

# Economic Crisis in Iran: The Impacts of Sanctions and the Uncertain Outcome of Nuclear Talks

By [Prof. Ismael Hossein-Zadeh](#)  
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*I recently returned from a six-week trip to Iran. While the primary purpose of my trip was to visit family and friends, I also made some general enquiries into the state of the country's stagnant economy. These included informal discussions with various strata of economic agents or market players: manufacturers, bankers, shopkeepers, miners, farmers, livestock breeders, workers, teachers, and more.*

Sadly, most of these economic actors painted pictures of pessimism and distrust of the country's economic conditions. The economy is mired in a protracted stagflation, with no government plan or macroeconomic policy for recovery. While the Rouhani administration boasts of having contained or slowed down the inflation, the Iranian people do not cherish that tempering of inflation as it has come about at the expense of deepened recession; that is, at the expense of heightened unemployment and weakened purchasing power. As a retired school teacher, who now works as a taxi driver, put it, lowering inflation by worsening recession is no cause for celebration (paraphrased).

And what is the major culprit behind the depressing recession? The common answer of the overwhelming majority of the economic actors I spoke with was, in a nutshell, uncertainty—uncertainty of the constantly shifting outcome of the unending nuclear negotiations. There is a clear consensus that while onerous economic sanctions against Iran are obviously damaging, the perilous effects of the protracted and uncertain outcome of the negotiations are even more devastating. Equally devastating is the current administration's neoliberal policies of austerity economics, which have further aggravated the recession by cutting social/public spending while not offering any industrial or developmental program or planning.

Market uncertainty, combined with a regrettable lack of protection by the government of the nation's infant industries against the more mature industries abroad, has led to an unwillingness of the country's entrepreneurs to invest in long-term production projects. By the same token, the major bulk of the nation's finance capital is devoted to short-term, parasitically high-yielding but unproductive investments such as buying and selling of real estate.

The largely unregulated financial sector has led to a mushrooming growth of shadow banks—known as *moasesat-e etebari*, or credit institutions. While there are a handful of conventional or bona fide commercial banks, the number of dubious *moasesat-e etebari* has in recent years skyrocketed to over 900!

There is undeniable evidence that, using the influence of corrupt and rent-seeking

authorities, many of these shadow banks borrowed huge sums of money from government banks at below-market interest rates, often under the pretext of wanting to invest in job-creating or manufacturing enterprises, but in fact used the monies thus obtained for speculative purposes. In other words, most of these shadow banks came to existence not through the investment of monies owned by their founders but through that of public money!

Worse yet, many of the oligarchic borrowers and/or founders of these shadow banks now refuse to pay the monies they borrowed! And the government does not or cannot do anything about it because there is an incestuous business relationship between the two sides. Parasitic growth of these speculative shadow banks has reached unsustainably dangerous levels of an imminent implosion of the financial sector—similar to what happened in the US nearly seven years ago, which has since been transmitted to a number of European countries. It is regrettable that President Rouhani and his economic team do not seem to have learned any lessons from the disastrous experiences of the unregulated financial markets in many of the core capitalist countries.

The US and its allies are obviously aware of the fact that continued uncertainty resulting from prolonged nuclear negotiations is wreaking havoc on the Iranian economy. Perhaps this helps explain why they intend to extend the negotiations for a long time: 10, 15 or even 25 years. There are speculations that this policy is designed to help bring about regime change from within, that is, by instigating a social upheaval through an economic collapse.

Not only has the Rouhani administration thus thrown the private sector into confusion and uncertainty, it has also largely abandoned traditional public sector responsibilities in terms of macroeconomic guidance and infrastructural developments. The administration's rudderless economic outlook is reflected (among other places) in its latest (1394, Iranian calendar) budget priorities.

"The Budget Bill, which has been produced by the newlyrevived Organization of Management and Planning, offers no explicit conceptual framework within which the budget is formulated, nor is it based on any "planning" for the economy. . . . It also does not begin with a discussion of the nation's economic development pre-requisites nor give any indication of its trajectories.

