Political Economy of Iran:

Institutions versus Culture

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ABSTRACT

The Iranian revolution of 1979 is widely acknowledged as an event of world-historic significance with great empirical and theoretical implications. After almost four decades, there are still wide disagreements on its causes and consequences. The endurance and increasing power and influence of its most important institution, the state of the Islamic Republic of Iran, in the face of open internal and external coercion and violence is a political success story. But, declining per capita national income, continued dependence on oil revenues, and inefficient public finance and tax structure, all indicate an opposite direction economically. This thesis is an analysis of post-1979 revolution of the Iranian political economy, critically engaging the conceptual framework developed in North et al. (2009). The framework, a theoretical conceptualization of dynamic institutional change, focused on violence, beliefs, institutions and social orders, allows for investigation of the contextual and historical factors influencing and shaping post-revolution institutional changes in Iran. This study highlights not only the importance of endogenous institutional framework underlying political and economic developments, but also the critical role of exogenous factors, underplayed by the conceptual framework. It is an attempt to demonstrate that institutional frameworks viewed as cultural heritage are the outcomes of historical interplay of internal institutional frameworks and external environment in an uncertain non-ergodic world. Not only their origins, changes, and persistence are shaped and influenced by beliefs and ideas, but also their performances shape, change and sustain beliefs and ideas as well.

CONTENTS

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AUTHOR'S DECLARATION

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this or any other university. All sources, except the interviewees of my fieldwork, are acknowledged as References. As I was not authorized to identify the sources of data collected as part of my fieldwork in interviews with seven current and ex officials of the Iranian government in the course of my work, I have used them rarely and only as additional supporting evidences. They are placed in "quotation marks" followed by the word interview in parenthesis (interview). It should, however, be noted that the quotations from these sources are translations of my notes in Farsi (Persian) taken during the interviews.

INTRODUCTION

The stark contrast of the political and economic conditions in Iran before and after its revolution of 1979 is a serious academic puzzle yet to be studied. The historical picture shows a regime with powerful military, security and intelligence apparatus supported by at least two decades of unprecedented economic growth funded by surging oil prices completely disintegrating in the face of rising popular opposition in the course of a year (1978-79). It was replaced by a regime, led by a senior Shi'ite clergy and claiming to be an Islamic Republic, that in the last four decades has risen to the status of a genuine regional political and military power despite constantly fluctuating and generally declining economic conditions, falling cheap oil prices, an eight year war and continued open and implicit external violence and coercion.

The rise of religious and revolutionary movements, an eight year conventional war, armed conflicts, the use of chemical weapons for the first time after the WW1, the second oil shock, renewed attention to development of nuclear and renewable energies, new proxy wars and extensive social, political and economic changes across the Middle East and North Africa are just some direct and indirect consequences of and reactions to this event supporting the importance of this research. An understanding of post 1979 Islamic Republic of Iran political economy would help to understand potential trajectory of future events both in Iran and many societies of the Middle East. Furthermore, participation of different groups of people from all walks of life in the revolution process and post revolution developments (*e.g.* the Iran-Iraq war, repeated and frequent elections) displays a different logic of collective action

from that of a pure economic explanation of human behaviour as posed by the *Homo Economicus* assumption of the neoclassical economics and the "free rider" dilemma. An understanding of this can contribute to developing theories of politics and economics more reflective of human behaviour in the real world.

This thesis is a case study of post-1979 revolution of the Iranian political economy, critically engaging the conceptual framework developed in North et al. (2009). The framework, a theoretical conceptualization of dynamic institutional change, focusing on (reduction of) violence, beliefs, institutions and social orders, allows for investigation of the contextual and historical factors influencing and shaping post-1979 revolution institutional changes in Iran. This study highlights not only the importance of endogenous institutional framework underlying political and economic developments, but also the critical role of exogenous factors, underplayed in the conceptual framework. Applying a reformed model of rent distribution pattern among the powerful elites with violence capacity in the two existing Social Orders typology of the conceptual framework to Iran, this research attempts to show that the post-1979 revolution political economy in Iran has been a process of renegotiating the pattern of rent distribution between old and new internal and external members of the dominant ruling coalition in the country. Considering the unstable external intellectual, political and economic environment of the country due to factors paving the victory of the Iranian Revolution of 1979 and the Revolution's deep strategic, political and economic implications for the Middle East and across the world, the political economy of Iran will remain an unstable fluctuating project till settlement of the larger environmental issues. In other

words the Islamic Republic of Iran will remain a “work in progress” until such time that active claimants and contenders of the rent share in Iran either come to an agreement with shares larger than the potential benefits ripped from violence/coercion or alternatively one or more group overwhelms the others.

As the conceptual framework is built on rejecting the behavioural assumption of individual wealth maximization of the static neoclassical economics and instead adopting a concept and definition of political economy in the classical tradition in which “institutions and organizations matter” and economic organization depends on more fundamental social and political institutions and organization an understanding of the concepts used and developed in the framework is geared to an understanding of the meaning and sense of the terms used, including the very term of political economy, in this tradition. Therefore, before starting an overview of the methodology used in this research a quick review of the tradition is necessary.

Political Economy, broadly speaking, is the study of the relationship between politics and economics. Depending on how politics and economics are defined, and if and how they are related, different sets of propositions are generated. Thus the nature and scope of the discipline since its inception has been a matter of contention leading to different schools of thought or ideologies (King, 1948) (Gilpin and Gilpin, 1987, p. 25) (Schumpeter, 2006, pp. 19-20).

For Adam Smith, political economy was “a branch of the science of a statesman or legislator” with two distinctive objectives “to provide a plentiful revenue or subsistence for the people”, and “to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people

and the sovereign" (Smith, 1776a, p. 375). The great object of political economy of every country, Smith suggests, "is to increase the riches and power of that country" (Smith, 1776a, p. 333).

By attributing a "certain" universal "propensity to truck, barter, and exchange one thing for another to a self-interested human nature who "only for the sake of profit employs a capital in the support of industry" (Smith, 1776a, pp. 12, 400), Smith conveys an image of the economic order organized around voluntary and free exchange of goods at their market exchangeable value. This egoist pursuit of individual interests is then aggregated at the higher level of society by an "invisible hand" (Smith, 1776a, p. 400) in perfect harmony with the Newtonian laws of nature, and the idea of "natural order" (Geertz, 1973, p. 34) and "natural liberty" (Buchanan, 1976) (Campbell, 1977) of the French Physiocrats, *i.e.* "to do what one likes with his property" (Viner, 1927) (Neill, 1949, p. 538). The "Physiocrats optimistically believed they have discovered a science and a method which would usher in the perfect society within a relatively short time" (Neill, 1949, p. 542). That "science and method" was political economy (Higgs, 1897, p. 3).

Smith (1776b) argued that in this world of natural economic order, all systems of "preference or restraints" are counter-productive and self-defeating, leading to establishment of the "obvious and simple system of natural liberty", which "discharges the sovereign from . . . the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society" (p.180). Being discharged from intervening in economic activities of individuals by the system of natural liberty, the sovereign will have

only three duties to attend: “protecting the society from the violence and invasion of other independent societies”; “protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it”, or “ establishing an exact administration of justice”; and, “erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals” (p.181). In this way politics and economics in the political economy of Adam Smith are separated. The only remaining connection is transfer of part of the economic revenue (surplus) to the sovereign to cover its expenses for the proper performance of its duties. Thus, for Adam Smith and his followers a minimal state with limited duties of provision of public security and administration of justice allowing the system of natural liberty to do its economic work is the system of political economy that would lead to increasing the wealth of nations. He is quoted as saying “Little else is required to carry a state to the highest degree of affluence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things” (Rae, 1895, p. 62). But, human interventions and institutions had diverted the natural course of things.

Within this broad context of “natural progress of opulence” Smith (1776a, pp. 336-340) argued human institutions occasioned considerable variations in the progress of opulence in different ages and nations. “Had human institutions never disturbed the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement and cultivation of the territory or country”,

because according to the natural course of things “the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce”. But this natural course of things “has, in all the modern states of Europe, been in many respects entirely inverted”. Rather than being driven by improvements in agriculture, “manufactures and foreign commerce together have given birth to the principal improvements in agriculture”.

In other words the increasingly rising opulence and wealth of the modern European states was the outcome of an “unnatural and retrograde order” which the surviving “manners and customs”, introduced by their original government, imposed on them (Smith, 1776a, p. 340). The central argument advanced is that “capital accumulation” as the heart of the “modern system of commerce” established in some European states and particularly in England and Great Britain is the unintended and “unnatural” system of political economy established by the specific “manners and customs” of Europe, different from the “natural order of things” in the agricultural system of political economy (Smith, 1776a, p. 375) in Asia and other parts of the world where agriculture is the driving force of economy. In the former, a larger proportion of the annual produce of land and labour of the country, “the real wealth and revenue of all its inhabitants” is allocated to replenishing and adding to “capital” while in the latter the greater parts are consumed as revenue. “Where capital predominates, industry prevails; where revenue, idleness” (Smith, 1776a, p. 301). Different “manners and customs”, or what some refer to as “institutions” (Immergut,

2011) (North, 1991) (Hodgson, 2006), are the main explanatory variable (s) of divergent progression of opulence or the wealth of nations.

But this progressive self-sustaining individual interest-centered economic order subsequently referred to as "market economy", and its associated benign collective security and individual rights protector political organization was soon contested and in some cases fundamentally contradicted amidst great political and economic transformations during and after the American and French Revolutions in late 18th century.

Godwin (1812) disputed the benign nature of the government and claimed man seeks happiness rather than interest, and government rather than suppressing injustice and violence "embody and perpetuate it". Evaluating institutions established for perpetuation of certain mode of thinking, or condition of existence as "pernicious", he declared an extreme unequal distribution of property "adverse to the most desirable state of man". For him it was the "improvement of reason" which "we should look for the improvement of our social condition" (pp. XIV-XVI).

Thomas Robert Malthus, "the first Professor of Political Economy in Britain" (Hodgson, 2004), while generally defended Smith's (and the French economists') assumption of the "generous system of perfect liberty" (Malthus, 1798, ftn, pp. 287-288) criticized Smith for failing "to take notice of those instances, where the wealth of a society may increase (according to his definition of wealth) without having any tendency to increase the comforts of the labouring part of it" (Malthus, 1798, pp. 304-310). In other words the "automatic" distribution of the benefits (profit) of economic activities to all

participants, or what is now referred to as “trickle-down theory” (Aghion and Bolton, 1997) (Dabla-Norris et al., 2015, pp. 4, 7), came under question. His “population trap” hypothesis (Malthus, 1798, Ch. II, pp. 106-107 ftn.) seems to have been a defence of Smith’s commerce based progress of opulence against the early Physiocrats and their British advocates who viewed land and agriculture as the real source of wealth (Higgs, 1897, pp. 26-34) (Meek, 1951) (Spence, 1808) (Spence, 1807). Furthermore, by describing “the rules which ought to guide the political economists in the definition and use of their terms” Malthus (1826) attempted to refine the scope and subject of the new discipline and reduce “differences of opinion among political economists” resulting from “different meanings in which the same terms have been used by different writers” (Malthus, 1826, Preface). The definition he offered for “sources of wealth” reflected both the state of the discipline and the major transformation the British economy was undergoing at the time. He identified “land, labour, and capital” as the sources of wealth, but added the explanation that “the two original sources are land and labour; but the aid which labour receives from capital is applied so very early, and is so very necessary in the production of wealth, that it may be considered as a third source” (Malthus, 1826, pp. 235-236).

