opposition of pro-Khamenei non-elected bodies on particular policy issues, they often seek to rally public opinion behind their initiative and emphasize their role as the only leader elected to represent all Iranians.⁹⁴ Presidents have also used public support to disincentive the Guardian Council and the Supreme Leader from opposing their attempt to run for a

⁹¹“Profile Hassan Rouhani, President of Iran.” BBC. November 11, 2013. Accessed March 27, 2015.

<http://www.bbc.com/news/world-middle-east-22886729>

⁹² “Voter turnout data for Iran, Islamic Republic (Parliamentary, Presidential)” *International Institute for Democracy and Electoral Assistance*. Accessed March 23, 2015.

<http://www.idea.int/vt/countryview.cfm?CountryCode=IR>

⁹³ Ibid.

⁹⁴ David E. Thaler et al. *Mullahs, Guards, and Bonyads*.

second term. Yet public support provides limited benefits to the president as non-elected bodies can retaliate by prosecuting or using state violence against the President's allies. To date no president has been willing to fully mobilize the public in his clash with non-elected institution and risk destabilizing the regime that brought him to power.

THE ROLE OF THE SECURITY FORCES IN IRAN

Authoritarian leaders need to rely on the loyalty of the security forces to suppress the population. Under Svobik's theory of the military's role in politics, authoritarian leaders ensure the security forces' loyalty by creating parallel security institutions and through ideological training.⁹⁵ However as authoritarian leaders become more dependent on the security forces, they need to provide them a greater role in politics and further resources. When security forces become active in the economy, they can also strengthen authoritarian regimes by limiting the development of private sector development. In this section I will show how Ayatollah Khamenei has relied on the IRGC and the Basij as loyal security forces to compete with Iran's regular army and police forces. Additionally, I will show how Khamenei has devoted greater economic resources to the security forces as he has become more dependent on them suppress elites and the public.

Since becoming Supreme Leader, Ayatollah Khamenei has been able to rely on loyal security forces to protect his rule. Following the Islamic Revolution, Iran's clerical leaders did not trust the loyalty of the regular armed forces (*artesh*). As a result, they created the Islamic Revolutionary Guard Corps (IRGC) and the Basij militia to provide

⁹⁵ Milan W. Svobik, *The Politics of Authoritarian Rule*.

regime security from external and internal threats. Similar to the *artesh*, the IRGC has separate branches for the army, navy and air force, along with its own Special Forces known as the Quds Forces.⁹⁶ The IRGC ensures that the regular military cannot launch a coup against the regime and has sought to export the revolution within the Middle East, particularly to Lebanon. The Basij are a voluntary paramilitary institution that Ayatollah Khomeini originally formed to recruit soldiers for the Iran-Iraq War and to enforce Islamic morals on the population.⁹⁷ Following the end of the Iran-Iraq War, Khamenei made the Basij the fifth branch of the IRGC. The IRGC and the *artesh* report directly to the Supreme Leader, meaning that elected officials have little control over their behavior.

Khamenei has relied on his power of appointment, surveillance, and ideological training to control both the *artesh* and the IRGC. Khamenei appoints the head of the Armed Forces General Command Headquarters (AFGCH), which oversees both the regular military and the IRGC.⁹⁸ He has preferred to appoint members of the IRGC and particularly Basij members with limited military backgrounds to lead the AFGCH as he deems them as more loyal than *artesh* members.⁹⁹ Further, Khamenei controls the Counter Intelligence Organization, which monitors all military and security branches for signs of dissent. Khamenei also appoints clerical commissars within the security institutions to ensure the ideological loyalty of security forces. However, Khamenei

⁹⁶ Thaler et al. *Mullahs, Guards, and Bonyads*. 33

⁹⁷ Saeid Golkar. "Paramilitarization of the Economy: The Case of Iran's Basij Militia." *Armed Forces & Society* . 0,0 (2012): 1-24.

⁹⁸ Golkar. *The Islamic Republic's Art of Survival*.

⁹⁹ Ibid.

maintains more ideological control over the IRGC than the *artesh*. All Iranian men must complete mandatory service in the *artesh*. As a result, the *artesh* represents the viewpoints of the entire Iranian population and its members often include poorer individuals who cannot get military service exemptions. In comparison, the IRGC is a volunteer force that attracts more fervent regime supporters. Due to Khamenei's control over the *artesh* and the IRGC, neither branch has launched a coup against him since he has assumed the post of the Supreme Leader.

While the IRGC prevents coups, Khamenei relies on the Basij to prevent dissent among the population. The government claims to have over 15 million Basij members, although Saeid Golkar, who has written extensively on the Basij, claims the true figure is closer to 3 million regular members, 800,000 active members, and 200,000 special members.¹⁰⁰ These members receive special ideological training and are stationed throughout the country. The members tend to come from rural and economically disadvantaged areas. The Basij played a large role in suppressing the 2009 post-election protests.¹⁰¹ The government further expanded the Basij once the election turmoil subsided. The Basij both provide the regime security and enforce Islamic morals in the street, such as ensuring that women respect the regime's veiling laws.

Outside the IRGC and the Basij, Khamenei has relied on the Ministry of Interior as the other main security institution in charge of regime survival. The president formally nominates the minister of the interior. However due to the sensitivity of the

¹⁰⁰ Golkar. "Paramilitarization of the Economy: The Case of Iran's Basij Militia."

¹⁰¹ Ali Afoneh. "The Basij Resistance Force." *The Iran Primer*. Accessed April 1, 2015. <http://iranprimer.usip.org/resource/basij-resistance-force>

position, Khamenei orders his supporters within parliament to veto the nominations of individuals whose loyalty he doubts. The Ministry of Interior oversees elections and controls the Law Enforcement Forces (LEF), a police force of about 120,000 members.¹⁰² The LEF duties involve more day-to-day policing issues such as fighting drug trafficking and ensuring people respect morality laws than ensuring regime security.¹⁰³ However, the Ministry of Interior has relied on the LEF for ensuring public order around elections. The Ministry of Interior has also resorted to extra-legal means to protect the regime. During the 90s, members of the Ministry of Interior conducted an assassination campaign against reformist politicians and intellectuals. Notably, they paralyzed Saeed Hajjarian, the architect of the reformist's political strategy that allowed them to seize parliament in 1996.¹⁰⁴ Similar to the Basij, the Ministry of Interior ensures that opposition face high participation costs if they choose to protest the regime.

In addition to Khamenei relying on the security forces for coop-proofing, the IRGC helps Khamenei limit the domestic policy options available to elected leaders. Through the 90s, the IRGC undermined President Rafsanjani and President Khatami's efforts to improve Iran's relationship with the west. In 1992, Iranian Kurdish opposition leaders were assassinated at the Mykonos Greek restaurant in Germany. The incident undermined President Rafsanjani's effort to repair relations with Europe as Germany blamed Iran's

¹⁰² Thaler et al. Mullahs, Guards, and Bonyads.34

¹⁰³ Ibid, 34.

¹⁰⁴ Muhammad Salim. "Reformist Strategist: Saeed Hajjarian." Frontline Tehran Bureau . July 8, 2009. Accessed March 30, 2015. <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2009/07/reformist-strategist-saeed-hajjarian.html>

Ministry of the Interior for the assassination.¹⁰⁵ Such incidents have damaged the domestic credibility of Iranian presidents, as they have appeared helpless against the behavior of the security forces. Similarly, the IRGC's support for Hezbollah in Lebanon and Palestinian militant Islamist groups has further limited the ability of Iranian presidents to pursue ties with Western governments that support Israel. Hence, Khamenei has used the security forces to both undermine the credibility of Iranian presidents and to prevent Iran from improving its relations with the West.