"The key concept behind the budget is a twisted "neoliberal" model. . . . The proponents of the neoliberal economic policy support extensive economic liberalization, free trade, and reductions in government spending in order to enhance the role of the free market, individual and private sectors in the economy" [1].

The priorities of the budget bill are so warped and irrational that they tend to harm both the supply and demand sides of the economy. On the supply-side,

"[T]he budget neglects the productive sectors, infrastructure and the environment. Development funds have been increased by a nominal 16 percent; in real terms that will mean a reduction. Agriculture receives an increase, but its share is minimal relative to the sector's need. Manufacturing remains cash-hungry given the tight-money policy and a 22 percent interest rate.

R&D's share in the GNP remains at about 0.06 percent and industry-driven R&D is almost nonexistent. Infrastructure, including transportation and urban development, is equally under-budgeted" [2].

On the demand side, except for health care spending, real or inflation-adjusted funding for most social programs has been cut. Subsidies for housing, education, food, and fuel have been reduced when the inflation rate is accounted for. The budget also fails to devote funds for the repayment of the government's growing debt to the social security and retirement funds.

"The preference for muddling through and preserving the status quo of zero growth is evident in the uses of the budget. Thus, while the supply side of the economy is neglected, the demand side is depressed through the use of contractionary fiscal and monetary policies. The budget also disregards growth-friendly educational, industrial and trade policies while it only gives lip service to construction and infrastructure. Most significantly, the sanctions-crippled Iranian economy needs serious popular mobilization and attention to social justice, but the elite-centered budget is equally oblivious to these requirements" [3].

Since the public sector has traditionally played a major role in the building of the country's industrialization/developmental infrastructures, the Rouhani administration's shirking that responsibility, that is, of drastically reducing public spending on infrastructure building, has significantly contributed to the deepening of economic recession and/or the rising of unemployment.

While in light of the ongoing economic recession, this curtailment of public/social spending is certainly irrational from an objective macroeconomic standpoint (as it would aggravate the recession), it is quite rational from the standpoint of the neoliberal austerity economics, to which Mr. Rouhani and most of his economic team seem to subscribe. According to neoliberal school of economic thought, a recession must be created in order to (a) fight inflation, and (b) create conditions (in the fashion of an economic shock therapy) for a subsequent economic recovery. Such conditions would include lowering labor cost by heightening unemployment, expanding deregulation of business activities, shrinking the public sector in order to make more room for the private sector, diluting environmental and workplace safety standards, expanding privatization of public property and services, including of education and health services, and the like.

This neoliberal/austerity/supply-side prescription has since the late 1970s and early 1980s replaced the Keynesian/New Deal/Social-Democratic prescription of the previous period of nearly three decades (from mid-1940s to mid-1970s), which often relied on public-sector spending in pursuit of economic recovery. The historic switch from the New Deal to neoliberal economic paradigm took place largely in the 1980s—under the formal stewardship of President Ronald Reagan in the United States and Prime Minister Margaret Thatcher in Great Britain.

The supply-side doctrine, epitomizing the dominance of economic policy-making by big business, has since the 1980s been pursued vigorously in country after country, including now in many European countries. Having thus become the dominant economic strategy in the core capitalist countries, with devastating consequences for the overwhelming majority of the people (the so-called 99%), austerity economics has now arrived in a number of the

less-developed countries, including Iran—a development which catapulted Mr. Rouhani to the seat of the country's presidency as its messenger.

President Rouhani's subscription to neoliberal economic doctrine is evident from his many speeches and statements, as well as from his book, *National Security and Economic System of Iran* [امنیت ملی و نظام اقتصادی ایران]. In his book, Mr. Rouhani deplores Iran's "very oppressive" labor laws to business. He argues that the minimum wage must be slashed and restrictions on the laying off of workers eliminated if Iran's "owners of capital" are to have the "freedom" to create prosperity. "One of the main challenges that employers and our factories face," he writes, "is the existence of labor unions. Workers should be more pliant toward the demands of job-creators" [4].