Taking up the same definition of the source of wealth, David Ricardo suggested that the principal problem in political economy is “to determine the laws which regulate” the distribution of “all produce of earth among three classes of the community; namely the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is

cultivated" (Ricardo, 1817, Preface). In other words the major task of political economy was reduced to a search for laws of dividing the annual production of society as rents, profit and wages between the three classes of society. However as he believed the weight of each factor changed in different "stages of society", the proportions accrued to each class should also change (Ricardo, 1817, p. III). This definition reduced the process of wealth creation to a purely economic activity of production and division of its products between the three classes involved, excluding the initial distribution of wealth. It not only designated capital as one source of wealth, but the one to which "profit" or the added value in the course of production accrued. In his system of political economy capital replaced labour both as the source of value, as Smith suggested (Smith, 1776a, p. 294), and as the source of appropriation of property according to Locke (1722, p. 166). Capital became the central criterion of wealth, the increase and decrease of which respectively reflected the progression and regression of opulence. Therefore, he advised, government should avoid taxing capital since it leads to the destruction of the economy and country (Ricardo, 1817, pp. 187-188).

Ricardo also formulated a theory of "comparative advantage" which became the theoretical drive and justification for a "specialized division of labour" and "free trade" in international trade. Countries were encouraged to concentrate on production of commodities in which they had economic "advantage" and import goods and commodities in which they lacked such advantage from other countries (Ricardo, 1817, pp. 156-162). The obvious implication was that countries with "advantage" in agriculture should focus on producing the

agricultural (raw) products for export and import manufactured goods from the very limited number of "industrialized" ones with the relevant "comparative advantage" (Martyn, 1977, p. 105).

In the height of the Industrial Revolution (1780-1840) in Britain and a number of other European countries (Komlos, 2000) (Wrigley, 1972) (Mokyr, 1999) by mid nineteenth century[1], the establishment of the new industrial centers and implementation of new industrial and labour relations and the associated social and political unrests (Archer, 2000), the system of classical political economy came under attack. Rather than a system of political economy, Karl Marx offered a critique of the system of political economy. In the works published by Marx and his colleague, Frederick Engels, not only the fundamental assumptions and methodology of the prominent political economists were challenged, but many other disciplines, including sociology, anthropology and a materialist philosophy of history, were brought into the discussion to present a

[1] The controversy about the nature of this event, suitability of its name and its exact dates of beginning and end is ignored here. The relevant issue here is that it was considered the process by which sustained and even increasing rate of economic growth could be achieved and thus to escape from the "Malthusian population trap". However, the position assumed here in regard to its implementation and planning is that the former (the original Revolution) was abrupt but the latter (its replica) gradual. A large part of the answers to the questions raised in this controversy relates to the activities of the East India Company across the world and particularly in Indian subcontinent, China, Persia and Ottoman Empire. It is worth noting that the company directly ruled parts of India between the last quarter of eighteenth century and 1858 when the rule was transferred to the Crown. Many of the classical political economists were directly or indirectly associated with this company and its policies.

comprehensive theory of social, political and economic development driven by the forces of history.

The assumption of an abstract individual was questioned and instead man was assumed as a social being, a *zoon politikon*, constituted in social relations reflecting the stage of the historical development of his society (Marx and Engels, 1998, pp. 1-2). Instead of natural order or self-regulating social harmony there was conflict of interests and class domination (Marx and Engels, 1998, pp. 51-53), but the economists attempted, "in an underhand way", to present the social relations of the product of history as "immutable natural laws of society" (Marx and Engels, 1998, p. 4). Politics and the state were all superstructure erected on the structure of economic relations (Marx, 1904, p. 11) perpetuated by law (Marx and Engels, 1998, p. 14) to preserve the interests of the ruling class and in the case of the industrial society, the bourgeoisie (Marx and Engels, 1948, p. 11). Economy, rather than being an organization of production, distribution, exchange and consumption, has to start with the issue of distribution of the means of production and hence the issue of property (Marx and Engels, 1998, pp. 11-13) which divides the society into different classes struggling against each other. While confirming and agreeing with the earlier political economists that the industrial "capitalist society" was an advance in the historical social progression they disagreed with them as to its perpetuity. The liberal individualist political economist considered the capitalist system the highest stage of development in economic organization, but Marx and Engels predicted that there will be yet another stage of social development which will bring the working class to power, through a revolution, that would abolish

private property and would lead human society to its initial status of a classless society (Marx and Engels, 1998, p. 60). For Marx political economy was the "system of bourgeois economy" (Marx, 1904, p. 9) of a more industrially developed society that "only shows, to the less developed the image of its own future" (Marx, 1906, p. 13).

Writing not long after Marx, Jevons (1878) wrote " Political Economy treats of the wealth of nations; it inquires into the causes which make one nation more rich and prosperous than another" (p. 7). As a sign of the impact of the Marxian challenges and the extensive socioeconomic transformation perhaps moving towards directions that Marx had predicted, he was not only using the term "science" in different combinations to refer to Political Economy (pp. 11, 20), but also attempted to explain the "science of wealth" introducing new changes. By defining wealth as "what is transferable, limited in supply and useful" he substituted "useful" for the "long phrase" of "productive of pleasure and preventive of pain" in Nassau Senior's definition of wealth (p. 13) followed by a chapter on utility (pp. 17-24) signaling the coming of neoclassical Economics. Included in his book were a chapter on "Trades-Unions" (p. 61), and separate sections on "The Regulation of Hours" (p. 63) and "The Raising of Wages" (p. 64). Soon after the changes introduced by Jevons, Alfred Marshall (1930 [1890]) simply by dropping the term "Political" made the title of his book *Principles of Economics* formalizing the birth of neoclassical Economics (Marshall and Harrison, 1963) (Skousen, 2007, pp. 112-115) with the claim of being a science using methods close or similar to physical or biological sciences. As the two opposing sides of the political economy debate shared and

promoted this claim of scientificity and use of scientific methods, from there on until almost the third quarter of 20th century, Political Economy as an academic discipline and research methodology almost disappeared.

Methodologically, the major differentiating assumptions were an abstract unidimensional wealth/utility maximizing Man (*Homo Economicus*) and a short term stationary world leading to the usual ending clause of "*other things being equal*" (*Cetris Paribus*) (Marshall, 1930 [1890], 366-369). To apply economic analysis to a dynamic real world in which the sociopolitical environment of economic activities and operations keep changing the non-economic environmental elements, including the institutional and organizational framework within which the economy operates, should be incorporated into the analysis. "The study of long term movements must shift the *onus inquiriendi* to long-term changes in the parameters themselves" (Postan, 1982, pp. 11-12) and "in the long run *everything*, even the natural environment, is subject to change and . . .the parameters themselves are variable" (Cameron, 1982, p. 31). The domination and prevalence of "scientific" economic explanation of social and political phenomena went to such an extent that even the end of ideology was declared (Bell, 2001 [1960]).

The main problem however with the ideology free behavior was that although a wealth or utility maximizing Man assumption could explain the problem of "free ride" it was impotent in explaining many other human behavior either as an individual or in large groups despite no direct economic benefits (*e.g*. voting, large group protests, fighting in wars, etc.). While the dominance of that neoclassical economic explanation in Social Science is referred to as the

"economic turn" (Levi, 2000), the subsequent reaction to and questioning of this border crossing of the natural sciences assumptions and methodology into social science is dubbed the "cultural turn" (Chaney, 1994) (Nash, 2001). The biggest challenges academically were posed in the Philosophy and History of Science focusing on the problem of "induction" and the "verifiability" of scientific theory settling on the new Popperian "falsifiability" condition (Caldwell, 2003 [1982]). Although the methodological debate has been fierce, the neoclassical Economics has survived and even in some aspects has reenergized by adopting some of the changes, including incorporating institutional and organizational factors in economic analysis. One outcome of the methodological debate in Economics, however, has been the revival of Political Economy. The discipline the subject of which had been the wealth of nation and the state or in more recent academic parlance "economic growth" and its sustainability as "economic development", survived under the name of Development Economics or Studies and became the study of "the economic structure and behavior of poor (or less developed) countries" (Chenery and Srinivasan, 1988, p. xi). From the 1980s it began to reemerge under its original or new names like Positive Political Economy (Alt and Shepsle, 1990), New Political Economy (Gamble, 1995) (Besley, 2007) (Lindenberg, 1985) (Leys, 1996a) (Payne, 2006), New Institutional Economics and New Institutionalism (Yeager, 1999) (Chang, 2002) (Chang, 2007) (North, 2001) (North, 1990) (North, 2005) (North et al., 2009) and Political Economy (Basu, 2000) (Nurmi, 2006) (Palan, 2000) (Stubbs and Underhill, 1994) (Frieden and Lake, 2003) (Gilpin, 2001) (Frieden and Martin, 2003) with different extent of relaxation and/or revisions in the assumptions of neoclassical economics. Retaining the *Homo Economicus* assumption of

neoclassical economics by definition means economics is the explanatory factor in political economy and a theory of social change. It is only by relaxing the assumption of an abstract Economic Man and giving a different definition of him and his behaviour that a different Political Economy could be defined and formulated. The Conceptual Framework employed in this thesis is an attempt in that direction.

The conceptual framework developed in North et al. (2009), hereafter referred to as the NWW[2] Framework, is an attempt to develop a dynamic theory of social change in a non ergodic world in the absence of an integrated political economy theory. This is partly in response to the failure of the dominant development theory of the mainstream static neoclassical economic theory, *i.e.* the modernization theory, in many developing and ex-Soviet countries including Iran. It is an attempt to bring in and endogenize non-economic factors in explaining political and economic changes and development. Considering certain similarities, it could reasonably be regarded as an update, or a new version, of modernization theory and particularly its dominant American version of Walt Whitman Rostow's stages of economic growth theory (Rostow, 1956) (Rostow, 1959) (Rostow, 1960) (North, 1958) (North, 1982) in the long run. As a framework for analyzing social change it has the potential to be applied in case studies of political and economic change and development. In this thesis it is applied to explain political and economic changes in post 1979

[2] It is derived from the first letters of the surnames of the three authors, i.e. Douglass C. North, John Joseph Wallis, and Barry R. Weingast.

revolution Iran in the context of its long run political and economic changes and development.

In explaining political and economic change across time and place the NWW Framework suggests that political and economic organizations are interdependent parts of larger social order and the way societies reduce the risk of violence defines what it calls the Social Order. On the basis of Social Orders typology three types of societies have existed in human history. The initial defunct hunter-gatherer society in which humans lived in small groups and interacted on the basis of personal knowledge of each other violence was the dominant means of resolving disputes between groups. The other two types of existing societies with different Social Orders are the Limited Access Order (LAO) and Open Access Order (OAO) corresponding to developing and developed societies. In both distribution of rent, defined in the classical political economy sense and not as unproductive activities a' la *Rent Seeking* literature, is the mechanism for the reduction of violence but through different institutional and organizational arrangements that shape and constrain human interactions including political and economic behaviour.

In the Open Access Order rent is distributed through competition by open access of individuals and groups to form organizations. Violence is reduced through *double balance* of corresponding distribution of violence potential between economic and political organizations. Higher living standards and economic development in this type of society is the outcome of less violence over longer periods of time even with lower rate of economic growth. In other words economic change and growth is the outcome of long periods of social and

political stability resulting from the institutional and organizational framework in these societies.

In Limited Access Order societies or the "natural states", that corresponds to all other existing societies other the ones in the former group, political system manipulates the economic system to create rents in order to reduce violence and maintain social and political order. In these societies distribution of rent is limited only to powerful members of the dominant coalition with violence capacity. Peace persists only to the point that rent accrued from peace is greater than rent accrued from violence. In other words non-members of the dominant coalition do not have access to elite reserved institutions and organizations without developing a violence capacity sufficiently large to claim access to those institutions and organisations and a share in the distribution of rent. Therefore, more incidence of violence occur in this type of societies that not only destroys the economic growth gained in the previous period of peace, but also could drive the society back to a state and point below its starting point in the last period. In other words, there is no guarantee of "progress" in the social change in these societies. They can move forward and backward along a continuum of change from a "failed' to "basic" to "mature" natural state.