As Khamenei has become more dependent on the IRGC and the Basij for regime security, he has granted them increased economic privileges. During the early '90's Khamenei supported the expansion of the Basij's economic role against the wishes of the President Rafsanjani and his moderate conservative faction. In 1992, the regime created the Basij Cooperative Foundation to provide welfare support.¹⁰⁶ The Basij began providing social welfare services for its members, including housing services, medical services, loans, and consumer goods. It further provides university preparation classes and special university seats for Basij and their family members. In 2000 the Basij formed a construction branch, the Qorb-e Basij, to focus on infrastructure projects in rural areas.¹⁰⁷ Moreover, the Basij became active in the security, transportation and IT sectors. Its Mehr Finance and Credit Institute, which became the Mehr bank, has over 400 branches and is active in the Iranian real estate and stock markets. The former-Basij

¹⁰⁵ Seyyed Hossein Mousavian. *Ira-Europe Relations: Challenges and Opportunities*. (Routledge: 2008) 94.

¹⁰⁶ Golkar. "Paramilitarization of the Economy." 4.

¹⁰⁷ *Ibid.*, 7.

member President Ahmadinejad channeled many state construction projects to the Basij, supported a privatization process that allowed the Basij to buy stock in SOEs, and channeled his housing construction program through the Mehr Bank.¹⁰⁸ While ordinary Basiji members receive special benefits, Basij Commanders have benefited the most from the expansion of the Basij's role in the economy, as they have skimmed money off the top of construction projects and used their power for land grabs.¹⁰⁹

While the Basiji mainly compete for small economic projects and provide internal security, the IRGC competes for large economic projects. During the Iran-Iraq War, the IRGC developed a large corps of skilled engineers. After the end of the war, President Rafsanjani sought to use the IRGC to help rebuild Iran's economy and to keep war veterans employed.¹¹⁰ The IRGC's construction conglomerate, the Khatam Ol-Anbia, evolved into Iran's largest construction firm. Notably, the conglomerate has been willing to use force to protect its interests. In 2004, the IRGC delayed the opening of the newly built Imam Khomeini International Airport in retaliation for Khatam Ol-Anbia not receiving the airport construction contract.¹¹¹ However, the IRGC's business conglomerate has been willing to partner with foreign firms to conduct joint projects.¹¹² Further, the IRGC has bought shares in many of the SOEs that the government has

¹⁰⁸ Ibid., 11-12.

¹⁰⁹ Ibid., 16.

¹¹⁰ ¹¹⁰ Kevan Harris. "The Rise of the Subcontractor State: Politics of Pseudo-Privatization In the Islamic Republic of Iran." *International Journal of Middle Eastern Studies*. Vol 45. 2013. 64

¹¹¹ Thaler et al. *Mullahs, Guards, and Bonyad*. 50

¹¹² Harris. "The Rise of the Subcontractor State." 64-65.

privatized, including a 51 % share in Iran's biggest telecommunications firm.¹¹³ As the IRGC's role in the economy has increased, it has behaved more based on profit motives rather than solely based on considerations of regime security.

By increasing the IRGC and Basij's role in the economy, Ayatollah Khamenei has helped ensure the security force's loyalty and further prevented independent economic groups from emerging. The Basij serve as an institution similar to the dominant party under Greene's theory. Khamenei has relied on the Basij to integrate a new generation of supporters into the regime, while also creating a tiered system in which ordinary Basij members receive extra social services and Basij commanders become wealthy by overseeing government contracts. Both the IRGC and the Basij would be harmed by democracy, as elected officials would seek to redistribute the economic resources controlled by the security forces to the population at large.

ECONOMIC STRUCTURES THAT ENABLE AUTHORITARIAN RULE

The third main challenge authoritarian leaders confront is preventing the emergence of independent economic groups among the public. Modernization theory predicts that economic development that leads to a strong private sector can create an independent middle class that demands democracy, while reducing elites' fear that the democratic government will seize their wealth. However, if elites prevent a private sector from

¹¹³Shayerah Ilias. "Iran's Economic Conditions: U.S. Policy Issues." *Congressional Research Service* April 22, 2010. Accessed March 27, 2015.
<http://fas.org/sgp/crs/mideast/RL34525.pdf><http://fas.org/sgp/crs/mideast/RL34525.pdf> 51

developing, they can prevent economic development from leading to democratization. As Eva Bellin noted in her theory of contingent democrats, when capital owners and formal sector workers depend on state privileges for their well-being, they will oppose democracy out of fear of redistribution.¹¹⁴ Further, political institutional theories predict that authoritarian leaders can use social welfare programs and party-like structures to enter into an authoritarian bargain with the population, where the public accepts a loss of political rights in exchange for economic rights. This section will detail how Ayatollah Khamenei and his conservative allies have stymied the modernization theory narrative by making capital owners and formal sector laborers dependent on the state and by providing social welfare services.

Bonyads represent one of the principal sources of wealth within the government's control. They are religious charity conglomerates that both provide social welfare services and control a large segment of Iran's economic production.¹¹⁵ In total, bonyads control an estimated 10 to 20 percent of Iran's GDP, including factories, agriculture land, real estate, religious shrines.¹¹⁶ Bonyads formed during the revolution when the founders of the Islamic Republic confiscated the Shah's property along with the property of wealthy Iranians who fled the country.¹¹⁷ These bonyads formed based on the region where the revolutionaries confiscated the property and the social group that the bonyads target.

¹¹⁴ Bellin, "Contingent Democrats."

¹¹⁵ Ali A. Saeidi. "The Accountability of para-Governmental Organizations (bonyads): The case of Iranian Foundations." *Iranian Studies*. 37, no. 3. 486

¹¹⁶ Kenneth Katzman. "Joint Economic Committee Hearing on Iran." July 25, 2006. Accessed March 27, 2015. <http://www.iranwatch.org/sites/default/files/us-congress-jec-katzman-iran-energy-072506.pdf>

¹¹⁷ Harris. "Lineages of the Iranian Welfare State:

Among the major bonyads include the Martyrs Foundation, the Imam Khomeini Relief Aid Committee, the Imam Reza Foundation, the Oppressed and Disabled Foundation, the Housing Foundation, and the 15th Khordad Foundation. The Foundation of the Oppressed and War Veterans (MJF) is Iran's second largest commercial enterprise after the National Iranian Oil Company. MJF has more \$10 billion in assets, over 200,000 employees, and 350 subsidiaries.¹¹⁸ The Imam Reza Foundation is the largest landowner in Khorasan Province, owning as much as 90 percent of the arable land there.¹¹⁹ While bonyads often receive government funds and preferential access to credit, their budgets remain outside of parliamentary scrutiny, and bonyads have remained untaxed.

Since these bonyads fall under the authority of the Supreme Leader rather than elected officials, they represent a significant source of economic power that the Iranian people have little ability to monitor. The heads of bonyads have routinely resisted parliament's effort to bring them under oversight. Further, Khamenei has used his power to appoint and dismiss the heads of bonyads to reward loyal supporters.¹²⁰ Notably, Khamenei appointed one of Khomeini's former bodyguards and founders of the Revolutionary Guards, Mohamad Rafiqdoost, as head of the Foundation of the Oppressed during the nineties, which enabled Rafiqdoost to become a multimillionaire. The heads of bonyads function similar to a capital-owning class, as they can use the bonyads for

¹¹⁸ Ilias. "Iran's Economic Conditions: U.S. Policy Issues." 7

¹¹⁹ Kenneth Katzman. "Iran's Bonyads: Economic: Strengths and Weaknesses." The Emerirates Center for Strategic Studies and Research. August 6, 2006. Accessed March 30, 2015.

"http://www.ecssr.com/ECSSR/appmanager/portal/ecssr?_nfpb=true&_nfls=false&_pageLabel=featuredTopicsPage&ftId=%2FFeatureTopic%2FKenneth_Katzman%2FFeatureTopic_0112.xml&lang=en&ftCountry=%2FCountries%2FCountry_0172.xml&_event=viewFeaturedTopic

¹²⁰ David E. Thaler et al. *Mullahs, Guards, and Bonyads*

personnel enrichment, and they can buy or sell assets for the conglomerate. If Iran became a democracy, the heads of bonyads would lose out on the special privileges they receive.

