

Stagflation in Iran: Why President Rouhani's Neoliberal "Economic Package" is Empty

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Tired of the oppressive financial hardship, wrought largely by the imperialist economic war against Iran, the Iranian people elected Hassan Rouhani president (June 2013) as he promised economic revival. He premised his pledge of economic recovery mainly on his alleged ability to bring the brutal sanctions against Iran to an end and integrate the Iranian economy into world capitalist system. His promise of removing or alleviating sanctions, however, seems to have been based on an optimistic perception that a combination of the so-called charm offensive and far-reaching compromises over Iran's nuclear technology would suffice to alter the Western powers' sanctions policy against Iran.

More than a year later, while Iran's peaceful nuclear technology is reduced from a fairly advanced to a relatively primitive level (from 20% to below 5% uranium enrichment), critical sanctions remain in place and economic recovery remains a dream.

To mitigate the oppressive burden of the so-called stagflation, a combination of stagnation and inflation, the president and his economic team recently crafted an economic package, "Proposed Package to Turn Stagnation to Expansion," which turns out to be disappointingly devoid of any specific guideline or clear policy for economic recovery. Slightly more than 40% of the package is devoted to a withering criticism of economic policies of the previous (Ahmadinejad's) administration, which is not only full of factual falsehoods and distortions but is also dubious on theoretical grounds. The rest of the package consists of a series of vague statements and general descriptions that fall way short of a meaningful economic plan or program.

Reading through the package feels like reading through lecture notes of an academic economist on neoclassical/neoliberal macroeconomic theory, not a policy prescription or an economic agenda. Accordingly, the sentences and, indeed, the entire text of the package make use of an exclusively passive voice (which is characteristic of a theoretical narrative, or a self-protective language designed to avoid responsibility for action) instead of an active voice characteristic of a policy agenda to be acted upon. Implicit in the use of the passive voice in the composition of the text of the package is that the subject/agent, or do-er, is market mechanism, not public policy [1].

The purpose of this essay is not to show the emptiness of Mr. Rouhani's economic package, as this is amply established by many other critics of the package [2]. It is rather to show why it is empty, and why this should not come as a surprise to anyone familiar with his economic outlook or philosophy, as reflected, for example, in his book, *National Security and Economic System of Iran* (2010).

Neoliberal Economic Outlook

President Rouhani's economic policy package is devoid of specific development plans or industrialization projects because the president 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, called supply-side or neoliberal economics, 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.

Neoliberal prescriptions that are portrayed as enabling the less-developed countries to harness “benevolent dynamics” of capitalism include: tax breaks for the wealthy and/or big business; privatization of public sector assets, enterprises and services; undermining labor unions and minimizing workers' wages and benefits; eliminating or diluting environmental and workplace safety standards; deregulating markets; opening of the domestic market to unrestricted foreign investment/trade; and the like.

The claim that President Rouhani is a proponent of neoliberal economics is no speculation; it follows from his many speeches and statements, from his recently proposed “economic package” to fight stagflation and, as mentioned earlier, from his book, *National Security and Economic System of Iran* [جمهوری اسلامی ایران و نظام اقتصادی آن]. It is also evident from his policy prescriptions.

The president's book deplores Iran's “very oppressive” labor laws. It 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,” Rouhani writes, “is the existence of labor unions. Workers should be more pliant toward the demands of job-creators” [3].

Mr. Rouhani's book also sheds important light on the link between his administration's turn toward Washington and its plans to restructure the Iranian economy after the model of neoliberalism:

“There is a close correlation between economic development and political stability, which means maintaining dialogue and friendly relations with the outside world. As stable international relations paves the grounds for economic development, economic development, in turn, makes a country more secure or stable as it makes the country less vulnerable to external threats. Thus, there is a positive correlation, akin to a virtuous cycle, between the goal of economic development and the policy of establishing or maintaining friendly relations with the outside world” [4].