Based on the above typology institutional and organizational framework of societies becomes the major factor explaining differences in social change and economic performance. National and per capita income or Gross Domestic Products (GDP) loses its position as the measure of economic development and rich oil exporting countries with highest per capita income in the world become members of the Limited Access Order.

The thesis presents a critical engagement with the NWW framework. Two main engagements are offered. First, it is suggested that NWW framework presents a vision of institutional development that over-emphasises endogenous factors. Whereas the NWW framework presents Open Access Order (OAO) and Limited Access Order (LAO) as discrete modes of political economies, my suggestion is that the two are inextricably linked. The analysis of development in Iran suggests that OAOs' historic and contemporary exploitation of LAOs has served to embed negative, conflicting and contradictory institutional structures within LAOs.

Second, contrary to what North et al. (2009) propose, the thesis aims to show that the prevalence of longer periods of violence does not necessarily stem from endogenous culture or religion. While culture and religion have played significant roles in shaping individual and collective behaviour, the post-revolutionary behaviour of the Iranian state has in important respects been driven by rent creation[3]as opposed to rent-seeking literature originating from "free ride" literature (Olson, 1965) (Olson, 1982), Rational and Public Choice literature like Buchanan et al. (1980), Krueger (1974), Tullock (2005) and other strands of literature such as Mahdavy (1970), Beblawi (1987), and Beblawi and Luciani (1987) to reduce the risk of external violence. The NWW Framework defines rent as "a return to an economic asset that exceeds the return the asset can receive in its best alternative use" (North et al., 2009, p. 19). This allows a different interpretation and analysis of the political economic organization,

[3] For example in a market where the price of unskilled labour is (or expected to earn) 10 unit of currency per hour, her or his employment for 12 unit an hour receives 2 units of rent.

institutions and relations in different societies, including developing countries and particularly those rich with natural resources.

It is argued in this thesis that contextual detail matters; in particular, the accumulated impact of major historic events have shaped post-revolutionary trajectories. The specificities of the Iranian revolution seem to render the case as a response to a common problem *sui generis* (Lal and Myint, 1998, p. 259) in the sense that it is not imitated. The exclusively urban support from across many social classes for a religiously-led revolutionary movement helps to render the case unique. It is this complexity and the multi variable nature of the development dynamics in Iran that makes NWW Framework fit for its analysis. In addition, as the NWW Framework is only a conceptual framework, a work in progress to be complemented by much theoretical groundwork and future research, the case study of Iran, selected as one of the "most-fit" case for the cultural institutional view of the conceptual framework, could contribute to its development or revision. By such a contribution, this thesis not only contributes to better understanding of the nature of development in Iran, but also contributes to increasing the stock of knowledge for addressing the problem of underdevelopment that is going far beyond national boundaries with grave consequences for global security, stability and prosperity.

The main question posed in my thesis is to explain how the sweeping institutional changes after the Iranian revolution of 1979 have affected economic growth and development in Iran. The broad question is specifically broken down to the following specific questions in line with NWW conceptual framework:

1. What are the sources of rents, who are the beneficiaries, and how are they distributed?
2. What are the rent-related violence generating/promoting institutions in Islamic Republic of Iran?
3. Are there necessary causal relations between country specific belief system or culture and rent-related violence generating/promoting institutions in Iran?

I shall attempt to address the above questions on the basis of the above long run political economy approach using the methodology of institutionalism developed in the NWW Conceptual Framework and a reformed model adding the role and influence of transnational organizations, networks and players in the national institutional framework and its external environment. It shall be argued that despite extensive changes in the formal political and economic organizations of Iran, the basic informal institutions forming the motivation structure of major economic and political actors (except for a short period of time immediately prior and after the revolution) remain basically unchanged. The extensive changes in the formal framework reflect the changes in the number of players and their relative powers.

The general line of argument is that the Iranian revolution of 1979 and formal institutional changes were the outcome of the changes in the relative powers of the internal and external members of the dominant coalition in Iran following repeated external violence and coercion culminating in the 1953 joint British-US coup against a democratically elected government in Iran. The 1953 intervention discredited the foreign members of the dominant coalition, eroded

the legitimacy of the re-imposed government and destroyed the potential power of local allies of the foreign members. The change in the relative powers in the foreign alliance within the dominant coalition of Iran after the coup and particularly from 1960s, the rise of new political forces in Europe and the USA challenging the power of the establishment and opening new spaces for Iranian opposition, all contributed to the victory of the Iranian Revolution. From there on a process of renegotiating the rent distribution among the old and new claimants from the oil and gas reserves of the Organization of Petroleum Exporting Countries (OPEC) second largest oil exporting country, the main sources of rent in Iran, began. With the lifting of the pre revolution security cover of Iran from its Western allies, violence and coercion became the major channel of distributing and absorbing the oil and gas rents. In the absence of any law enforcer in the international arena it is the relative power of the players and the alliances that they form determines the nature of final settlement of the process yet to come.

Overall, in answering the research questions through the thesis, Chapter One outlines methodology and research design; Chapter Two provides a broad introduction to the Iranian case and a historical overview of post-revolutionary economic and political developments; Chapter Three presents a historical analysis of the origin and development of the modern Iranian state with Shi'ite branch of Islam as the state religion. The composition of the ruling coalition from its origin up to the present is analysed in order to understand the possible political and/or economic factors shaping and influencing its changes over time; Chapter Four sums up the political economic performance of post-revolutionary

Iran on the basis of preceding historical and empirical analysis attempting to signpost possible directions on the basis of its findings; and finally Chapter Five integrates and concludes research findings and compares them with the basic assumptions of the NWW conceptual model for further theoretical refinement and future research.

CHAPTER 1

Conceptual Framework & Methodology

Introduction

Commenting on some scholarly works analyzing Iranian Revolution based on Skocpol's *States and Social Revolutions* (Skocpol, 1979) and some others attempting to theorize Third World Revolutions, Tilly suggests an approach for explaining political processes. He argues that regularities despite being very broad in political life, do not appear as recurrent structures and processes at a large scale. Instead, "they consist of recurrent causes which in different circumstances and sequences compound into highly variable but nonetheless explicable effects" (Tilly, 1995, p. 1601) and therefore a good theory focuses on accounting for their variation instead of similarities. Note should be taken that the causes of major events might also produce some other side phenomena, that time, place and sequence strongly influence unfolding of the processes and give them undeniable historical character, and that events and processes are local manifestations of fluxes extending far beyond their perimeters. He further argues that as social world does not conform to neatly recurrent structure and processes we need to have programs, both on ontological and epistemological levels, to converge in "historically embedded search for deep causes operating in variable combinations, circumstances, and sequences with consequently variable outcomes"(Tilly, 1995, p. 1062).

Tilly's argument is based on Stinchcombe's definition of "concepts" that "capture aspects of the facts for a theory" and "are the lexicon that the grammar of theory turns into general sentences about the world". "The argument" for Stinchcomb is that "the power and fruitfulness of these sentences is determined by the realism and exactness of the lexicon of concepts, and not by the theoretical grammar"(Tilly, 1995, p. 1062). Obviously this argument provides the epistemological ground to generate knowledge, while Tilly's emphasis on the ontological aspects of the work concerns the nature and limitations of the knowledge sought.

This brief introduction is intended to explain the methodology I am going to use for this research which is based on the general approach of the importance and influence of institutions, both formal and informal, on economic and sociopolitical processes and outcome. It is the approach in which development is no more seen as just a process of capital accumulation or technological advances in production. The fact that Iran's high economic growth in the 60s and 70s was terminated by a popular social revolution in the final years of 70s is a testimony of unsustainability of economic growth just on the basis of capital accumulation or incorporating new technologies in production. Organizational and institutional set up and changes are needed to make such growth sustainable. The NWW Conceptual Framework, focusing on belief systems, institutional arrangement, organization, the state and individual and collective experience (individual and socially transmitted learning processes), and a feedback system correcting the belief systems and the institutional framework provides a greater understanding of the processes of economic and political changes over time and hence a workable framework in understanding the

dynamics of social change that does not necessarily lead to “social progress” in the long run.

The NWW Conceptual Framework

In answering what factors and processes influence the wealth of nations, different strands of institutional approaches have emphasized different factors. The older generation of institutionalists generally highlighted the roles of formal institutions, state, history and culture, while new generation, inspired by institutional economics emphasize the role of market, market mechanisms, transaction costs, deregulation, liberalization, rule of law, fiscal discipline and transparency, and secure property rights.

Despite the fact that there is no consensus on the definition and the origins or persistence and change of “institution”, there is a widespread agreement in development economics that ‘institutions matter” (Hodgson, 2006) (North, 1991) (Sachs, 2003) (Bardhan, 2005) (Lowndes, 1996). In political science, rational choice institutionalism, historical institutionalism and sociological institutionalism are the widely practiced approaches (Evans, 2004) (Greif, 1998) (Hall and Taylor, 1996) (Immergut, 2006) (Peters, 1999) (Schmidt, 2014) (Thelen, 1999). The first two groups of practitioners may view the political actor as generic individuals, but the last views political action as the outcome of group interactions in search of collective group power, identity or influence (Dobbin, 1994, Meyer and Scott, 1983, Orru et al., 1991).

The rational choice advocates see institutions as arenas in which the generic individuals with given preferences endeavor to maximize their individual

interests and preferences, but the historical institutionalists would see the current institutions as products of past conflicts, policies and institutions that influence political behavior (Skocpol, 1979) (Tilly et al., 1985) (Knight, 1992). That is to say that Rational Choice theory is more focused on the micro level of explaining individual human choices on the basis of exogenous preferences within institutions that mainly provide information and shape expectations of the political actors and the historical institutionalism concentrates more on the macro level of the influence of institutional framework or structures on human behavior. While sociological and historical institutionalisms could be defined as comparative by nature, rational choice presents a snapshot view of generic individuals making choices within an institutional context at certain points in time, thus making a claim to universal generalizability of such actions (Weingast and Marshall, 1986, North and Weingast, 1989, Williamson, 1998, Przeworski, 1991).

For the historical institutionalism (and comparative institutionalists in general) new rules, that is institutions, emerge from past conflicts and structures over the distribution of power and benefits and thus is more context specific and inductive with less theoretical groundwork. Rational choice approach is widely criticized for its failure to generate a plausible explanation for the origins, persistence or changes of the institutional contexts which is broadly defined in functional terms of maximizing political actor's preference and interest based mainly on deductive methodology. Such a functional explanation might plausibly justify the persistence of institutions, but it certainly lacks the vigor of explaining their origins. In other words, the two main questions that the

advocates of rational choice theory need to address are how institutions originate, change and persist and why political actors are assumed as self-interested maximizing agents when there are numerous contrary cases of social and political actions (e.g. drivers stopping at red light when there are no other cars around being the most simple example to volunteers risking their lives to defend a country or a population for no obvious material gains).

To address some of such shortcomings, North et al. (2009) have developed a conceptual framework in which they have tried to explain the behavior of political actors and institutional evolution and adaptation in terms of human endeavor to deal with the ubiquitous threat of violence. Announcing economic development the result of longer periods of peace or the absence of violence, and economic institutions (e.g. property rights and other social rules discussed in economics) as "derivatives of political institutions" (North, 2009, p. 27), they acknowledge the inability of neoclassical economics in investigating the operations of institutions like market and economy "over time" and thereby challenging the universality of economic generalization. Their conceptual framework also incorporates some elements of historical and sociological institutionalism (e.g. the importance of history, context specificity of institutional development, the importance of ideas and belief system, culture, and social construction of human knowledge and understanding, path dependence and historical processes) indicating a more conciliatory and eclectic approach in exploring the causes of development.