Bonyads further allow the regime to carry out redistribution to the poor, the disabled, rurally deprived areas, and families of martyrs, war veterans and households without guardians. In particular, the regime relies on the Imam Khomeini Relief Committee (IKRC) to target the poor outside of the formal economy and provide them services that will enable them to be self-sufficient.¹²¹ In 2009, the IKRC had over 1365 units stationed throughout the country to identify the poor and supported approximately 40 individuals per 100 households.¹²² While the IKRC has been a leader for developing new anti-poverty schemes within Iran, during the 90s the reformists charged the IKRC with using political criteria for its program and sought to redirect the IKRC budget towards NGOs.¹²³ Other bonyads more directly target groups deemed likely to be regime supporters, such as the Martyrs Foundation, which provides pensions to families who lost sons during the Iran-Iraq War. For the beneficiaries of bonyads, democracy could lead to a reduction in their benefits, as elected officials could oversee the bonyads and change their allocation criteria.

While bonyads represent the regime's support for low-income groups, the regime further uses SOEs and the cooperative sector to boost employment. During the Iran-Iraq

¹²¹ Kevin Harris. "Lineages of the Iran Welfare State."

¹²² Hadi Salehi Esfahani and Seyed Mohamamd Karimi. "Preliminary Draft: The Distributional Consequences of Economic Growth and Public Spending Programs in Iran." October 2013. Accessed March 30, 2015. 7, 27. https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=NEUDC2013&paper_id=110.

¹²³ Ibid.

War, the government nationalized much of the economy due to the contingencies of the war, which increased the number of public employees from 1.7 million in 1976 to 3.5 million in 1986.¹²⁴ The government used these new State Owned Enterprises (SOEs) to pursue employment goals rather than profit. However following the end of the war, President Rafsanjani and his technocratic fraction sought to privatize 391 of 770 SOEs as a way to encourage private sector growth and because many of the SOEs were lossmaking.¹²⁵ Rather than fully privatize SOEs, the government sold many of the companies to bonyads, the military, state pensions funds and government elites, often as a way to pay off the debt the government owed to these entities.¹²⁶ These entities now control as much as 50 percent of the economy.¹²⁷ Similar to SOEs, they benefit from government financial support, allowing them to pursue employment rather than profit goals.

The government also provides benefits to public sector workers through social welfare benefits and reduced taxation. The Social Security Organization accounts for the greatest portion of the state's welfare budget and primarily provides support to formal sector workers. The organization provides medical insurance, retirement benefits, and unemployment insurance to over 26 million individuals.¹²⁸ The government further provides tax breaks to state employees, along with agricultural workers and low income

¹²⁴ Kevan Harris. "The Rise of the Subcontractor State: Politics of Pseudo-Privatization In the Islamic Republic of Iran."

¹²⁵ Ibid 51.

¹²⁶ Ibid.

¹²⁷ Kevan Harris. "Iran's political economy under and after the sanctions." *Washington Post*. April 23, 2015. <https://mail.google.com/mail/u/0/#search/pr/14c86af98021c951>

¹²⁸ https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=NEUDC2013&paper_id=110

households.¹²⁹ By providing public sector workers social welfare benefits and reducing their taxation, the government disincentives workers from demanding democracy.

Consistent with Eva Bellin's theory of contingent democracy and with political institutional theories, the Islamic Republic has avoided democratization by providing economic privileges to groups that might otherwise demand democracy. Iranian capital and public-sector workers have not mobilized on behalf democracy due to the exclusive privileges they have received from the state. Rather than having a class of strong private capital owners, Iran has developed a class of capital owners in the cooperative sector that protect the regime. Similarly, public sector workers and beneficiaries of bonyads face reduced incentives to demand democracy since such a transition could threaten their economic privileges.

Conclusion

As Supreme Leader, Ayatollah Khamenei has solved the three main challenges authoritarian rulers face: he has prevented elite defection, he has maintained the security forces' loyalty, and he has prevented the development of independent economic groups that could bring about democracy. Ayatollah Khamenei has ensured elites' loyalty by allowing them to compete for government rents and by using unelected institutions to prevent any one elite faction from becoming too powerful. He has further ensured the loyalty of the security forces by creating a system of surveillance and by increasing their role in the economy. Lastly, he has prevented the development of independent economic

¹²⁹“Rouhani tries to get Iranians to pay their taxes.” *Tehran Bureau*. 2/5/2015. Accessed March 27, 2015. “<http://www.theguardian.com/world/iran-blog/2015/feb/05/rouhani-tries-to-get-iranians-to-pay-their-taxes>”

groups by supporting the bonyads and the IRGC's role in the economy and by providing wide-scale social welfare services. Yet Khamenei has not prevented Iranian presidents from challenging his rule. The next chapter will show how Iran could achieve democracy in the medium-term along the lines of modernization theory in response to Iranian presidents encouraging private sector growth.

Chapter 4: How Iran Could Democratize

INTRODUCTION

Since Iran's Assembly of Experts appointed Ali Khamenei Supreme Leader in 1989, he has limited major challenges to his rule. Ayatollah Khamenei and his conservative allies managed to both defeat the reformist movements during the 90s and suppress the Green Movement protests following the disputed 2009 elections between the incumbent Mahmoud Ahmadinejad and the reformist candidates Mir-Hossein Mousavi and Mehdi Karroubi. Further, the regime survived both the debt-fueled economic crisis in 1993 under President Rafsanjani and the nuclear-driven economic crisis during President Ahmadinejad's second term (2009-2013). These periods of political and economic crises show how Iran lacks independent economic groups that are sufficiently powerful to erode the power of unelected officials. Based on modernization theory, democratization primarily happens as the state develops a private sector where groups independent of the state force democratic concessions from elites.¹³⁰ For Iran to democratize, it must develop social classes that are economically independent of the state and that can challenge the power of unelected officials.

Surprisingly, the economic crisis that Mahmoud Ahmadinejad sparked during his presidency may propel the changes necessary for Iran to democratize in the medium-term future. During a period of high oil prices, Ahmadinejad created a large budget deficit and high inflation rates by pursuing short-term redistributive policies and by provoking sanctions against Iran.¹³¹ Ahmadinejad further threatened the factional balance of power within Iran by increasing the role of Iran's security institutions in the economy. Ahmadinejad's policies created an opening for a pro-economic reform coalition to form

¹³⁰ Wucherpfennig and Deutsch, "Modernization and Democracy: Theories and Evidence Revisited,"

¹³¹ Parvin Alizadeh. "The political economy of petro populism and reform, 1997-2011."

around President Rouhani that it is focused on repairing Iran's economy.¹³² If Rouhani's efforts lead to private sector development, they could start a democratization process based on the modernization theory narrative.

The remainder of this chapter will use private sector development as the key independent variable that will determine whether or not Iran democratizes. It will first look at how Ahmadinejad sparked an economic crisis that changed the balance of political power in Iran, fomenting a new coalition under Rouhani. It will then look at whether any of President Rouhani's reforms could lead to democratization by creating powerful independent economic groups. Specifically, the chapter will look at how Iran could democratize in response to reforms to its banking sector, its subsidy system, its privatization program, increased taxation, and sanction relief. Next the chapter will briefly discuss the conditions under which the IRGC will not act as a democratic spoiler. The chapter will conclude by summarizing the likelihood of the government fully implementing these reforms.

FAILED REDISTRIBUTION AS A DRIVING FACTOR IN DEMOCRATIZATION

Ahmadinejad campaigned for the presidency based on the promise of putting "oil money on people's dinner tables."¹³³ Once in office, he used a boom in the government's oil revenues to redistribute state resources to the poor and working class. He further increased the role of the IRGC and the Basij in the economy by giving them government contracts and selling them shares in State Owned Enterprises. This section will focus on how these polices created an economic disaster for Iran, which undermined Iranian elites'

¹³² Kevan Harris. "An "Electoral Uprising" in Iran." *MERIP*. July 19, 2013. Accessed March 27, 2015. http://www.merip.org/mero/mero071913?ip_login_no_cache=23a20edb8db11a9259601bd8a87c1a8f

¹³³ Arjomand. *After Khomeini: Iran under his successors*. 152

traditional way of doing politics and set the stage for an economic reform coalition to form under President Rouhani.