This passage (among many similar statements the president has made on numerous occasions) explains why Mr. Rouhani has made the solution to Iran's economic problems contingent upon political détente or friendly relations with the United States and its allies. In general, there is of course nothing wrong with the desire to establish friendly relations with the U.S., or any other country for that matter; it could, indeed, be of mutual benefits if it is based on mutual respect for national sovereignty of countries involved. The problem with the Rouhani administration's pursuit of an amicable relationship with the U.S., however, is

that it has tied the urgently needed solutions to Iran's economic difficulties to that unpredictable and unreliable relationship.

The administration's misguided perception that the mere establishment of relations with the U.S. would serve as a panacea to Iran's economic woes has basically made the fate of Iran's economy hostage to the unforeseeable outcome of its negotiations with the United States and, therefore, hostage to the endless, and increasingly futile, nuclear negotiations with the group of the so-called 5+1 countries, dominated by the United States.

This explains Mr. Rouhani's dilemma: he has essentially trapped himself into an illusion, the illusion that a combination of charm offensives, smiley faces and diplomatic niceties (in place of Ahmadinejad's undiplomatic demeanor) 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.

President Rouhani's neoliberal economic views are abundantly evident from his occasional statements and speeches on economic policy. For example, in a 16 August 2014 (25 Mordad 1393, Iranian calendar) speech in Tehran, designed to explain his administration's policies to fight economic stagnation, the president fervently maintained that state intervention in economic affairs is often more detrimental than beneficial, arguing that: > - needs to be paraphrased) ledent ionns inistration'ions wiht is that itmic developmment de world. As economic development can "the state must stay out of economic activities, and place those activities at the disposal of the private sector The private sector understands the economy much better, and it knows where to invest" [5]. (Incidentally, this statement is uncannily similar to what President Ronald Reagan famously said about the economic role of the government: "The government can help the economy by staying out of it.")

The neoliberal policies of the Rouhani administration are, however, best reflected in the actual economic measures the administration has adopted. One such measure has been drastic reductions in a number of import duties, or tariffs, including reduction of tariffs on imports that have competitive domestic substitutes. For example, Mr. Mahmoud Sedaqat, vice president of the Association of UPVC Window & Door Profiles Manufacturers, recently complained (during a news briefing in Tehran) that while domestic production capacity of this petrochemical is more than twice as much as domestic needs, the government reduced import tariffs for this product from 30% to 15%. Mr. 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 [6].

Another example of the neoliberal policies of the Rouhani administration is its policy of fighting inflation. According to the president and his economic advisors, government spending and/or excessive money supply are the major cause for the hyperinflation in Iran. This view of inflation is based on the notorious IMF diagnosis for the plague of inflation not only in Iran but almost everywhere in the world. The essence of this approach to inflation, which is part of the IMF's so-called "Structural Adjustment Program," can be summarized as follows: (1) excessive government spending contributes to the growth of money supply; (2) growth of money supply automatically leads to inflation; and (3) to control inflation, therefore, requires rolling back government spending, or implementing austerity measures.

Real economic world is of course very different from this purely academic, nearly mechanical, correlation. An often-cited case in this context is the German experience of the immediate post-WW II period. Evidence shows that while the volume of cash and demand deposits rose 2.4 times and the volume of bank loans, both short and long term, rose more than ten-fold in the 1948-54 period, this significant rise in liquidity not only did not lead to a rise in the level of prices but it was, in fact, accompanied by a decline in the general level of prices—the consumer price index declined from 112 to 110 during that period. Why? Because the increase in liquidity was accompanied by an even bigger increase in output. While anecdotal, this experience nonetheless shows that, if or when used productively, a large money supply does not automatically lead to high inflation.

While it is true that, under certain circumstances, excess liquidity can be inflationary, I also strongly suspect that the inflationary role of liquidity is often exaggerated in order to justify and implement the anti-welfare, neoliberal policies of economic austerity. To the extent that curtailment of social spending may lead to curtailment of inflation, it also leads to curtailment of employment, purchasing power, demand and, therefore, economic growth, i.e. to stagnation—a side effect which is much worse than the plague of inflation. This explains, at least in part, the failure of the Rouhani administration's neoliberal fight against inflation: not only has it not curtailed inflation, it has also aggravated stagnation by cutting social spending and undermining demand.