Not surprisingly, Mr. Rouhani's economic outlook is essentially devoid of any specific development plan or industrialization project as he and most of his economic advisors subscribe to an economic doctrine that frowns upon government intervention in economic affairs—unless such interventions help "pave the way" for unfettered market operations. According to this doctrine, solutions to economic stagnation, poverty and under-development lie in unhindered market mechanism and unreserved integration into world capitalist system. Recessions, joblessness and economic hardship in many less-developed countries are not so much due to economic mismanagement or the nature of global capitalism as they are because of government intervention and/or exclusion from world capitalist markets.

This explains why Mr. Rouhani has made the solution to Iran's economic problems contingent upon a political détente or friendly relations with the United States and its allies. The administration's perception (or delusion) that the mere establishment of relations with the U.S. would serve as a panacea to Iran's economic woes has essentially made Iran's economy hostage to the unforeseeable outcome of its negotiations with the United State and, therefore, hostage to the endless, and increasingly futile, nuclear negotiations.

This also explains Mr. Rouhani's and his nuclear negotiators' dilemma: they have essentially trapped themselves into an illusion, the illusion that a combination of charm offensives, smiley faces and diplomatic niceties would suffice to change imperialist policies toward Iran. In reality, however, the U.S. policy toward Iran (or any other country, for that matter) is based on an agenda—an imperialistic agenda that consists of a series of demands and expectations, not on diplomatic decorum, or the type of language its leaders use.

One would expect that the market uncertainty created by nuclear negotiations may have led Iran's producers of industrial and agricultural products to be eagerly looking forward to a breakthrough in the negotiations and a lifting of the brutal sanctions against their economy. My discussions with a number of manufacturers and farmers revealed, however, that while they certainly suffer from the oppressive economic sanctions, they are also concerned that, in light of President Rouhani's neoliberal free trade policies, a relief from sanctions that may result from such a breakthrough may, in fact, end up driving them out of business by further opening the domestic market to an unbridled deluge of foreign products.

For example, Mahmoud Sedaqat, vice president of the Association of UPVC Window & Door Profiles Manufacturers, bitterly complained that while domestic production capacity of this petrochemical is more than twice as much as domestic needs, the government recently reduced import tariffs for this product from 30% to 15%, thereby paving the way for the

substitution of imports for domestic products. Sedaqat further pointed out that government's careless trade policy and a lack of protection for domestic producers has led to an atmosphere of confusion and uncertainty among domestic producers, which is contributing to further aggravation of the ongoing economic stagnation [5].

Mohammed Reza A'le Sara, a representative of domestic producers of automobile tires, likewise complained about a glaring lack of protection of his industry against the unrestrained imports of similar, indeed substitutable, products from abroad. A'le Sara also pointed out that, despite the comparable quality of domestically-produced tires, 50% of domestic demand is currently supplied by imports. A careful or calculated government support for domestic producers, he further argued, could gradually but certainly make Iran self-sufficient in this industry [6].

Mohammed Serfi, an economics analyst, recently pointed out that the degree of import-substitution in Iran could be as high as 70%; meaning that as much as 70% of Iran's imports could be substituted by domestically produced goods. Yet, due to the Rouhani administration's warped open-door/free-trade policy, the crucially important industrialization strategy of import-substitution—pursued by all the currently more developed countries at earlier stages of their development—is ignored. [7].

Complaining about the administration's lack of an economic strategy, Gholam-Hosein Shafei, Chairman of Iran's Chamber of Commerce, also argued that while relief from economic sanctions is obviously necessary it is not sufficient; perhaps more importantly are government-championed macroeconomic objectives and carefully-guided ways or plans to achieve those objectives. In the absence of clearly defined economic objectives and the concomitant strategies of import-substitution and export-promotion, Shafei reasoned, Iran could become a heaven for foreign producers while many of domestic producers would be driven out of business.