Under Ahmadinejad's predecessor, Mohamad Khatami, Iran had made progress towards private sector development. During the revolution and the Iran-Iraq War, the government had nationalized all banks as part of a philosophy of state-led development. However during the 90s when President Khatami met with conservative opposition to his plan to fully privatize State Owned Enterprises (SOEs), he opted to encourage private sector competition with the public sector rather than seek to shrink the size of the public sector.¹³⁴ As part of this strategy, the Khatami Administration first allowed saving and loan institutions to form in the late 90s and then allowed private banks to form in 2000.¹³⁵ Since 2000, Iran has developed 17 private banks with over 2,780 branches and which control a 30 percent market share.¹³⁶ Khatami further partially privatized state banks by listing some of their shares on the Tehran stock exchange. Yet bonyads and security institutions became active in the new private banking sector, limiting bank privatization. The Mostazafan Foundation, the Martyrs Foundation, the Revolutionary Guard, and the Basij all founded their own private banks. As a result of Iran's 17 private banks, only 10 are not owned by parastatal or security organizations.¹³⁷

¹³⁴ Kevan Harris. "The Rise of the Subcontractor State: Politics of Pseudo-Privatization In the Islamic Republic of Iran."

¹³⁵ Sima Motamen-Samadian. "The role of government in the Iranian banking system, 2001-2011." Alizadeh, Parvin, and Hassan Hakimian, eds. *Iran and the Global Economy: Petro Populism, Islam and Economic Sanctions*. (Routledge, 2013.) 124

¹³⁶ Bijan Khajepour. "Can Iran's private banks make a difference?" *Al-Monitor*. January 3, 2014 Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2014/01/iran-private-banks.html#>

¹³⁷ *Ibid*.

Ahmadinejad however threatened the solvency of Iran's financial sector by using banks to carry out his redistributive and development policies. As part of a wider bureaucratic reshuffling, Ahmadinejad appointed new managers to both Iran's public and private banks, which typically have had government officials serve on their governing boards.¹³⁸ He then used his control over the banking sector to order commercial banks to offer low-interest loans to geographic and industrial areas that his government thought lacked sufficient financing.¹³⁹ Specifically, in 2006 he ordered private banks to reduce their interest rates by five percentage points to 17 percent, and then in 2007 he ordered private and public banks to offer interest rates of 12 percent.¹⁴⁰ These interest rates threatened the profitability of private banks because banks were forced to offer loans at rates below the rates they paid to attract deposits.¹⁴¹ While the private banks could not rely on state support, the Ahmadinejad administration still pressured them to make risky loans to groups it deemed in need of support.¹⁴² As a result of risky loan portfolios, more than fifty percent of private and public banks are at risk of insolvency.¹⁴³ By threatening the viability of Iranian banks, Ahmadinejad limited future presidents' option to use the banking sector to provide cheap credit to the public.

¹³⁸ Motamen-Samadian. "The role of government in the Iranian banking system, 2001-2011." 125.

¹³⁹ Nader Habibi. "The Economic Legacy of Mahmoud Ahmadinejad." *Middle East Brief* 74, June 2013. Accessed March 27, 2015. <http://www.brandeis.edu/crown/publications/meb/MEB74.pdf>

¹⁴⁰ Motamen-Samadian. "The role of government in the Iranian banking system, 2001-2011." 132

¹⁴¹ *Ibid.*, 133

¹⁴² "Can Iran's private banks make a difference?" *Al-Monitor*. January 3, 2014. <http://www.al-monitor.com/pulse/fr/originals/2014/01/iran-private-banks.html>

¹⁴³ Rachel Williamson. "Iranian bankers look to Rouhani reforms to save industry." *Middle East Monitor*. October 3, 2013. <https://www.middleeastmonitor.com/articles/middle-east/7653-iranian-bankers-look-to-rouhani-reforms-to-save-industry>

In addition to interfering in the financial sector's lending practices, Ahmadinejad stifled the development of Iran's banks by provoking sanctions against the financial sector. When Ahmadinejad with the support of Ayatollah Khamenei rejected the European Union's demand to suspend enrichment activities as part of the nuclear negotiation process in 2006, Western governments made sanctions much more stringent. Over the course of September 2006 and 2007, the United States sanctioned six Iranian banks.¹⁴⁴ In July 2010, the US government barred banks that did business with sanctioned Iranian banks from operating in the United States.¹⁴⁵ In 2012, both the US government and the European Union sanctioned Iran's central bank, and the European Union further ordered the Belgium-based Society for World Interbank Financial Telecommunication to stop conducting banking transfers with Iranian banks.¹⁴⁶ These sanctions largely cut Iranian banks off from the international banking system and drove out all foreign investment opportunities.

As president, Ahmadinejad also sought to centralize power by removing constraints on his control of the government budget, further weakening the financial sector.¹⁴⁷ He dissolved the Management and Planning Organization (MPO), which had been responsible for budget planning and overseeing the allocation of budget funds to the provinces. He also sought to undermine the Central Bank's ability to set monetary and credit policy, which it

¹⁴⁴ Habibi. "The Iranian Economy in the shadow of sanctions." 174

¹⁴⁵ Kenneth Katzman. "Iran Sanctions." Congressional Research Service. March 9, 2015. Accessed March 27, 2015. <https://fas.org/sgp/crs/mideast/RS20871.pdf> 27

¹⁴⁶ Habibi. "The Iranian Economy in the shadow of sanctions." 174

¹⁴⁷ Bijan Khajepour. "Iran Revives Planning Agency to Enact Economic Reforms." *Al-Monitor*. August 28, 2013. <http://www.al-monitor.com/pulse/originals/2013/08/iran-planning-agency-revived-rouhani.html>

is obligated to due under Iran's Law of Money and Banking.¹⁴⁸ As president, Ahmadinejad disregarded the Central Bank's advice on monetary policy by drawing on funds from the National Development Fund and by determining what interest rates banks set.¹⁴⁹ He further had the government borrow approximately \$40 billion from the Central Bank to fund his housing program (*Maskan-e Mehr*).¹⁵⁰ By eroding the independence of Iran's budget planning and monetary policy agencies, Ahmadinejad funded his redistributive programs without facing constraints from other parts of the government.

Even when Ahmadinejad sought to improve the government's fiscal position by reforming Iran's food and oil subsidy, he managed to cause further deficit spending. During the Iran-Iraq War, the government began subsidizing food and oil as a way to keep Iranians out of poverty and encourage production among Iranian industries. However after the war ended, these subsidies ended up encouraging consumption among the wealthy and energy-intensive production methods among Iranian industries. By 2009, the government was devoting 25 percent of the country's GDP to subsidies, largely due to Iranians' increased energy consumption.¹⁵¹ Ahmadinejad sought to reform the subsidy system by turning it into a direct cash transfer system that would target the poor and free up further oil revenue for the government's budget.¹⁵² Under the bill, the

¹⁴⁸ Motamen-Samadian. "The role of government in the Iranian banking system, 2001-2011." 130

¹⁴⁹ Arron Reza Merat. "Ahmadinejad's Economic Legacy." *Al-Monitor*. September 11, 2013. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2013/09/ahmadinejad-leaves-rouhani-economic-problems.html>

¹⁵⁰ *Ibid*.

¹⁵¹ Semira N Nikou, "The Subsidies Conundrum," USIP. Accessed march 27, 2015. <http://iranprimer.usip.org/sites/iranprimer.usip.org/files/The%20Subsidies%20Conundrum.pdf>.