The conceptual framework developed by North et al. (2009) (hereinafter also referred to as NWW or Limited Access Order/Open Access Order, LAO/OAO,

framework) is based on the problem of how societies deal with the problem of violence. Obviously no meaningful development (economic, social and political) is possible with the presence of violence.

A brief review of the Iranian history shows that the chances for development in a society experiencing two social revolutions, three foreign engineered or assisted coups, four long term foreign occupations, and numerous social movements and revolts in eight decades of the 20th century would not be very much. In the past three decades following the Iranian Revolution, the country faced a foreign military aggression in the first year (lasted 8 years), an armed revolt in the second, and numerous political assassinations (two presidents targeted, one killed, one injured, a prime minister and over 100 MPs killed in various terrorist explosions).

Political feud has been a lingering feature ever since the revolution; the last of which has been widespread protest and civil unrest in large cities and urban areas in 2009 led by the opposition headed by the almost 10 year prime minister and two times (8 years) speaker of the Iranian parliament (the *Majlis*). A long shot view of the country's history and geography reveals that the past 5 centuries has been dominated by violence punctuated by short periods of peace. The sheer shrinking of the physical extent of the country compared to its map in 1500 confirms its violent history in the course of past five centuries. Such a violent history provides sufficient justification to agree with North et al. (2009) in considering short periods of peace or long periods of violence as the main cause of underdevelopment or underperformance of Iranian economy and attempting to identify the cause (s) of such violence and violent history. Furthermore, the establishment of Islamic Republic of Iran in 1979, the 8 year

Iran-Iraq war, the suppression of political opposition in post war period, widespread opposition and public demonstration and violent clashes following the presidential election of 2009 and now the widespread speculation of an impending external military aggression against Iranian nuclear installations and subsequent (or perhaps inevitable) direct and indirect involvement of some of regional and extra-regional powers similar to that of the wars in Iraq and Afghanistan, makes such an study even more imperative.

The public threats of individual or collective military action against Iran with the stock phrase of "all options on the table" by various civil and military officials of all ranks along with widespread presentation of Iran in the Western media as a "rogue", "evil", "theocratic", "authoritarian", etc., country "in the process of building a nuclear bomb" has created such a situation that "Bomb Iran" has become at least a widely known song. The underlying message initially was that Iran is a "violent country" but at later stages and in more recent years a cultural and/or religious overtone linking the claimed "violent nature" of the regime to its cultural and religious foundations is also added.

Research on Iran, except the period immediately before and after its Revolution of 1979, has been mainly limited to Iran and the Middle East area experts and foreign policy oriented or related institutions in Western countries. The main development theoretical frameworks within which development in Iran has been analyzed are: different versions of modernization theory (Arjomand, 1989, Boroujerdi, 2003, Eisenstadt, 2011, Inglehart and Welzel, 2009, Inglehart and Welzel, 2010, Jahanbegloo, 2004). Generally they advance a claim of victory of modernization over tradition or the other way round. Dependency theory (Foran, 1989) argues that despite Iran's extensive economic development in the

course of 19th century, the development was limited both in form and content due to its dependence on external forces before embarking on a modernizing development model depending on oil after 1914; Rentier state arguments (Mahdavy, 1970) (Skocpol, 1982) (Shambayati, 1994) designate the Iranian state as an authoritarian state due to its heavy reliance on extraction of revenue or rent from oil exports and thus its freedom from reliance on taxation and less popular representation. Applying paradigm shift Najmabadi (1987) tries to explain the Iranian Revolution as paradigm shift from modernization to that of a moral order; identity politics (Farhi, 2005) emphasizing the search of Iranians for a national identity in the context of their dualistic pre Islamic Persian and Islamic identities; state-civil society conflict, pseudo modernism, arbitrary rule, short society and historical problem of political legitimacy and succession emphasizes the short lived periods of change and continuity of Iranian society due to various geographical, economic, political and historical reasons (Katouzian, 2003a, Katouzian, 1997, Katouzian, 1981, Katouzian, 2004a, Katouzian, 2003b).

In recent years, however, in line with political developments in Iran, disintegration of the Soviet Union and its socialist bloc and the consequent decline in attraction of Marxist approaches and the greater dominance of new liberal market centered views in theories of development the greater thrust of the research is directed towards the role of culture, religion and institutions. This shift has led to valuable policy oriented research rather than basic fundamental theoretical works. Akhavi-Pour and Azodanloo (1998) argues that political decision making is based on maximization of economic interests (rational choice theory); Moaddel and Azadarmaki (2002) in a survey of public

worldviews in Egypt, Iran and Jordan finds that the variation in nature of political regimes in these countries is an important determinant of the variation of worldview of the public in these countries; Mibagheri (2003) finds the two institutions of monarchy and Shi'ism responsible for most of developments in Iran; Alamdari (2005) argues that Iran in the second decade after her revolution has made a transition from religious populism to that of a cliental regime; and finally Kar (2010) regards the clash between conservative and reformist clergy the heart of the struggle that post-revolutionary Iran has been facing.

What can be concluded from all these works and many others is that, no analysis of the current political system or behavior of Iran is possible without taking into account its revolution of 1979 and its claim of being an Islamic government. The occurrence of the revolution following or perhaps as a consequence of five decades of industrialization, urbanization, state sponsored education and other social services or, as some of the above works argue, "modernization" in itself posed serious questions to the viability of explaining Iranian development with modernization theory (Arjomand, 2002) (Cronin, 2001).

Modernization was expected to bring economic growth and socio political institutions that would make it sustainable: democracy being its masterpiece. Therefore the advocates of this theory either should consider the current Islamic government as a democratic political system or the least should accept that there is no necessary contradiction between such government and democracy. Considering the existence and practice of certain exclusionary institutions in the Iranian political system, justification of the former would be very difficult, if not impossible, and the possibility of the latter claim would need much further

research to substantiate. The least one could say is that in Iran the expected victory of modernization in the battle between modernization and tradition (or culture for some), not only did not materialize, the establishment of a "religious" government with the claim of exclusive right to rule for the religious authority (the clerics) dealt a serious blow to the theory itself.

A similar problem is raised with world system theory. While the theory might partially explain the dependence of Iran economy (and politics) as a periphery on the core system in the short period between the end of WW2 and the revolution of 1979, the popular revolution with participation of different groups of people with different social and economic class base, does question the basic class conflict assumption of the world system theory. Furthermore, the nature of the government subsequently established, is far from the socialist government anticipated to replace the world capitalist system, unless, the advocates of the system are prepared to strip the theory from all its material basis and include culture and religion as a major force in the development of an alternative to the current prevailing system. That would also require further research both in the nature of culture, religion (particularly Islam) and a substantial revision in the alternative system replacing world capitalist system. Nevertheless, the theory is partially capable of explaining the kind of economic and inevitably the political relations developed between Iran, as a periphery, and the major Western powers, as the core, from the beginning of 1501 (the year of establishment of Safavid dynasty and proclamation of Shiite Islam as the state religion for the first time in the history of the country). In fact, no comprehensive explanation of development in Iran is possible without taking into account this early buildup of global economic and political relations between the "Western" powers (Britain,

Russia, France, Germany, and the USA) and Iran which has worked throughout Iranian history since as a, if not *the*, major influence on events in Iran.

The same problem could be identified with dependency theory. While it partially is capable of explaining development in Iran (Foran, 1989), the multi class nature of opposition to the political regime before the revolution and the "religious' or "cultural" feature of the revolution and the role (or lack) of peasantry in the revolution and its active role in supporting the post revolution state forced advocates of the theory to revise many aspects of the theory and even come up with a new theory of social revolution ((Foran, 2009, Foran, 1997, Foran, 1992). Both dependency theory and world system theory face the same problem that forced Skocpol (1982) to revise her analysis of world revolutions after the Iranian Revolution by saying ". . . this remarkable revolution also forces me to deepen my understanding of the possible role of idea systems and cultural understandings in the shaping of political action" (p.268) and add later that

> . . . the Islamic Republic of Iran have proven once again that social revolutions are less about class struggles or "modernization" than about state building and the forging of newly assertive national identities in a modern world that remains culturally pluralistic even as it inexorably becomes economically more interdependent. (Skocpol, 1988, p.167)

The problem that an analysis of Iran, with dependent economic and political systems on foreign powers before the revolution and still a dependent economy with wide multiclass public participation in its public affairs after the revolution, poses is that theories based solely on dichotomous oppositions of either agency or structure, either economy or culture, either external or internal

forces cannot wholly explain pre and post-revolutionary developments in Iran. This explains the failure and the forced revisions of all existing development theories when it comes to analyzing Iran. To explain the development in Iran, and perhaps and hopefully many other cases, there is a need to develop a theory which can strike a balance between these assumedly opposing concepts: a theory in which agency and structure, culture and economy, and external and internal forces influence and shape political action. The conceptual framework developed by North et al. (2009) in which the problem of development is viewed as creation and sustenance of organizations, institutions, and beliefs with the aim of controlling violence (and explicitly linking culture to generation of violence through institutions) seems to be a suitable candidate for a case study of Iran under existing circumstances.

The NWW framework's emphasis on the "uniqueness" of each society's evolution and the need for specific understanding of the "cultural heritage" of that particular society (North et al., 2009, p. 271) has the potential of taking care of the factors emphasized by Skocpol and Foran. The Rentier nature of all natural states (North et al., 2009, pp. 18-21, 140-42), that is developing countries, provides "a new approach to the "logic of collective action," one that turns both Olson (1965, 1982) and public-choice theorists studying rent-seeking (Buchanan, Tollison, and Tullock, 1980) on their heads" and takes into account the rentier nature of the Iranian state both before and after the revolution. It has also the potential to incorporate the dependence of Iranian economy and politics on external forces either in the form of a member or the dominant member of ruling coalition.

The NWW framework's central theme of violence has the potential both to explain the repeated occurrence of violence in the Iranian history and numerous cases of forced acceptance of unfavorable external terms and conditions by the Iranians. The very concept of "violence' is broader than "war making" as a means of state or nation building and has greater potential in explaining both wars and sociopolitical movements and unrests that have shaped the Iranian history. It also solves the problem that Iran was not involved in any external wars for almost a century before the war with Iraq in the 1980s. The emphasis of the NWW framework on the importance of history and the rejection of the validity of economic theories in explaining development creates the space for the historical evolvement of various political and economic structures and a bridge with historical institutionalism and employing context specific case studies. While the framework includes many advantages that make it a suitable conceptual framework to study the post-revolutionary Iran and attempt an assessment of the country's development in terms of its organizations, institutions and belief system, it also suffers serious limitations and shortcomings that need to be explained and critiqued. The main problems that need to be emphasized at this stage and shall be dealt with in greater details in subsequent sections are:

1. It treats the development process an almost internal process linked exclusively to each society's culture and system of beliefs. That ignores the historical movements of ideas, beliefs, knowledge, and the cultural interactions between different societies. It also ignores the historical fact that in not so long ago, many of the current nations-states were different

parts of the same society or an empire sharing more or less the same culture and many formal and informal institutions;

2. The attribution of development to institutions and organizations generated by culture and system of beliefs, should have an overarching theoretical support in explaining the occurrence and sustenance of development in societies with apparently different cultures from those of the "Western" developed countries, e.g. Japan and some East Asian societies. Such a theory should also have the ability of explaining different levels of achievement in development in societies with similar culture or system of beliefs, e.g. North and South Korea. It should also be able to explain the cause (s) of the change in culture and belief system as the cause of different levels of development in the same society over different periods of time, e.g. China;
3. While it emphasizes the importance of history and emphasizes the role of organizations like East India Co. and Russia Co. in promoting open access institutions in the now developed countries (North et al., 2009, p. 168), it totally ignores the role of the same organizations (and celebrated liberal enlightened intellectuals) in the process of colonization and creating and promoting limited access institutions and order in many of the now developing countries (Maddison, 2006) (Harris, 1964) (Calder, 1987, pp. 1-37). Origination of totally contradictory institutions (e.g. justice and oppressions, liberties and suppression, open access order and limited access order) from the same individuals, institutions and organizations in different geographical areas would make it very

difficult to defend the assumed one to one causal relationship between the belief system culture and institutions;

4. Treating violence as the outcome of institutions created and promoted by culture or system of beliefs completely eliminates or ignores the violence imposed by the external forces. This not only contradicts numerous historical cases of foreign aggression, but also blurs the concept of self-defense as an almost universal recognized legal and legitimate right;

To contextualize the above potentials and critique requires an explanation of the framework itself and then its shortcomings in order to define the scope, design and methodology of the current research.