Like their neoliberal counterparts elsewhere, Iranian neoliberals view government spending as a cost that must be minimized. In reality, however, judicious government spending (whether on soft/social infrastructure such as education, health and nutrition or on physical infrastructure such as transportation and communication projects) is an investment in the long-term development of a society, not a cost. It is not surprising, then, that the IMF-sponsored curtailment of government spending in pursuit of lowering inflation has often led to economic stagnation and underdevelopment.

One of the first victims of the neoliberal economic policies of the Rouhani administration was the government-sponsored housing project that was put in place by the previous administration in order to make home-ownership affordable to working and low-income classes. Called *Maskan-e Mehr* (Goodwill Housing), not only did it allow 4.4 million low-income families to become homeowners, it also significantly contributed to economic growth and employment. Despite its success, the Rouhani administration has decided to discontinue the project.

Class Interests as Economic Theory

Neoliberalism is essentially an ideology or doctrine that is designed to promote and/or justify policies of economic austerity, thereby serving the interests of the plutocratic 1% at the expense of the overwhelming majority of citizens. This is accomplished through an ad-hoc, utilitarian economic theory that postulates that unhindered market mechanism and unrestricted pursuit of self-interest lead to economic expansion and prosperity for all, that state-sponsored social safety-net programs are “burdens” or “costly trade-offs” in terms of lost productivity and that, therefore, government intervention in economic affairs must be avoided.

This neoliberal ideology is promoted and propagated so effectively that it has evolved, more or less, like a religion, market religion—or as Alex Andrews of *The Guardian* newspaper puts it, “the market a god and economics a form of theology.” Indeed, the faith in market

mechanism is more akin to blind cultism than rational belief of intelligent people in otherworldly religion. Viewing market mechanism as almost infallible and blaming capitalism's systemic failures on the "irrational behavior of market players" is tantamount to some simplistic interpretations of religion that attribute humans' misfortunes or miseries to their deviations from God's ways; that is, in the same way that humans' "sinful" deeds are said to condemn them to a wretched Otherworld, economic agents' deviations from market rules are believed to lead to economic crises that would doom them to financial misery in this world.

Cleverly, this theory is called supply-side economics, implying that economic policy makers should not or need not concern themselves with the demand-side of the economy, that is, with the purchasing power or the ability of the people to buy or demand. Instead, if policy makers only focused on the production side of the economy and created conditions favorable to expanded growth or a bigger supply, the resulting "trickle-down" effects would automatically benefit the demand-side of the economy. And what are those favorable conditions? They include market deregulations, lax labor and environmental standards, supply-side tax breaks, minimizing wages and benefits, removal of restrictions on international capital flows, long hours and subjection of labor to strict management discipline, denial of trade union rights and suppression of workers' political actions, and the like.

The division or dichotomy between supply-side and demand-side of an economy is, however, a scam: an artificial, utilitarian and arbitrary division that is crafted largely on abstract theoretical grounds, and for ideological reasons. A real world economy is a totality where supply and demand are two sides of the same coin, meaning that the two sides need to be dealt with simultaneously. For example, the need for health care coverage, the critical necessity of public education, or social safety need programs such as provision of subsistence nutrition for the needy cannot be neglected or put on the backburner in the hope of some illusory effects of "trickle-down" economics. Supply side is a façade, a misleading or obfuscationist theory that is designed to camouflage the neoliberal philosophy of social Darwinism.

The experience of the IMF-sponsored "structural adjustment programs" in many "developing" countries around the world shows that curtailing critical social spending in the name of boosting the supply-side of the economy is a counterproductive policy that tends to undermine long-term growth and development by cutting vital investment in both social and physical infrastructures. This can also be seen, even more clearly, in the context of the crisis-ridden core capitalist countries since the 2008 financial collapse, where extensive neoliberal austerity cuts have resulted in widespread misery and escalating inequality without reviving the stagnant economies of these countries.