¹⁵² Djavad Salehi--Isfahani, "Iran: Subsidy Reform amid Regional Turmoil," The Brookings Institution, March 3, 2011, <http://belfercenter.hks.harvard.edu/publication/20824/iran.html>.

government was supposed to reduce subsidies by \$20 billion dollars. Yet, when the government lacked data to accurately determine Iranians' income, Ahmadinejad gave cash subsidies to the entire population rather than only to the needy.¹⁵³ Due to parliament's antagonism with Ahmadinejad over the cost and implementation of the subsidy reform, it blocked round two of the reform, which would have led food and energy prices to creep closer to free market prices. Although the subsidy reform could have saved the government money, the Rouhani administration inherited a program that was contributing to 1/8th of the government's budget deficit.¹⁵⁴

Ahmadinejad further revitalized Iran's privatization program as way to redistribute state resources to low-income groups, regime supporters, and the security forces. While Rafsanjani divested 54,438 billion Rials from 1991 to 1997 and Khatami divested 90,679 billion rials from 1998 to 2005, Ahmadinejad divested a total of 800,000 billion rials during his first term in office.¹⁵⁵ Out of the SOEs shares that Ahmadinejad privatized, he sold off 510,916 billion rials in stock market shares through his justice shares program.¹⁵⁶ Under this program, 20 percent of the shares of privatized companies were sold at below market rates to low-income families and families of martyrs.¹⁵⁷ The government then acted as

¹⁵³ Bijan Khajepour, "Development Fund to Fill New role, Hopes Iran's Private Sector," *Al-Monitor*, October 3, 2010, <http://www.al-monitor.com/pulse/originals/2013/10/hope-for-iran-private-sector-national-development-fund.html>

¹⁵⁴ Djavad Salehi-Isfahani. "Saving the Subsidy Reform Program." *The Tyranny of Numbers*. October 6, 2013. Accessed March 27, 2015. <http://djavadsalehi.com/2013/10/06/saving-the-subsidy-reform-program/>

¹⁵⁵ These figures are in 2011 Rials, where 10,000 billion rials equals approximately 1 billion \$US. Harris. *The rise of the Subcontractor State*. 56-57.

¹⁵⁶ Harris. *The rise of the Subcontractor State*. 56-57.

¹⁵⁷ Bijan Khajepour, "Iran Shifts to Lower Gear in Privatization," *Al-Monitor*, 8 October 2013. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2013/10/iran-privatization-organization-new-focus.html>.

guardians of these shares, exercising their share of control over enterprise management while distributing the returns to the shareholders. Since article 44 of the constitution mandated that the government maintain 20 percent of the shares sold through the privatization process, the justice share program gave the government control of 40 percent of privatized companies.¹⁵⁸ Ahmadinejad further sold off many of the SOE shares to the parastatal sector, including IRGC firms and bonyads. Rather than strengthen the private sector, Ahmadinejad privatization scheme served as another way for him to redistribute resources to supporters and the IRGC.

Ahmadinejad's partial privatization strategy turned Iran's conservatives into supporters of full-scale privatization since they feared they were losing control of state resources to Ahmadinejad's principalist faction, which dominates the security forces. Hashemi Rafsanjani, former president and head of the Expediency Council, which originally designed the privatization strategy, criticized Ahmadinejad for creating "a fully state-dominated economy."¹⁵⁹ Similarly, the Speaker of Parliament Ali Larijani condemned Ahmadinejad for not fully privatizing SOEs.¹⁶⁰ Even Khamenei opposed the government's form of privatization, and in 2007 he issued a statement encouraging the government to more fully implement the privatization program.¹⁶¹

By the time President Ahmadinejad left office in summer 2013, he had undermined the economic progress that occurred during the Khatami administration and had left Iran's

¹⁵⁸ Khajehpour, "Iran Shifts to Lower Gear in Privatization," *Al-Monitor*.

¹⁵⁹ "Influential Iran cleric slams Ahmadinejad." *Reuters*. August 13, 2008. Accessed March 27, 2015. <http://www.aei.org/publication/the-revolutionary-guards-looting-of-irans-economy/>

¹⁶⁰ Ali Afoneh. "The Revolutionary Guards' Looting of Iran's Economy." *Middle Eastern Outlook* 3, June 2010. <http://www.aei.org/publication/the-revolutionary-guards-looting-of-irans-economy/>

¹⁶¹ "Iran: Supreme Leader Calls for Acceleration of Privatization Program," *Payvand Iran News*, 19 February 2007, http://www.payvand.com/news/07/feb/1254.html_

economy in shambles.¹⁶² While Iran's oil revenues peaked at 86.6 billion dollars during Ahmadinejad's presidency compared to only 36.3 billion dollars during Khatami's presidency, Iran's real GDP growth from 2006 to 2011 was only 4.1 percent compared to 5.5 percent from 2000 to 2005.¹⁶³ Further while Iran's inflation rate was an average of 13.5 percent from 2000 to 2005, it reached 25.4 percent in 2008.¹⁶⁴ During Ahmadinejad's last year in office, Iran's economy fell into a recession as it experienced -5.4 % growth and an inflation rate of 44%.¹⁶⁵ Moreover Ahmadinejad pursued large-scale deficit spending as he proposed a \$65 billion budget that would lead to a \$22-25 billion budget deficit.¹⁶⁶ As a result of Ahmadinejad policies, he handed his successor long-term structural challenges to solve.

Due to the economic crisis Ahmadinejad created, he paved the way for an economic reformist coalition to come to power under President Rouhani. In the 2013 presidential elections, the principilists and the IRGC remained too divided to unite around a single candidate and ended up splitting their support between Tehran's Mayor Mohammad Bagher Ghalibaf and the Supreme Leader's foreign affairs adviser Ali Akbar Velayati.¹⁶⁷ Hassan Rouhani, a regime insider, who formerly served as Iran's top nuclear negotiator and as the Secretary of the Supreme National Security Council, united Iran's moderate conservative and reformist factions to win the presidency.¹⁶⁸

¹⁶² "Rouhani Deals with Ahmadinejad's Economic Legacy" Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2013/09/ahmadinejad-leaves-rouhani-economic-problems.html#>

¹⁶³ Alizadeh. "The political economy of petro populism and reform, 1997-2011." 99-90.

¹⁶⁴ Ibid. 88-90.

¹⁶⁵ Merat. "Rouhani Deals with Ahmadinejad's Economic Legacy."

¹⁶⁶ Ibid.

¹⁶⁷ Ali Reza Eshraghi and Amir Hossein Mahdavi. "Iran: how 'Ayatollah Ali Khamenei's candidate lost the election." *The Guardian*. July 4, 2013. Accessed March 27, 2015.

<http://www.theguardian.com/world/iran-blog/2013/jul/04/iran-ayatollah-ali-khamenei-election>

¹⁶⁸ Harris. "An "Electoral Uprising" in Iran."

ROUHANI'S REFORMS

This section will detail President Rouhani's policy response to Iran's economic crisis and how these policies could create independent economic groups that could bring about democratization. Rouhani's policies could lead to private sector growth and independent economic groups through two distinct causal mechanisms. First, Rouhani's reforms could limit future presidents' ability to redistribute state resources to the population. As a result, future presidents would have to focus on private sector job growth and political liberalization rather than redistribution to meet the demands of the Iranian population. The second mechanism involves reforms that would directly lead to private sector job growth such as privatization and sanction relief.

REFORMS THAT LIMIT REDISTRIBUTION

President Rouhani has spent the first two years of his presidency trying to recover from the damage Ahmadinejad caused to Iran's financial institutions and financial health. Rouhani has revived the Management and Planning Organization, and he has devoted a larger portion of the government's budget to development expenditures rather than current expenditures.¹⁶⁹ Further, he has appointed the president of the Chambers of Commerce as the head of the presidential office to give Iran's business class a larger role in helping with private sector development.¹⁷⁰ Rouhani's antidote to Ahmadinejad's failed policies has been to restore institutions and budget practices that limit the power of the president, and given the negative Ahmadinejad experience, it is likely to be difficult for a future president to pursue the same type of centralizing policies in the future.