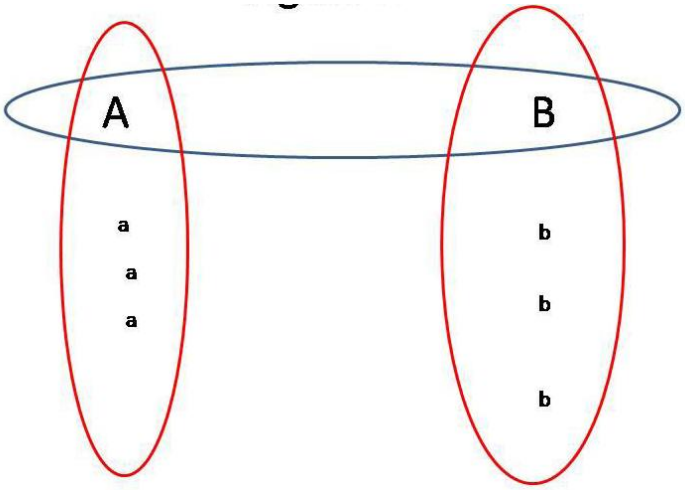
Limited Access Orders versus Open Access Orders

On the assumption that how societies deal with violence explains economic and political development North and others start to construct a conceptual framework "to provide a new institutional explanation for why patterns of political economy have persisted for centuries"(North et al., 2010, p.2). Therefore, in considering the interaction of economic and political behavior, the problem of violence for them is the point of entry in investigating how societies are organized (North et al., 2010, p.3).

The very basic idea in LA/OA Orders framework is that "societies limit violence through the manipulation of economic interests by the political system in order to create rents so that powerful groups and individuals find it in their interest to refrain from using violence". This method of organization of violence is described as "a social order" and of "Limited Access Order" type (North et

al., 2010, p.3). The logic is that leaders of armed and dangerous groups, who would not disarm in fear of destruction by other groups, would agree to divide economic factors (land, labor and capital) and opportunities among themselves and undertake to enforce each other's privileged access to resources which would generate rents. If the value of the rents earned under peace is greater than the earning under conflict, then, peace shall prevail and violence will be avoided, because each leader can genuinely believe that the others will not fight. An important feature of such an agreement, it is believed, to be the ability of leaders to call on each other for assistance in disciplining and organizing members of their own groups. Figure 1 is a graphical presentation of the model between any 2 groups.

Figure 1 Inter Group Leaders Agreement



Source:(North et al., 2010)

Therefore, the main incentive in upholding the peace is the rents which would be lost if cooperation fails and violence ensues. And it is the rents resulting from

the privileged access to resources that enable the leaders to control and organize members of their respective client groups in order to sustain peace; however, 'better" organizational productivity results from their ability to rely on each other for external support. The coalition of the leaders in this conceptual framework is called the *dominant coalition* which provides third party enforcement for each member organization. "The vertical organizations might be organized as political parties, ethnic groups, patron-client networks, or crime families" (North et al., 2010, p.6). In this sense, obviously, members of each client groups are not only individuals, but also client organizations. That turns the *dominant coalition* into an organization of organizations. In a functioning limited access society, therefore, the dominant coalition includes economic, political, religious, and educational leaders (elites) "whose privileged positions create rents that ensure their cooperation with the dominant coalition and create the organizations through which the goods and services produced could be mobilized and redistributed"(North et al., 2010, p.6).Thus, rents is the glue for keeping the coalition together. "The creation and structuring of rents is the heart of the logic of limited access" (North et al., 2010, p.7). Definition of rent in this framework is then an important feature which the authors emphasize to have a "classical" meaning, i.e. the net difference between total benefits and total costs. In this sense it should be differentiated from its more negative recent meaning in the context of "rent seeking" which is considered a directly unproductive activity. In other words "rent" in NWW framework denotes a 'ubiquitous characteristic of human behavior" that "could benefit society" (North et al., 2010, p. 8).

The LA/OA framework while accepts that individual members of the dominant coalition would maximize rents, rejects the idea that the coalition as a social organization would maximize rents per se. Thus the second and more substantive distinctive feature of rent in this framework is that as rent is the difference between total benefits and "opportunity costs", it makes behavior predictable. Therefore, rent in itself is not an absolute measure of behavior but depends on alternatives (opportunities) available. The implications then in this sense are that horizontally, rents in the coalition is tied to violence and vertically it is tied to third party enforcement capability which results from the cooperation of members of the coalition. The rents creation structure then on its basic level is tied to either violence or cooperation and other forms of rents creation (not related to violence or cooperation) in the coalition becomes redundant and unsustainable.

The structural problem that may arise in this framework is the conflict between the short term rent maximization efforts of individual members of coalition and the long term sustainability of rent creation structure within the coalition. In the face of a crisis in the Limited Access Order, it is the individual elite rents that tend to be eliminated[4] and replaced by rents that would promote violence prevention or coalition members' cooperation. But the implications of granting new rents are not predictable for the society as a whole. This would then lead to the conclusion that the power of rents in Limited Access societies in explaining why they do not improve over time, is in serious doubt. Therefore, based on the above assumptions and definitions the Limited Access Order can be described

[4] North et al., (2010) state "there is evidence for this in every one of the case studies".

as an order which, by limiting individual access to form organizations of various natures to engage in social activities, creates rents for members of dominant coalition. The rents form the incentive structure of the members of the coalition to control their client organizations and constrain violence on the one hand and to provide third party enforcement for member organizations of the coalition which as a result of exclusive privileges and rents continue to hold the agreements with their respective leaders on the other. In sum, "limiting access to enforcement by the coalition creates rents and shapes the interests of the players in the coalition" (North et al., 2010, p. 11).

In contrast to Limited Access Order, Open Access Order (OAO) enables its citizens to form various organizations for engaging in different types of activities except the use of violence. "Violence is an activity reserved for government organizations" which are "constrained from using violence against citizens except in specific circumstances"(North et al., 2010, p. 11). In OAOs official organizations of violence are controlled by political processes open to competition sustained by economic competition secured by open access to organizations in the private sector. The contrast in the two orders then lies in, not the competition itself, but the background against which the competition is conducted. While in OAOs, competition is governed by political processes sustained by economic competition, in LAOs, the competition is conducted against the background of threat of force and occasionally the actual use of force. This implies that the organizational arrangements in LAOs are completely different from those in OAOs and the former societies have not been able to achieve the Weberian status of government monopolizing the legitimate use of

force and at the same time limiting government by political and economic competition. “As a result, institutional arrangements in these (LAO) societies must channel competition in a way that controls violence as well as promotes socially valuable processes like production and distribution”(North et al., 2010, p. 12). The possibility of civil war among coalition organizations, therefore, reflects the fundamental difference between the LAO organizations and interest groups in OAOs. What is important here to note is that Limited Access Orders, though not fully successful in eliminating violence, are not degenerated or corrupt forms of OAOs. They are a different type of societies “with their own consistent and historically successful way of organizing human interaction”. North and others believe “unless we understand the internal dynamics of Limited Access Orders, we are unlikely to come to grips with the problems of development” (North et al., 2010, p. 12). Considering the different natures of the two orders, the problem of development for North and others then reflects itself in two different questions:

1. How the transition is made from LAO to OAO?
2. How the LAO develops despite remaining a limited access order?

Implicit in the first question is that OAO is a higher level of social, political and economic development and the whole effort for “development” is about the transition from LAO status to OAO which North and others consider being the “traditional problem of development”. On the same line of approach then the second question could be interpreted as the question dealing with the dynamics of being “underdeveloped” or “developing”. Classifying almost all current low and middle per capita income countries (175 countries and about % 85 of world population) in the LAO group and the more industrialized “developed”

countries (25 with about %15 of world population) in the OAO group makes that assumption explicit (North et al., 2009, p. xii).

To understand the internal dynamics of LAOs they have studied 9 countries which clearly display four commonalities as "elements of LAO logic" (North et al., 2010, p. 13). The four commonalities detected are:

1. The centrality of violence, its management and prevention, in the history of these countries;
2. The central place of organizations in structuring relationships within and between the polity, economy, and wider society. In every case, powerful groups enjoy the explicit and privileged support for their organizations;
3. The pervasive use of rents to organize political and economic coalitions. Indeed the source of rents is often the privileges provided by the dominant coalitions of powerful interests;
4. None of these societies have been static. All of them have gone through significant changes, with some falling into violence. Nonetheless, all of them (except perhaps South Korea) remain limited access orders.

Despite the above commonalities, there are wide differences, including the level of per capita income (by a factor of 20), in LAO countries which North and others believe to reflect the differences in the quality of their institutions. To incorporate these differences within LAO a continuous spectrum of societies is designed and the place of each country on this spectrum defines its status as a *Fragile*, *Basic* or *Mature* LAO. The spectrum is divided or differentiated by the structure of organizations and each society, depending on the nature of the organizations it can sustain, is placed on that spectrum. "Whereas the

LAO/OAO distinction reflects a fundamental difference in the dynamics of social orders, the different types of LAOs are shorthand terms for ranges that are not clearly distinct"(North et al., 2010, p. 14). Therefore, the main differences between these types of LAO are more of degree and intensity of the same shared qualities. The features North and others assign to the three main types in the LAO range could be described as follows:

A. *Fragile* LAO: dominant coalition can barely maintain itself in the face of internal and external violence; persistence of organizations over time is difficult; organizations are mostly identified with the personalities of their respective leaders and the leaders are closely associated with the dominant coalition; a distinct organization called the Government may exist, but it has no monopoly of violence. Elite organizations exist both in private and public sectors and provide goods and service, including coercion, in a fluid and constantly changing environment. Prominent contemporary examples include Iraq, Afghanistan, Haiti, and some sub Saharan countries;
B. *Basic* LAO: well established Government compared to *Fragile* type; the more durable organization in these societies is a formal government; elite privileges and organizations are closely associated and identified with the coalition and the Government; many Arab and former Soviet countries, Cuba, North Korea, Burma, and Mexico are representative countries considered to be in this range;
C. *Mature* LAO: support of organizations both inside and outside of dominant coalition; still limiting access to private organizations

allowed or supported by the dominant coalition to limit competition and maintain rents to support the coalition; a body of Law defining Government offices and functions, relationships and methods of conflict resolution within and beyond the coalition; the law should be represented by some Government bodies like courts and bureaucracy capable of articulating and enforcing it; private organizations capable to punish Government in case of its deviation from its commitments, thus both sources of economic development and support for the maturity and sophistication of other institutions and organization within Government; most of Latin American countries, South Africa, China and India are regarded as prominent examples of *Mature* LAO.