While the supply-side doctrine has a long history (going back all the way to the classical economist Jean-Baptiste Say, 1767-1832, who famously expressed the doctrine as: "supply creates its own demand"), its latest revival started in the late 1970s and early 1980s in the U.S. and U.K., which brought forth two of its most effective propagandists: Ronald Reagan and Margaret Thatcher. It has since been systematically entrenched not only in the core capitalist countries but also in many less-developed countries, including Iran.

In Iran, the turn to neoliberal economics started under the presidency of Hashemi Rafsanjani. It was somewhat contained under the presidency of Mahmud Ahmadinejad (although he too had his share of extensive privatizations); but with the election of President

Rouhani it is once again gathering speed—Rouhani is basically picking up where Rafsanjani left off.

To point out that President Rouhani and most of his economic advisors are advocates of neoliberal economics is not to say that they lack compassion, or that they do not care about the lot of the working and needy classes. It is rather to point out that their policy prescription to remedy the financial distress that plagues the overwhelming majority of the Iranian people is misguided. It rests upon the idea of capitalism as a benign sphere of human activity where innovating entrepreneurs generate wealth to such an extent that some of it is bound to “trickle-down” to the population at large.

It is necessary to point out here that trickle-down theory may have had some validity in the earlier (industrial or manufacturing) stages of capitalism where the rise in the wealth of nations also meant expanded (real) production and the rise in employment. However, in the era of heavily financialized economies, where the dominant form of capitalist wealth comes not so much from real production of goods and services as it does from asset price inflations, that is, from financial bubbles, trickle-down theory has lost whatever minimal validity it may have had at earlier phases of capitalism.

Illusion and Misconceptions

President Rouhani’s (and most of his economic advisors’) perception that the solution to Iran’s economic problems lies in an unrestrained integration into world capitalism and a wholesale privatization of the Iranian economy is overly optimistic. Abundant and irrefutable evidence shows that, during the past several decades, neoliberalism’s dismantlement of socialist, social-democratic and other welfare state economies across the world has invariably led to drastic declines in employment, wages and living standards of the overwhelming majority of the people, thereby further aggravating poverty and inequality on a global level. In many “developing” countries that are integrated into globalized neoliberal capitalism, the living conditions of the majority of their citizens have, in fact, deteriorated. To the extent that workers can find employment, they are often paid poverty wages; and they are increasingly forced to hold several jobs, often detrimental to their health and family life. As Ben Selwyn (among many others) has pointed out:

“The contemporary world has unprecedented wealth, and mass poverty. Total global wealth was \$241 trillion in 2013 and is expected to rise to \$334 trillion by 2018. Yet the majority of people live in poverty. The World Bank and its defenders argue that global poverty has declined under neoliberalism. They can only make these arguments because the World Bank defines the poverty line as \$1.25 a day, below which it is impossible to lead a dignified life. . . . Lant Pritchett, a critical World Bank economist, suggests a more humane \$10 a day poverty line; according to his calculations, 88% of the world population lives in poverty” [7].

Summarizing his study of the relationship between globalization of neoliberalism and its impact on the living conditions of the worldwide masses of citizens, Selwyn concludes: “Far from a ladder of opportunity, workers in globalized production networks are incorporated into economic systems that reproduce their poverty to sustain corporation profits” [8].

Contrary to claims of neoliberalism, major economic developments, critical infrastructural projects and significant industrialization achievements under capitalism have been made possible either directly by the public sector or by the state support for the private sector. For example, in the aftermath of the Great Depression and WW II, most European countries

embarked on extensive state-sponsored industrialization and/or development projects under social-democratic, labor or socialist governments, not so much to bring about “genuine” socialism as it was to rebuild the war-torn European economies by mobilizing and pulling together national resources and funneling them toward development projects. Similar policies were successfully carried out in other major capitalist countries such as the U.S., Canada, Japan, Australia and South Korea.