¹⁶⁹ Djavd Salehi-Isfahani. "Iran's Proposed budget for 2015/2016: tight fiscal policy to continue." *Tyranny of Numbers*. December 14, 2014. Accessed March 27, 2015. <http://djavadsalehi.com/2014/12/14/irans-proposed-budget-for-20152016-tight-fiscal-policy-to-continue/#more-2621>

¹⁷⁰ Mustafa al-Labbad. "Rouhani's Cabinet Seeks New Balance in Iranian Policies." *Al-Monitor*. September 2008. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/ar/politics/2013/08/iran-rouhani-new-government-direction.html#>

President Rouhani has also been forced to try to increase the government's tax collection ability to restore Iran's fiscal balance after Ahmadinejad's wasteful spending. Based on the budget bill, Rouhani has set the goal of increasing the government's revenues from taxation by 30 percent from the 2014-2015 budget to the 2015-2016 budget.¹⁷¹ Past efforts to tax in Iran have mainly collected from middle and working class people,¹⁷² but this time, Rouhani has convinced Ayatollah Khamenei to call on Iran's bonyads and security institutions to begin paying taxes to the government. The taxation change could spur greater transparency within Iran's parastatal organizations, as elected officials will learn about their profitability based on the taxes they pay. Such transparency could encourage the parliament and the president to exercise greater scrutiny over these institutions. Rouhani's tax reform then could cause parastatal organizations to become more subordinate to elected officials.

Besides trying to increase the government's revenues through tax collection, Rouhani has sought to produce budget savings by implementing the second round of Iran's subsidy reform. In February 2014, Rouhani suspended the cash transfers and sought to replace them with food handouts.¹⁷³ However, the change met with public opposition and instead in April 2014, Rouhani reduced state subsidies for gasoline, allowing prices to rise by 75 percent.¹⁷⁴ The fuel subsidies have represented one of the main ways the government

¹⁷¹ Djavad Salehi-Isfahani. "Iran's Proposed budget for 2015/2016: tight fiscal policy to continue."

¹⁷² Patrick Clawson. "Iran Adapts to Sanctions in the Absence of New Measures." Testimony before U.S. Senate Banking Committee. January 27, 2015. Accessed March 27, 2015. http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=c14cdda3-9fb3-45e6-8fb2-5ae4570ea34a

¹⁷³ Arash Karami. "Long lines for subsidized food stir controversy in Iran." *Al-Monitor*. February 3, 2014. Accessed March 30, 2015. <http://iranpulse.al-monitor.com/index.php/2014/02/3803/long-lines-for-subsidized-food-stir-controversy-in-iran/>

¹⁷⁴ "Iran petrol prices surge after subsidies cut." *Al Jazeera*. April 25, 2014. Accessed March 30, 2015. <http://www.aljazeera.com/news/middleeast/2014/04/iran-petrol-prices-surge-after-subsidies-cut-201442542236596670.html>

redistributes resources to the middle class. The subsidies, however, also hindered private sector job growth by encouraging producers to favor capital-intensive rather than labor-intensive production methods as producers faced artificially low energy costs for using machinery.¹⁷⁵ If the Rouhani government implements further rounds of subsidy reform to reduce the budget deficit, Iran's middle class will have an incentive to demand private sector job creation, as future presidents will not be able to use subsidies as way to boost their consumption.

If Rouhani's reforms successfully limit the power of future presidents to carry out redistribution by creating independent fiscal institutions and by making the middle class demand job growth, Iranian presidential candidates will have to rely on pledges of political reform to win office. While Ayatollah Khamenei and his allies can continue to use bonyads to provide social welfare to groups deemed likely to be regime supporters, presidential candidates will not be able credibly claim to use bonyads as a tool for redistribution since these institutions are under the Supreme Leader's control. Presidential candidates will have to either campaign on a platform of reforming the parastatal sector to bring it under the control of elected officials or on the pro-democracy platform that Khatami used to win office. Both of these types of election promises would lead the victorious candidate to clash with unelected officials and potentially lead Iran to develop a democratic government where elected officials oversee unelected officials.

Private Sector Reforms

Compared to Rouhani's effort to limit redistribution and restore Iran's fiscal health, Rouhani's effort to fully privatize state industries and to reach a nuclear deal with the west could directly lead to the development of independent economic groups. If Iran and the

¹⁷⁵ Djavad Salehi-Isfahani. "Saving the Subsidy Reform Program."

P5+1 powers (the United States, France, the United Kingdom, China, Russia, and Germany) implement the Lausanne accord, the sanctions relief could strengthen the private sector. Under the accord, the P5+1 powers will gradually lift sanctions against Iran in exchange for Iran reducing the number of centrifuges it uses for enrichment and agreeing to more intensive inspections by the International Atomic Energy Agency. If the P5+1 powers remove the sanctions, Iran's financial institutions will no longer face barriers to accessing the global economy, Iranian producers will become more competitive, and Iran's private banking sector will strengthen. Further, European countries such as Italy and Germany would likely once again become Iran's major trading partners.¹⁷⁶ The end of sanctions combined with the more recent privatization program under President Rouhani could encourage the development of a class of traders that has an interest in continued ties with Europe. These traders could both challenge the government and parastatal sector's hold over the economy and demand more transparent government in order to attract foreign investment.

However, the impact of sanctions on private sector development will depend on whether Rouhani or a future president uses increased oil revenues to create new jobs rather than support consumption and redistribution. While Ahmadinejad used oil revenues to redistribute resources towards low-income groups, he relied on a different voting bloc than Rouhani. Ahmadinejad primarily attracted support among low-income and rural groups, while Rouhani relied on middle-class voters who typically support the reformist faction to reach office. If Rouhani uses oil money to fund redistribution and present consumption, he would likely fuel high-inflation rates that would harm the interests of the middle class. If Rouhani supports increased consumption by allowing Iranians to import extra consumer goods, he would weaken the profitability of Iranian industry. However if like Khatami,

¹⁷⁶ Habibi. "The Iranian economy in the shadow of sanctions."

Rouhani channels oil money into the National Investment Fund, he could avoid the inflation risk and make Iran's private sector more competitive.

Rouhani could also develop the private sector through his effort to revamp the privatization process, which has been enabled due to conservative opposition to the transfer of SOEs to the parastatal and security sector. During his first year as president, he paused the privatization process, and for the Persian year ending in March 2015, the government only received \$1.4 billion from share sales.¹⁷⁷ In particular, Rouhani stopped the privatization of oil subsidiaries, which represented 46 percent of the firms privatized during the Ahmadinejad administration and which were often sold off to IRGC companies.¹⁷⁸ However the Rouhani Administration has set the goal of selling \$38 billion worth of shares of SOEs for the 2015-2106 fiscal year. This figure would be more than double the \$18 billion the government received from privatization during the last year of Ahmadinejad's presidency.¹⁷⁹ Whether Rouhani meets this goal will partially depend on the outcome of the nuclear negotiations and Iran's ability to get sanctions against the financial sector relaxed.

Rouhani and other elites' commitment to privatization signals a delicate balancing game the regime is playing towards private sector development. Elites agree on the need for private sector job growth, although they also rely on the government providing rents. The more the regime encourages private sector growth, the more likely it is to create interest groups that can prevent the type of government rollback of the private sector that occurred during the Ahmadinejad administration. These interest groups could then use

¹⁷⁷ Khajehpour. "Iran's new budget to focus on privatization, subsidy reforms."

¹⁷⁸ Habibi. "Can Rouhani Revitalize Iran's Oil and Gas Industry?" *Middle East Brief* 80 June 2014.

Accessed March 27, 2015. <http://www.brandeis.edu/crown/publications/meb/MEB80.pdf>

¹⁷⁹ Bijan Khajehpour. "Iran's new budget to focus on privatization, subsidy reforms." *Al-Monitor*. January 8, 2015. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2015/01/iran-economic-forecast-2015.html>

their wealth to challenge the power of regime and demand the type of democratic reforms that would further protect them from government expropriation.