A more classified definition and distinctive features of different types of LAO range is presented in Table 1. It is important to remember that there is no sequential progress of a society from one type to another (i.e. societies may regress and fluctuate within and between different types), that one part of a society may be closer to one type and another part to another (i.e. the classification of type is an overall designation and does not necessarily applies to all its constituent parts individually), and that a society may be member of one range type at one (short or long) period and a representative of another range in another period, e.g. Mexico in 1940s-80s is in *Basic* range but since 90s moves to *Mature* range (i.e. the classification is time/period bound).

Table 1 Types of Limited and Open Access Orders

Type (Examples)	Economic Organizations (EOs)	Political Organizations (POs)	Violence Capacity (VC)
Fragile LAO (Afghanistan, DR Congo, Haiti)	EOs and POs are not clearly distinguishable, except perhaps for multi-national firms present in fragile LAOs.		All surviving organizations have VC. Civilian and military not clearly distinguished.
Basic LAO (USSR, Saudi Arabia, Tanzania 1970-90s, Mexico 1940s-80s)	All Eos - public or private - are linked with the coalition; some are also linked with multi-nationals.	Most POs are controlled by the state, e.g. One-party state or dictatorship. Opposition parties are under threat.	Many VC organizations are part of government, yet significant non-government organizations possess VC.
Mature LAO (Mexico since 1990s, Brazil, South Africa, India, China)	Many private firms, some multi-nationals. Effectively limited entry, requiring political connections.	Multiple POs, but dependent on central permission. Democratic process, if present, cannot challenge major economic powers.	State controls almost all VC.
OAO (Western Europe, USA, Canada, Japan)	Most are private. Non-discriminatory rules for any citizen to start an EO and get state legal support.	Non-discriminatory entry rules for any citizens to start or join a PO.	No non-state organizations have VC.

Source: (North et al., 2010)

Now the question is why LAO societies have developed so slowly (or from the long run historical perspective their growth has been close to zero and at most some have moved from one range of LAO type to another without necessarily progressing) and remained LAO and only very few (25 or so) have made the transition to OAO status?

Obviously the general answer would be because the OAOs have managed to change their organization of violence and LAOs have not. That would raise further questions of why and how OAOs managed to change that organization.

Answering those questions would be almost impossible without looking into details of how LAOs sustain themselves, progress or regress and why and what exactly happened in those 25 or so societies that qualitatively changed their major organizations and institutions. The very fact of their display of different features in different time periods indicate that LAOs are not static and considering that their movement from a *Fragile* state to an state of *Maturity* increases the generation of rents for the dominant coalition, it could be reasonably argued that their general tendency should be one of maturation. However, due to the changes in the environment (e.g. due to changes resulting from internal and external shocks like changes in prices, technology, power shift) the process of maturation is not guaranteed. Hence, some LAO in fact regress at certain periods. Obviously members of the coalition or other groups initially removed from the coalition, who due to some environmental changes find themselves in a more powerful position than before, would demand a greater share of the rents. The shared perception of other members of the coalition with the demanding group's assessment of its relative power would lead to a peaceful settlement of the claim and a change in distribution of rents. If members of the coalition do not agree with the relative power assessment of the claimant, then the outcome most probably would be outbreak of violence. One can conclude that in those 25 or so OA societies, the dominant coalitions have been able to accommodate the new claiming groups, or alternatively, it could at least theoretically be assumed that there was no new power claims in those societies from late 18^{th} or early 19^{th} century. Historical events, to say the least, do not support the latter. Then the question to answer is how and why new power and (rent) claims in those societies were and are accommodated in a

manner to avoid violence? The OAOs should be closely examined to understand what has happened.

OAO's are sustained by institutions which support open access. Political competition is maintained to support open access to economic organization and economic competition supports open access to politics. The use of force is monopolized in two Government organizations of military and police and no other organization is authorized to use force. The political system controls both organizations (North et al., 2010, p. 21). Access to political, economic, social, religious and educational activities and organizations are open to all citizens which in turn means the Government should have the capabilities to support organizations beyond the dominant coalition. This in turn requires an impartial and impersonal application of law to all citizens and organizations. The monopoly of potential and actual legitimate use of force by the Government combined with the impartial and impersonal rule of law in OAOs make them representative types of Weberian government. Now considering that OAOs used to be LAOs, it could be reasonably concluded that the *transition* from a LAO institutional arrangement to an OAO institutional set up is, at least theoretically, possible. It does not however imply that the transition is made automatically or even desirable.

The second conclusion that could be drawn from the comparison is that, if the transition was not automatic, then the dominant coalition must at some point of time have found the extension of their citizens access to various activities and organizations and increasing the impersonal exchanges in their overall interest, assuming that the transition was neither externally imposed nor the unintended

outcome of their actions. The continuity and the lasting durability of the arrangement reject the possibility of the latter assumptions. Considering that the existing institutional arrangement must be the outcome of a transition process, it would be logical to assume that the recognition of desirability of such transition is the beginning of the transition process. It is at this point that "the system changes from the logic of limited access rent creation, to open access entry" (North et al., 2010, p. 22). Certainly such a process does not start in an all-inclusive universal manner. It should be safe to assume that the process of extending the access to different activities and organizations at least in its initial stage should start with granting those rights to members of the dominant elites.

North and others state that "historically, societies that developed sustainable property rights and rule of law began by making credible commitments to sustain those rights for elites" (North et al., 2010, p. 22). Greater access means proliferation of different organizations (i.e. turning into *Mature* LAO), which in turn means greater degree of impersonality in defining and enforcing their rights and relationships. Therefore, to make the transition to an OAO, the society must necessarily pass through the *Maturity* stage of the extension of impersonal exchange as the precursor to OAO. North and others have identified three conditions which make impersonal relationship among elites possible. Named as *doorstep conditions*, they are as follows:

1. Rule of Law for elites;
2. Support for perpetually lived elite organizations both public and private (including the state);
3. Consolidated political control of the military (army and police forces).

Even though the three above conditions are identified as the conditions which the LAO societies making the transition to OAO type developed and displayed, their sequence or historical development is neither clear nor necessary. Despite this, the existence of the conditions building one on another is necessary for the transition. The Rule of Law for elites, which creates the possibility of regularizing behavior in the dominant coalition elite interactions, requires establishing credible adjudicating procedures to settle disputes amongst the elites. These developments in LAO, is believed to be the origin of property rights and the legal system in the OAOs. The continuity and stability of an organization, private or public, depends on its existence and functioning beyond the life of its members. Organizations without an independent identity from their leaders or founders, stops functioning and even living after the departure of those leaders and founders. An organization can become a perpetual organization when formed as a corporation with its own identity independent from its members. Such organizations, considering their dependence on state support, would not have perpetual life without a perpetual government.

Mortal governments are unable to support perpetually lived organizations for a successor government is not bound to honor the commitments and organizations created by another. This means creating perpetual government (state), as the most important elite organization, is the requisite for the second doorstep condition. Now considering that the whole LAO/OAO classification is based on how societies organize violence, the third doorstep condition becomes a critical factor. As in this conceptual framework, LAOs have not achieved the status of a Weberian Government (i.e. they do not have a monopoly of potential and actual legitimate use of force), access to the means of violence is dispersed throughout

the elite coalition. Consolidated control of the military requires an organization in which all the military resources are assigned to and a set of rules or conventions defining their when and where use against individuals and organization.

The monopoly of such control, however, by a single faction within the dominant coalition or the lack of clearly defined rules and conventions for their use would reduce the credibility of commitments made to other members of the coalition, thus forcing them to arm themselves (overtly or covertly) against any surprises. Therefore the monopoly of such control would not be long term. In the LAOs where these three conditions (i.e. Rule of Law for elites, Perpetual organizations, and Consolidation of violence control) are established, enforcement of impersonal relationships among members of the dominant coalition or elites, and hence transition to OAO, becomes possible. However, in contrast to the gradual distinction of various range types within LAOs, the distinction between LAO and OAO is a matter of nature. From their case studies of some LAO countries and comparing these countries with each other and OAO, North and others conclude that compared to the historical back and forth movement of LAO societies, the transition to OAO has happened rather quickly and perhaps in the past fifty years (second half of the 20th C). In answering the critical question of correspondence of their findings from such comparative study of the selected countries with economic and political development, they responded "it appears it does, from the cases"(North et al., 2010, p. 26).

Limitations of NWW Framework and Critiques

Perhaps the best place to start with the limitations of NWW framework is the reminder that it is only a conceptual framework and not a theory. "We develop a conceptual framework, not a formal or analytical theory" (North et al., 2009, p. xii). The lack of supporting economic and political theories and a theory that explains social behavior limits the capacity of the framework for prediction and therefore empirical tests. Instead of testing detailed hypotheses "historical examples have been used" to illustrate the conceptual framework and statistical analyses have not been attempted "because no straightforward measures of our concepts exist" (North et al., 2009, p. 263).[5] The framework is not a "formal model" for generating empirical tests and prediction but a framework that "incorporates explicitly endogenous patterns of social, economic, political, military, religious, and educational behavior" for a "dynamic explanation of social change and not of social progress"(North et al., 2009, p. xii).

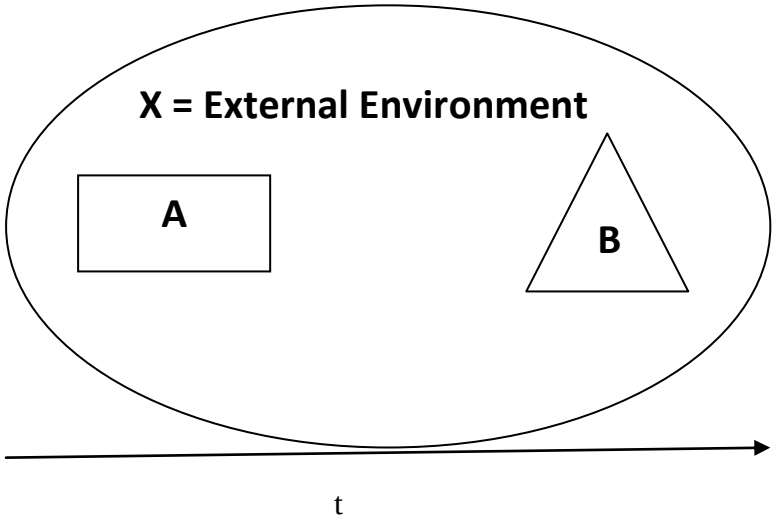
Viewing the framework as incorporating "explicitly endogenous" pattern of behavior means ignoring all external constrains and impositions which inevitably leads to treating the two social orders as two completely independent orders reacting to a single "exogenous" environment. This would ignore the long term unequal interaction, later defined as "colonization" that started to

[5] Building empirical measures of access and social orders, Kishtainy (2011) tested for an association between social orders and "growth fragility", an important performance characteristic given that low income levels may be the result of countries' failure to sustain growth rather than to achieve it at all. Using dynamic panel estimation techniques they find some evidence that over the 19th and 20th centuries, countries that made the transition to the open access social order tended to achieve more stable, modern patterns of growth.

change the "exogenous environment" of one social order (the LAO) from the start of European "Age of Discovery"[6] (Ekeh, 1975). Ignoring the influence and shaping of the present by the past through institutional heritage claimed by the framework as the crucial manifestation of history which explains why "history matters" (North, 1990, Preface), is a major deficiency. In other words the challenge of explaining "how durable and predictable social institutions deal with an ever-changing, unpredictable, and novel world within a framework consistent with the dynamic forces of social change" (North et al., 2009, p. xii) that the framework is set to explain, would be methodologically sound only if the two societies are assumed to be operating under similar, if not the same, "exogenous environment". A graphic presentation of a valid comparison of two different societies A and B (each having different sets of endogenous institutions) under a single external environment, X, for the same period of time (t) to see how each reacts should look like Figure 2. In that case and ignoring all minor external environmental differences (if possible at all) one can assign the differences in the outcomes to "endogenous differences".