Under President Rouhani, farmers have suffered even more than manufacturers. Since he was elected nearly two years ago, his administration has raised the energy/utilities bill by anywhere between 50% and 80%. This has drastically heightened the cost of agricultural production, as it has of industrial production. Additionally, the government has in recent years changed both the provision and distribution structure of fertilizers, increasingly shifting those responsibilities from the public to the private sector. This has further added to the cost of production. The government has also failed to establish a meaningful policy of crop insurance or financial assistance in the face of various natural disasters such as floods, drought and other climate fluctuations. Combined with the administration's misguided free trade policy, which has greatly facilitated the import of many agricultural products, these ill-advised policies have effectively driven many farmers out of business, thereby plunging the agricultural sector into a deep recession.

Prior to the Rouhani administration's pursuit of neoliberal economic policies, Iran viewed economic sanctions as an (unsolicited) opportunity to become self-reliant: to rely on domestic talents and resources in order to become self-sufficient by producing as many of the consumer goods and other industrial products as possible. And it did, indeed, made considerable progress in scientific research, technological know-how and manufacturing industries.

For example, prior to the recent rise of neoliberal economic policies, which have greatly

undermined Iran's manufacturing and agricultural capabilities, Iran had become self-sufficient in producing many of its industrial products such as home and electric appliances (television sets, washers and dryers, refrigerators, washing machines, and the like), textiles, leather products, pharmaceuticals, agricultural products, processed food, and beverage products (including refined sugar and vegetable oil). The country had also made considerable progress in manufacturing steel, copper products, paper, rubber products, telecommunications equipment, cement, and industrial machinery.

None of the oppressive economic sanctions in retaliation for the 1979 revolution deterred Iran from forging ahead with its economic development and industrialization plans. The Rouhani administration's misguided and haphazard switch from that tradition of inward-looking strategy of self-relying economic development to the ill-conceived outward-looking strategy has thrown tens of thousands of small and medium-sized industrial and agricultural producers into a market atmosphere of confusion and uncertainty. As has already been pointed out, the uncertainty stems from two major sources: (1) a glaring lack of protection of domestic producers against the more competitive foreign producers, and (2) a regrettable linkage or tying of any macroeconomic policy to the unending, unpredictable and, ultimately, futile results of the nuclear negotiations.

The inordinately high priority given to the dubious nuclear negotiations, which has sadly taken most of the Rouhani administration's time and energy at the expense of everything else, has placed the urgently needed macroeconomic policies on hold. The sooner such unduly delayed policies are delinked from the fraudulent imperialist game of nuclear negotiations the better.

More fundamentally, the sooner the nuclear talks are seen (or acknowledged) for what they really are—a pretext or a ploy on the part of the US and its allies, both inside and outside Iran, to adapt the country into another “client state”—and dealt with accordingly, the better. So far, Iran's negotiating team has successfully concealed many of the gratuitous concessions they have made during the negotiations—essentially suspending the nation's hard-earned nuclear science and technology while having gained no meaningful relief from sanctions—from the Iranian people. Whether they will succeed in continuing to sell a fraudulent deal to the Iranian people, or whether they may face a harsh backlash when the people learn of the deceitful nature or substance of the deal remains to be seen.

*Ismael Hossein-zadeh is Professor Emeritus of Economics (Drake University). He is the author of [Beyond Mainstream Explanations of the Financial Crisis](#) (Routledge 2014), [The Political Economy of U.S. Militarism](#) (Palgrave-Macmillan 2007), and the [Soviet Non-capitalist Development: The Case of Nasser's Egypt](#) (Praeger Publishers 1989). He is also a contributor to [Hopeless: Barack Obama and the Politics of Illusion](#).*

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