Privatization in Iran could also encourage workers to become more politically active and turn against the government. During the post-2009 election protests, workers largely stayed on the sidelines because reform candidates Mir Hussein Mousavi and Mehdi Karoubi had not made economic issues important to workers a major part of their campaign.¹⁸⁰ Rather than participate in anti-regime protests, Iran's labor unions, which remain under the control of the government, sought to ensure their members' wages keep up with inflation and to prevent the government from further deregulating the labor market.¹⁸¹ But during Rouhani's presidency, workers have also begun to protest the insider-dominated privatization process. In 2014, 5,000 miners in Bafgh, Yazd Province protested the government's decision to transfer most of the Bafgh mine's remaining government-owned shares to the private sector.¹⁸² More broadly, union officials have complained that the privatization process benefits well-connected individuals and leads to layoffs.¹⁸³ As workers deal with the shift from working in the public to the parastatal and private sector, they may demand democratic reforms to ensure that they can lobby the government to protect their interests against private and semi-private employers.

In sum, the regime's commitment to private sector growth could cause gradual democratization. Under this process, workers would become more active as Iranian enterprises become focused on profits rather than employment. While the workers'

¹⁸⁰ Kevan Harris. "The Brokered Exuberance of the Middle Class: An Ethnographic Analysis of Iran's 2009 Green Movement." *Mobilization: An International Quarterly* 17, no. 4 (2012): 435-455

¹⁸¹ Alireza Nader and Leila Mahnad. "Labor and Opposition in Iran." RAND Cooperation. April 22, 2013. Accessed March 27, 2015. <http://www.rand.org/blog/2013/04/labor-and-opposition-in-iran.html>

¹⁸² Mohammed Pourabdollah. "Fearing privatization, Iranian mine workers strike." *Al-Monitor*. October 26, 2014. Accessed March 27, 2015. <http://www.al-monitor.com/pulse/originals/2014/10/iran-workers-factory-baghf-mine.html>

¹⁸³ *Ibid.*

demands would likely revolve around wages and working conditions rather than democracy, they would no longer see the reformist movement as a threat to their interests. Further, the regime could no longer use oil revenues to boost labor's wages as most workers would be outside the public sector. Instead, the regime would need to rely more on existing social welfare institutions to try to buy workers support. Private sector growth would further make capitalists more independent of the state so that they could demand a more transparent economy. Iran's moderate conservatives would also be more likely to side with reformists in supporting privatization as a way to weaken the principalist faction and the IRGC's hold over the economy.

THE IRGC AS A DEMOCRATIC SPOILER

Even if Iran develops a strong private sector and future Iranian presidents become more willing to demand democratic reforms, the Supreme Leader and the principilists could rely on the IRGC to suppress pro-democratic forces. During the 2009 presidential elections, the regime brought Basiji from rural areas into Tehran to suppress the Green Movement protests.¹⁸⁴ The regime further imprisoned many protestors and conducted show trials of civil society leaders to connect the protestors to foreign forces. In the face of future demands for democracy that might follow the current round of economic reforms, the IRGC's behavior will depend on its best strategy to preserve its institutional unity and its role within the economy. While the IRGC will likely seek to preserve its own role in the economy, if intervening in politics could result in splits within the IRGC, it may not stop incremental steps towards democracy in which elected officials reduce the power of unelected councils.

¹⁸⁴ Abbas Milani. "The Green Movement." *The Iran Primer*. Accessed March 27, 2015. <http://iranprimer.usip.org/resource/green-movement>

During the post-2009 election protests, the IRGC did not face major trade-offs when it intervened on behalf of Khamenei and Ahmadinejad to prevent reformists from challenging the regime. However, if factions within the government were more divided over whom to support, the IRGC would face bigger barriers to intervening. For example, during the 2013 presidential election, the IRGC paved the way for Rouhani's victory by failing to unite around a single candidate.¹⁸⁵ If the IRGC faces the choice between intervening on behalf of two regime insiders, it may choose to stay on the sidelines as long as both candidates pledge to respect the Guards' autonomy. Such inaction would allow elected officials to reduce the power of unelected officials on the Guardian Council and the Expediency Council, creating a path towards more free and fair elections.

CONCLUSION

For Iran to become a democracy where Iranians vote for elected officials who oversee the country's unelected bodies, Iran's parastatal and public sectors must shrink as an overall portion of the economy and Iran must develop independent economic groups. As long as Ayatollah Khamenei and IRGC control the parastatal sector, they can continue to prevent a group of private capital owners from emerging who could force the government to make democratic concessions. Further as long as elected officials can rely on the public sector and oil revenue to support populist policies, they can limit the threat labor poses to the regime and ignore Iranians' demands for democratic reforms. Whether President Rouhani's efforts to reform Iran's economy lead to a stronger private sector and checks and balances on the government's budget depends on the degree to which moderate conservatives fear the IRGC, the outcome of the nuclear negotiations, and the price of oil. If Iran's moderate conservatives continue to fear the IRGC's role as economic gatekeeper,

¹⁸⁵ Kevan Harris. "An "Electoral Uprising" in Iran".

they will encourage private sector development to counter the IRGC's power. A nuclear agreement that allows Iranian producers and banks to access European capital will help Iran's private sector and bring increased transparency to the economy. Continued low oil prices will further encourage the government to increase its revenues through taxation, which could spur the Iranian public to demand further reforms from the government and parastatal organizations. Ultimately, unless the government's control over the economy weakens, Iranians will struggle to bring about democracy.

Conclusion

In this report, I argued that democracy produces better outcomes than authoritarianism because democracies are more likely to protect basic freedoms, more likely to avoid major catastrophes and more likely to produce stable economic growth. While a democratic government cannot cure all of a society's ills, democracy provides the best method for citizens to express their preferences to government officials and have officials act on those preferences. Democracy ensures a continuous flow of information between citizens and leaders and allows multiple social groups to have their interests represented in the government. As a result, democratically elected leaders both learn about the problems facing their country and have an incentive to respond to those problems. In contrast, authoritarian leaders are primarily concerned with limiting challenges to their rule. Even if authoritarian leaders temporarily oversee high rates of economic growth, they may choose to drastically undermine that economic progress if they fear that they are creating challengers to their rule.

I further defended Robert Dahl's procedural definition of democracy, which requires free and fair elections and the protection of basic civil liberties. Compared to other procedural definitions of democracy, Dahl's idea of democracy captures the unique universal features of democracy: democracy allows people to negotiate over the fate of their society and hold elected officials responsible. Definitions of democracy that focus solely on competitive elections ignore how governments need to protect citizens' basic civil liberties in order for elections to be meaningful contests for citizens votes. When governments hold competitive elections but routinely violate citizens' civil liberties,

candidates no longer need to respond to citizens' preferences to win elections. Once in office, the candidates will face few constraints on the type of policies they implement and citizens no longer are actively involved in negotiating their country's future.

The idea of liberal democracy similarly emphasizes the protection of civil rights as a cornerstone of democracy while focusing on the principal that democracy should not equal the rule of the majority over the minority. Yet, liberal democracy represents a specific type of democracy that developed in the west in which countries developed constitutional liberalism – meanings rulers accepted constraints on their rule - before they developed full democratic institutions. While liberal democracy produces desirable outcomes, it represents one set of institutions that enabled democracy rather than the unique institutional arrangements that are necessary for democracy to function. As long as governments develop some type of restraints on the power of elected leaders – either due to an economic balance of power or effective political parties and strong civil associations – they are likely to continue to respect the procedural requirements necessary for democracy to function.

Substantive views of democracy focus on the idea that citizen participation in government decisions represents a goal for which all societies should strive. This view of democracy captures the concern that governments may hold free and fair elections and respect basic civil liberties even as they preserve barriers to citizens' participation in the democratic process due to individuals' gender, ethnic group, or economic status. Yet in extreme forms, these barriers to participation would also violate Dahl's procedural definition of democracy, as deprived groups could not freely access information and or form civil associations. If the unique feature of a democracy is that it allows citizen

oversight over elected officials' decisions, citizens will not have equal ability and opportunity to express their views to elected officials.