In Iran too most industrialization projects and infrastructural developments since the 1979 revolution have taken place under direct or supervisory role of the state—when the country relied on its domestic talents, resources, and capabilities in pursuit of self-reliance in the face of hostile imperialist powers and their cruel economic sanctions. Such developments were brought about even under the highly inauspicious conditions of the war, the 8-year war with Saddam Hussein’s Iraq, and brutal economic sanctions. By contrast, extensive privatizations and systematic spread of neoliberal capitalism of recent years, especially since the election of President Rouhani, has basically meant stagnation of the real sector and development of speculative, parasitic or financial sector of the economy.

Evidence shows that, at the early or formative stages of their development, all the presently industrialized countries vigorously carried out policies of export promotion and import substitution; that is, policies that protected their “infant industries” against the more competitive foreign exporters while promoting their own exports abroad. For example, Britain’s adoption of mercantilist and/or protectionist policies of economic development in the early stages of its industrialization, which erected prohibitive tariffs against the then more competitive Dutch exporters, played a significant role in nurturing the country’s manufacturers to excel in global markets.

Likewise, the United States pursued vigorous policies of protecting its “infant industries” against the more productive European exporters until the early to mid-twentieth century, when its producers became competitive in global markets. Similar protectionist policies were followed by Japan, South Korea and other core capitalist countries in the formative phases of their industrialization and development [9].

Thus, the neoliberal outlook of President Rouhani (and most of his economic advisors) that ties solutions to Iran’s economic difficulties to integration of the country’s economy into global capitalism and further curtailment of the economic role of the government is far from warranted; it is, indeed, contradicted by development experiences of most countries around the world.

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Notes

[1] The Farsi title of the proposed package is: “بسته پیشنهادی دولت برای شکستن رکود و رونق اقتصادی,” and it is available online at: < <http://mehrnews.com/detail/news/2331200>>.

[2] For a sample of critical reviews of the Rouhani administration’s proposed economic package see (1) Ahmad Tavakoli and Elias Naderan, “مدل بسته خروج از رکود نسخه شکست خورده صندوق بین‌المللی پول,”

است," in: < <http://www.siasatrooz.ir/vdcefe8v.jh8vvi9bbj.html>>; (2) Farshad Moumeni, "نقدهای هشدار," in: <<http://www.rajanews.com/detail.asp?id=207214>>; (3) Raja News, "رویکرد نادرست دولت در گره زدن معیشت مردم با رفع تحریم‌ها," in: <http://www.rajanews.com/detail.asp?id=194863>; (4) Hossein Shamsyan, "بسته پوسیده," in: <<http://kayhan.ir/fa/news/20766/%D8%A8%D8%B3%D8%AA%D9%87-%D9%BE%D9%88%D8%B3%DB%8C%D8%AF%D9%87-%DB%8C%D8%A7%D8%AF%D8%AF%D8%A7%D8%B4%D8%AA-%D8%B1%D9%88%D8%B2>>.

[3] As excerpted by Keith Jones, "Iranian president declares country 'open for business'," in <<http://www.wsws.org/en/articles/2014/01/27/iran-j27.html>>.

[4] (Paraphrased) translation by the author from the abstract/introduction to the first edition of President Rouhani's book, *National Security and Economic System of Iran* [ایران و نظام امنیتی و اقتصادی] (2010) [ایران و نظام امنیتی و اقتصادی].

[5] "Rouhani Explains Anti-Stagnation Economic Policies," available at: <<http://www.farsnews.com/newstext.php?nn=13930519000461>>.

[6] Mahmood Sedaqat, "کاهش تعرفه پروفیل «بویوی‌سی» ضربه دولت به تولید داخلی است," *Kayhan*, Mordad 25, 1393 (August 16, 2014).

[7] Ben Selwyn, "Global Poverty and Neoliberalism: Development by the Elites, For the Elites," <<http://www.counterpunch.org/2014/03/07/development-by-the-elites-for-the-elites/>>.

[8] Ibid.

[9] For an illuminating discussion of the impact of trade on development see Professor Michael Hudson's *Trade, Development and Foreign Debt*, Pluto Press 1993.

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