[6] Probably from June 1494: when Pope Alexander VI stepped in as the negotiator for peaceful division of the World between Portugal and Spain.

Figure 2: Comparing two different societies under a single external environment



This would be a relatively sound and simple comparison of putting two different entities under similar condition and then explaining the different reactions in terms of their different constituents. If it could be shown that the "exogenous environment" for the two orders differed, then the conclusion drawn would be defective. The way out of such deficiency is to say there is no comparison made: only a historical development is described. In that case the question that would naturally arise is the cause or causes of such a change. Not much explicit attempt is made to investigate the cause and causes (due to lack of various theoretical supports required, e.g. lack of an acceptable theory of state, lack of an integrated theory of politics and economics or political economy), a task left for further research.

The inevitable outcome of this view is over emphasis of the cultural specificity of development and underestimation of the role of institutions established as a result of external forces. The idea of "returning to Islam" or to one's roots in Iran was clearly the result of the idea of achieving "independence" from foreign

powers as the only means of breaking the deadlock created in the country's progress (development) by repeated violent foreign interventions.

Furthermore, historical events of the past 500 years (at least as part of recorded human history) show that the external environment for the two different categories of societies or social orders has not been the same due to "colonization" and big power rivalry for sphere of influence in bilateral and multilateral relations. Graphically the real situation would be more like Figures 3 and 4 respectively for "colonized" and "semi colonized" (Leys, 1996b, p. 5) or "semi-independent" societies.

Figure 3: External environment of A and B throughout colonization Process for colonized societies

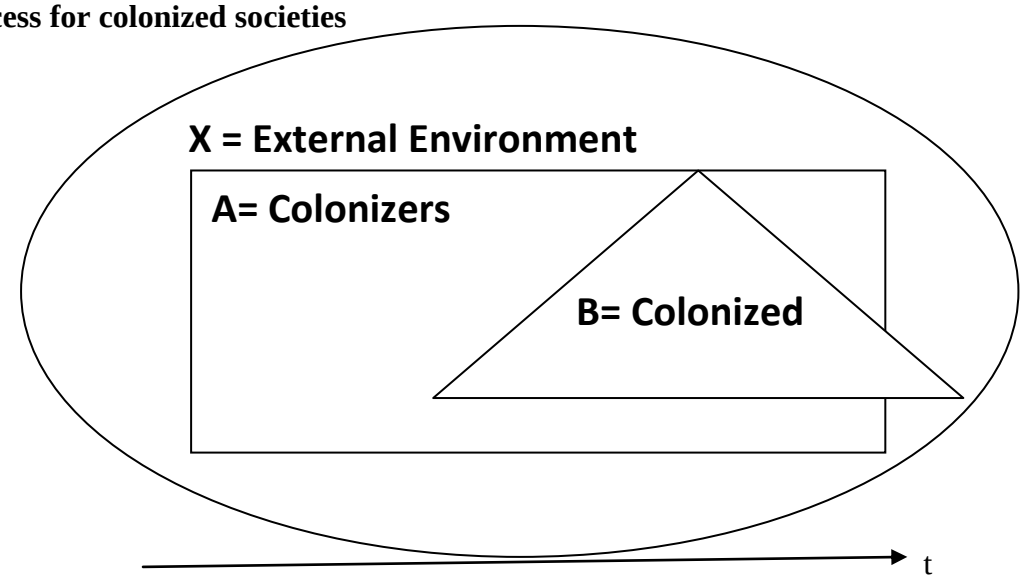
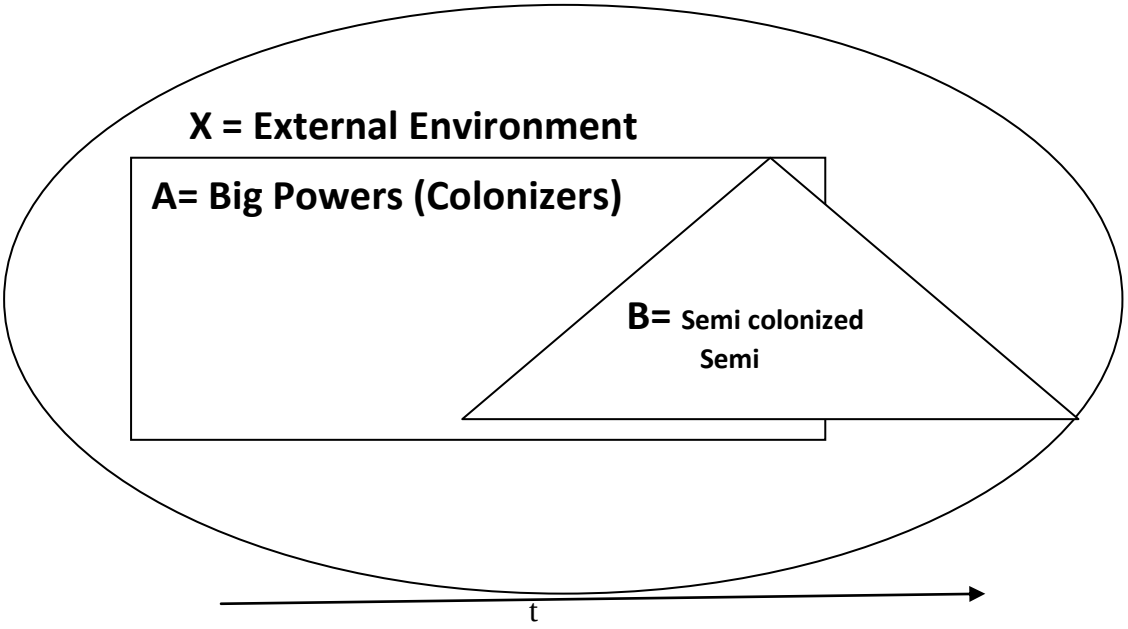


Figure 4: External environment of A and B throughout colonization Process for "semi colonized" or "semi-independent" societies.



What the above three Figures show is that while the external environment or "the world" for group A remain equal to X, for group B, it changes to A + X = Y. That means the study would change into comparing two different societies under two different conditions of external environment for which there is no common criteria for comparison.

The difference for 'colonized" and "semi-independent"[7] societies was that with the status of "dominated actor" they had to deal with the group A as part of their external environment, while the group A or the "colonizers" with the status of "dominating actor" treated group B as part of their internal environment.

[7] "Semi Independent" is preferred to "Semi Colonized" due to the fact that these societies had formal independence that imposed certain responsibilities on their "endogenous" formal institutions, but it does not mean that the severity of the conditions and constraints they faced in their relations with the dominant foreign powers were necessarily less intense than those of the "colonized" societies.

Obviously different "worlds" create different "world views" both creating different beliefs and institutions: one (group A) creating beliefs and institutions for perpetuation and maximization of its dominating status (encouraging and emphasizing discovery of new lands, wealth generation, market expansion, new technologies, new means of transportation, etc. and above all organizations to sustain and improve the efficiency of the system); the other (group B) for changing its dominated status either by breaking away (revolts, revolutions, wars) or getting integrated and upgraded (by assimilation, education, political and economic connections, etc.) in the system. The "cultural heritage" produced in the hindsight, would be inherently and substantially different. Therefore, the two groups face two different, and in some cases, conflicting problems and therefore should resort to different solution: one for continuity, the other for change. The major difference between the two groups, as displayed in the three Figures above, is a deficit in *de facto* sovereignty while maintaining *de jure* independence. Comparing the two groups with the same criteria before the point of recovery of that deficit is methodologically flawed. The NWW recognition of the difference in the problem to be studied in the two groups (North et al., 2009, pp. 263-265) (Weingast, 2009, pp. 36-38) is a positive step in the right direction. All single fit all models are doomed to fail.

The question that would be raised is that if institutions are produced by the belief system or "cultural heritage", how is it possible for two different (or even in some sense opposing) "cultural heritage" to produce the same or at least similar institutions and organizations at a later stage in time? Perhaps the question could even be further complicated if the problem of path dependency

of past choices is also added. The NWW does not offer any answers to these questions (due to lack of a supporting social theory explaining human behavior).

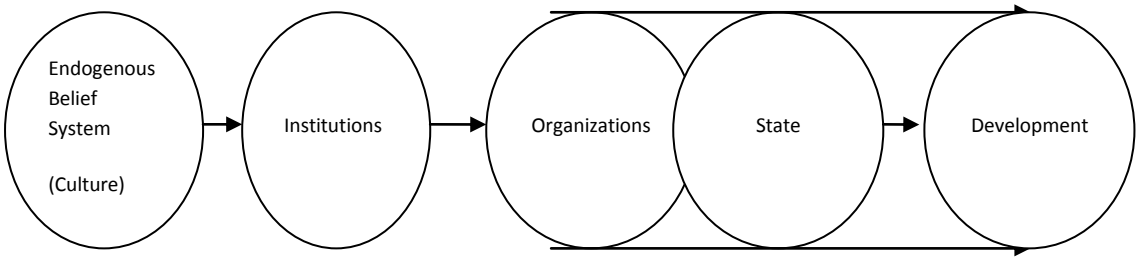
Now let's assume that the elites (and following them, ordinary people) somehow accept and decide to implement the path to development suggested in NWW framework. If organizations and institutions are product of beliefs, does that mean those elites and their citizens should substitute the "Western" worldview and belief system (cultural heritage) for their own? If the answer is positive, wouldn't that be tantamount to a global cultural unification and "cultural cleansing"? And doesn't that involve self-denial and self-destruction (in the sense of destroying one's identity defined either socially or culturally), unless it is done in such a gradual and incremental manner that the change is not felt and remains embedded. Then in this case it means the time period for developing countries even to reach the doorstep conditions would be something of the order of many decades or even centuries.

It seems the grim tone of the framework in emphasizing the forward and backward movement of natural states and lack of guarantee for making the transition to OAO state is the reflection of the uncertainty involved in all long term processes without the human ability to foresee the future, world and its events. This in turn would question both the wisdom of such recommendation, its practicality and the urgency with which it is followed by international organizations and experts. Obviously the answer should be sought in the negative impact of underdevelopment on developed countries, the most prominent of which is the internal and external threat of violence. The former would disturb the internal order and the latter would be a threat to all lines of

supplies (inward and outward), markets, financial institutions and the free global movement of capital, the critical structural veins of the international economy. That means if the developed countries have developed because of their ability to reduce the occurrence of violence, then the increasing rate of violence (both internally and globally) would be a direct threat to the long term development of the developed countries and needs to be stopped sooner, rather than later. That explains the significance, importance and urgency of investigating development related problems and above all understanding its underlying mechanism. The question is then how?

Certainly the above question cannot be answered without understanding the cause of the violence. NWW framework is an attempt in this direction. The argument is simple: development is the outcome of organizations and the underlying institutions that encourage maximum cooperation, competition, and participation of people in society and those institutions are generated and supported by the belief systems (culture) people hold in each society. If developing countries want to develop, they have to change their belief system (culture) (Figure 5).

Figure 5: Graphic presentation of NWW argument



Portraying the dynamism of social change as above NWW needs to provide supporting arguments (theories) explaining how the belief system is generated and that it is all endogenous, and that all institutions upheld in a society are directly produced by the belief system (a causal relationship between beliefs or culture and the institutions). Then it would need a theory to show that the state (as organization of organizations) is either a reflection (an aggregate) of those institutions or at least a "true" representation (sample) of those institutions.