In chapter 2, I argued that democracy happens in response to the rise of economic groups that are independent of the state and that demand inclusion in the governing process. While elites who support the authoritarian regime prefer to avoid democratization due to the threat of redistribution through taxation, the prospect of including the middle class in the governing process requires less of a redistributive threat. As countries develop the private sector, elites will struggle to oversee increasingly diversified and complex societies and they will be forced to provide democracy in order to include other groups in the governing process.

However, authoritarian regimes can use control over economic resources and redistribution to avoid democratization. Regimes can use state owned enterprises or semi-state owned enterprises to prevent an independent capital class from forming. They can further utilize these enterprises to pursue employment rather than profit. Workers in these industries with padded payrolls are more likely to oppose democracy, as they fear it could threaten their jobs. Authoritarian regimes can also redistribute economic resources to reduce pressure for democratization. When these regimes target redistribution towards likely supporters, their supporters may actively fight against democracy. If the regimes also provide social services to the entire population, they can reduce their populations' demands for democracy because citizens trust existing institutions to provide the resources they need.

Looking at Iran, I used Dahl's procedural view of democracy to demonstrate how it has competitive elections but falls short of democracy. Ayatollah Khamenei appoints loyal clerics to the Guardian Council, which then vetoes the electoral candidacies of individual who could threaten the regime. Once in office, elected officials have limited control over government decisions. Khamenei controls foreign policy and the military, and the Guardian Council and Expediency Council limit the laws and policies that elected officials can enact. Elected officials also cannot oversee the portions of the economy in the hands of bonyads, the security institutions, and other parastatal organizations. Citizens similarly face limits in overseeing the government decisions, as they lack the right to information and to form independent associations. During Ahmadinejad's presidency, the government frequently closed down newspapers that criticized the Supreme Leader or his allies and disbanded many civil associations that formed during Khatami's era. Due to the constraints Iranians face in monitoring government officials, in running for office, and implementing policy once in office, Iran falls short of democracy.

Ayatollah Khamenei and his clerical and security allies have managed to prevent democratization despite Iran's high level of socio-economic development by thwarting the modernization narrative. They have used control over the public and cooperative sectors combined with the use of violence to prevent workers and capital owners from challenging the regime. The government has also developed social welfare institutions that target the poor and social groups likely to support the regime, such as the families of martyrs and Basij members. These groups would likely lose out under democracy, as elected officials would presumably divert these funds to their own supporters. As long as the regime can

avoid the development of independent economic groups by controlling large portions of the economy, effectively redistributing resources, and relying on the security forces to repress the population, Iran is unlikely to democratize.

Despite these barriers, I argued Iran could still democratize in the medium-term future, because government elites may not be able to continue the delicate balancing game that has heretofore allowed them to avoid political development. Conservatives who turned against the reformists in the 90s now worry that the IRGC will take over their role as economic gatekeepers. Further, the government as a whole needs to create jobs for its youth population to ensure social stability, meaning that President Rouhani has support from Iran's conservatives and clerical elite to promote private sector growth and make the government less dependent on oil revenues. If Rouhani succeeds in his attempt to reform Iran's economy, he could spark a process towards gradual democratization that neither he nor the Supreme Leader expect (or want).

This path to democratization could happen through two distinct processes, both of which rely on the creation of independent economic groups that can challenge the regime's power. Under the first process, Rouhani's reforms would lead to development of independent fiscal institutions and an economy based on market prices for food and fuel. As a result, future presidential candidates could not credibly promise to redistribute resources towards Iran's lower and middle class. The candidates would then have to promise private sector job creation and political liberalization to win office. A president delivering on this agenda could simultaneously promote the development of economic

groups that would challenge the state and strip away at the powers of unelected officials. Under the second process, Rouhani's reform would directly lead to the development of the private sector. If he fully privatizes SOEs rather than transferring them to the cooperative sector, and if he convinces the P5+1 powers to enact sanction relief under the Lausanne Accord, Iran's private sector could grow and access much-needed foreign capital. A strong private sector could then demand democracy to reduce the privileges that the cooperative sector receives from the government.

While in this report I argued that democracies are preferable to authoritarian regimes, I did not discuss in detail how Iran could benefit from democracy. In the remainder of this chapter, I will briefly speculate on who the winners and losers would be in a democratic Iran.

Democracy could allow Iranian women to gain political power and convert it to economic power in order to help Iran's economic growth. While approximately 60 percent of university students in Iran are women, Iran has a large gender gap in unemployment rates.¹⁸⁶ In 2014, the Statistical Center of Iran reported that women had an unemployment rate of 43.3 percent, which was 22.4 percentage points higher than the male unemployment rate.¹⁸⁷ However, if Iran became democratic, women could vote for politicians who support giving women a larger role in the economy. During the late 90s, when reformists controlled Iran's parliament, they passed many bills that would have increased women's

¹⁸⁶ Bijan Khajepour. "Women can play larger role in Iranian economy." Al-Monitor. March 26, 2014. <http://www.al-monitor.com/pulse/originals/2014/03/iranian-economy-women-reform.html>

¹⁸⁷ "Iranian Women Unemployment Rate at 43.3 Percent." Payvand News. August 28, 2014. <http://www.payvand.com/news/14/sep/1164.html>

rights. However, the Guardian Council repeatedly vetoed these bills.¹⁸⁸ If Iran had free and fair elections and elected officials had the power to pass bills without the threat of a veto from unelected officials, parliament would likely pass laws increasing women's political rights. As a result, women could participate in the economy at a rate that corresponded with their skill levels, and Iran could experience higher long-term economic growth.

Iran would also benefit from democracy in that it would be more likely to retain its skilled workers. Iran has one of the highest rates of skilled emigration in the world. In 2013, the Iranian Ministry of Science, Research and Technology estimated that 150,000 highly educated Iranians emigrate each year.¹⁸⁹ Iranians have emigrated both during the Khatami Administration, when the government sought to encourage the return of skilled workers, and during the Ahmadinejad Administration, when the government had little interest in having citizens that it saw as a source of political opposition.¹⁹⁰ Iran's continually high rates of skilled emigration show that both pull factors such as higher income in destination countries and push factors such as political repression have led Iranians to migrate. A democratic Iranian government could limit the push factors that

¹⁸⁸ Majid Mohammadi. *Judicial Reform and Reorganization in 20th Century Iran: State-Building, Modernization, and Islamization*. (2007) 212

¹⁸⁹ Bijan Khajepour. "Can Rouhani reverse Iran's brain drain?" *Al-Monitor*. January 2014. <http://www.al-monitor.com/pulse/originals/2014/01/iran-economy-diaspora-reconciliation-sustainable-progress.html>

¹⁹⁰ Mohammad A. Chaichian. "The new phase of globalization and brain drain: Migration of educated and skilled Iranians to the United States." *International Journal of Social Economics*. 39 No ½, (2012) 18-38.

encourage skilled migration, although wage differentials between western countries and Iran would likely cause many of the pull factors behind migration to remain.

A democratic Iran would not necessarily be better for Iran's poor or the working class. This report's central thesis is that the most likely way Iran will democratize will be as a result of independent economic groups, and a democratic Iranian government may redistribute less resources towards the poor than the current government. A strong private sector in a democratic Iran could lead to a middle class that votes to reduce redistribution in exchange for higher spending on social services, such as free public university education, to which the poor have less access. Democratically elected leaders also could choose to increase social spending in urban areas at the expense of rural areas in order to attract urban voters. Yet both the urban and rural poor in Iran could benefit economically from democracy if it leads to more job opportunities.

However regardless of who the exact winners and losers would be if Iran were to democratize, a democratic Iran would likely avoid many of the pitfalls that occurred during the Ahmadinejad-era. Democratically elected leaders would face greater constraints from the public on the type of policies they could implement as they would have to respond to citizens' needs rather than unelected leaders' demands. As result, democratic leaders in Iran would be unlikely to pursue policies that could result in an economic crisis and which would undermine the wellbeing of the majority of the population.

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