If the system is self-sustaining it would need a feedback system both for internal (process) improvement and an interface for input improvement in its interaction with the external environment. Do all the system constituents directly interface with the external environment, or the belief system (culture) is the interface through which the changes in external environment are fed into the system? If the former is accepted, it would mean there is no necessary one way causal relationship from culture (belief system) to institutions and organizations and they can be influenced by external causes (e.g. socio economic conditions), and in the case of accepting the latter the indigenousness of the belief system would be breached. At most the culture operates as catalysis through which the changes in external environment are received and communicated in locally meaningful messages and symbols to members of the culture.

As most of those questions are unanswered in the NWW framework and are left for further research, the present research is designed to explore some of those questions. Since "Iran's recent past presents a rare, 'laboratory- like' case for the study of growth and development in a broad context" (Hakimian, 2008, p. v), and because Iran possesses, wholly or partially, many features generally

considered features of a modern state (e.g. a sovereign political authority, an electoral system, division of state power, popular political participation, provision of public goods like education and healthcare, etc.), I shall use post-revolutionary Iran as a case study to explore some of the relationships assumed or expressed in NWW conceptual framework. This research would also situate itself within the ongoing debate of Iran area experts if the policies of Iranian state after the revolution are driven ideologically and/or culturally or otherwise.

Research Design and Methodology

This research is organized as a case study of development dynamics in Iran and the origins and causes of the persistence and change of the main violence-generating formal and informal institutions as the main impediment to development in Iran in the light of the conceptual framework developed by (North et al., 2009) referred to as NWW Conceptual Framework. Therefore, the main concepts addressed in this research are violence, beliefs, institutions, organizations, culture and state and their relationship in producing development. As most Iran experts agree that Iran is growing economically with rates neither corresponding to its own material and human resources (Bjorvatn and Selvik, 2008, Hakimian, 2008, Pesaran, 1999) nor comparable to other economies of the same size and characteristics (Alizadeh, 2002, p. 268, Alizadeh et al., 2000), different economic, political or cultural explanations have been offered as the cause or causes of her underdevelopment. Though a structural economic adjustment of the Iranian economy, if implemented successfully, may lead to an increase in her growth rate, it is doubtful that it would automatically translate

into sustainable economic development without the required reforms or adjustment in its political institutions.

To begin with, one needs to bear in mind that even the success and sustainability of IMF recommended current economic (energy subsidy) reform in Iran is subject to further reforms in Iranian policies (economic, fiscal and trade) and corporations which implies political and legal reforms (Guillaume.D, 2011, p. 22). The outcome of such reforms, if realized at all, would at best put the state in a position to make the best use of its revenues from oil, but it does not solve the structural problem of the dependency of Iranian economy on oil revenues, and therefore a major cause of its fluctuating economic performance and political instability. Conflict between "religious" institutions and values to which the state claims to be adhering to and the "institutional requirements" for a sustainable development, are also identified as the major cause of its underperformance (Pesaran, 1999, Esfahani and Pesaran, 2009, Rahimi, 2007). Though non-economic factors identified as the direct or indirect causes of the contradictions and tensions extremely vary, a large number of them could be grouped into causes directly originating from the belief systems (e.g. all religious beliefs supporting establishment of a religious state), and indirectly from cultural dynamics (e.g. the identity formation conflict between pre and post Islamic beliefs, practices, symbols, institutions, and traditions) of the inevitable conflict between pursuit of "ideological", "cultural", or "traditional" policies of the Iranian state and the requirements for development in an increasingly globalized modern or postmodern world (Bakhash, 1989, Farhi, 2005) (Chubin, 2000) (Lewis, 2005) (Kuran, 2004).

Research Design

In this research the Iranian state, as organization of organizations, and its major policies in the post-revolutionary period shall be analyzed first to find out if the state itself is established and organized by "cultural/religious institutions" and second the policies pursued are the "inevitable causal" outcome of those "cultural/religious institutions". The research assuming NWW conclusion that the main cause of underdevelopment in natural state is the relative short periods of peace and stability rather than lower rates of economic growth compared to OAOs, is designed to show that not only Iran's post revolution history has been extremely violent, but her history in the course of 20th century has been frequently shaped by wars, violent military operations, revolutions, coups and social unrest. The repeated occurrence of open violence combined with the continued threat of violence in the form of foreign interventions, authoritarian repressive regimes or social unrest has deeply affected the key development institutions like tax and public administration, rule of law, investment, etc.

However, by further analyzing the sources and origins of the prevailing violence an attempt shall be made to display that the violence is neither endogenous nor stemming from its religious ideas or broader ensemble of its culture. Instead, the violence is mainly imposed on the country externally for political influence and economic advantages leading to certain institutional arrangements that combined with the violence itself have perpetually fed political and economic instability causing underdevelopment. Attempts by the Iranian state or nation to change the impeding institutional arrangements after the revolution has met further violence or continued threat of violence as had before the revolution.

This research is motivated and designed on the basis of recommendation of NWW for "new research that entails an in-depth understanding of violence, institutions, organizations, and beliefs in the natural state that we do not currently possess" and on the shared assumption with NWW that "every society evolves in unique ways, so that a deep understanding of change must go beyond broad generalizations to a specific understanding of the cultural heritage of that particular society" (North et al., 2009, p. 271).

To achieve it aims the research is designed as a qualitative crucial case study, both to arrive at a deeper understanding of the social dynamics in Iran, contributing to overall existing Iran area expert knowledge, and to provide a detailed research to support some but challenge other propositions in NWW Conceptual Framework. Obviously the first questions that may be raised as to the justification and importance of the research are the selection of the case study methodology and Iran as the subject of the study. To answer these possible questions two main reasons were taken into account for the selection of the methodology and the "case": one is related to the nature and methodology of the NWW framework and the other concerns the present and past conditions of development in Iran which makes it "the most likely fit" case that could serve as a "crucial case" for NWW conceptual framework.

The NWW framework is presented as a conceptual framework not susceptible to empirical tests. "We do not present a formal model that generates explicit empirical tests or deterministic predictions about social change". This in effect means there is no theory or hypotheses to be tested, but instead it proposes "a conceptual framework that incorporates explicitly endogenous patterns of

social, economic, political, military, religious, and educational behavior" (North et al., 2009, p. xii). The methodology used to provide supporting evidence both for its assumptions and conclusions are case studies of "nine countries"(North et al., 2010, p. 13). "We interlace historical illustrations with the conceptual discussion to provide enough evidence that these patterns actually exist in the world" (North et al., 2009, p. xii). The case studies are specifically conducted to support the arguments for the general pattern of development in natural states, that is, the problem of development in LAOs. That naturally means studying the problem of development in developing (LA) countries within this framework should take into account the evidences provided by the nine case studies undertaken. Therefore, presenting a study of a "case" that may qualify as "the most likely case to fit the framework" and yet does not support (at least some of) the assumptions and conclusions of the framework (i.e. a counterfactual case study), even if may not necessarily disconfirm the proposed framework, it should lead to revision of some basic assumptions and conclusions and probably a reformulation of the proposed conceptual framework. For at least it would mean that if the framework is not applicable to its most likely fit case, its application to least likely and even typical cases would come under serious doubts and questions.

But, would a single case have the potential to challenge the extension and generalization of the conclusions drawn from NWW framework "supporting" case studies? Perhaps an exploration of some methodological concerns on the nature and role of "case study" research would shed some light on its potentials.

"Case studies enable researchers to focus on a single individual, group, community, event, policy area or institution and study it in depth, perhaps over an extended period of time". This approach is "closely associated with historical study" and while both quantitative and qualitative data can be generated by case study, "the approach has more of a qualitative feel to it"(Burnham et al., 2008, pp. 63-4). As the case study relates to a "single case" some doubt the utility of case study in generating data that could be generalized. In order to avoid the criticism of being just an account of a unique case, "a strong theoretical dimension is often incorporated into case study design" of which the critical case study is a good example. In critical case study the researcher has "a clearly defined hypothesis or theory to test and the case study is designed so that the wider generalization can be drawn"(Burnham et al., 2008, p. 64). Others however disagree with many parts of the above propositions. To focus on the current research, a review of the debate on "case study" here is limited only to those relevant to political science.

A review of the literature on "case study" reveals that even at the most fundamental level, that of the meaning of the term "case study", there is no widely accepted definitions in political science (Yanow et al., 2008, p. 1). In the first place there are disagreements in considering case study as research "strategy" or 'methodology". "The case study is a research strategy which focuses on understanding the dynamics present within single settings" (Eisenhardt, 1989, p. 534) .

> "A case study is a research strategy that can be qualified as holistic in nature . . . looking at only a few strategically selected cases, observed in their natural context in an open-ended way . .

> . making use of analytical comparison of cases or sub-cases, and aimed at description and explanation of complex and entangled group attributes, patterns, structure or process"(Verschuren, 2003, p. 137).

The divide and disagreement seems to be more of the result of a general tendency influenced by the methodology in natural science and the attempt to produce results of similar vigor and validity in social science.

> "What began in the 1950s as the investigation of unique practices in socio-political life . . . has increasingly . . . been expected to change that approach . . . that takes one understanding of natural science methods and techniques as the requirement for studies of the political to be seen as scientific" (Yanow et al., 2008, p. 3).

Despite the wide disagreements on the meaning or definitions of "case study" and varied degrees and periods of acceptance between the proponents of its earlier form and "those trying to bring it closer to quantitative modes" it remains a "central method of analysis in contemporary political science research" (Yanow et al., 2008, p. 11). It is under such conditions that the validity, reliability and theory relation of the case study and in other words "the very status of the case study as a scientific method" is at issue (Flyvbjerg, 2006, p. 221). In explaining common misunderstandings about case study Flyvbjerg (2006) recounts context dependent knowledge necessary for development of "virtuoso experts" from rule-based beginners and the only type of knowledge that appears to exist in the study of human affairs, which, thus, presently rules out the possibility of epistemic theoretical construction. "Context-dependent knowledge and experience are at the very heart of expert activity" he says,

adding “it is only because of experience with cases that one can at all move from being a beginner to being an expert”.

> If researchers wish to develop their own skills to a high level, then concrete, context-dependent experience is just as central for them as to professionals learning any other specific skills. Concrete experiences can be achieved via continued proximity to the studied reality and via feedback from those under study. Great distance to the object of study and lack of feedback easily lead to a stultified learning process, which in research can lead to ritual academic blind alleys, where the effect and usefulness of research becomes unclear and untested. (Flyvbjerg, 2006, p. 223)

The absence of predictive theories in social science is what makes context dependent knowledge the only source of knowledge available to study human affairs.

> The second main point in connection with the learning process is that there does not and probably cannot exist predictive theory in social science. Social science has not succeeded in producing general, context-independent theory and, thus, has in the final instance nothing else to offer than concrete, context-dependent knowledge. And the case study is especially well suited to produce this knowledge. (Flyvbjerg, 2006, p. 223)

These conclusions are important in the sense that at least two influential critiques of case study, Campbell (1966) and Eysenk (1976) who in their earlier works had seriously questioned the value of case study research that became the origins of many subsequent attacks on the value of case study due to its inability to produce “scientific” knowledge and even various defensive attempts and approaches to turn case study into a “scientific” methodology, revised their positions and came to conclusions more or less similar to that expressed by

Flyvbjerg. In introducing the NWW conceptual framework and its basic assumptions and implications, it seems North also takes a similar approach, though with an added ontological explanation: "Economic advice so often is wrong because it says generalizations can be applied anywhere and they work. That is just simply not true".

> My last point here is that it is a non-ergodic world. An ergodic world would be one in which the fundamental underlying structure is uniform and exists everywhere. In such a world, if you understand that fundamental underlying structure and you want to solve a new problem, you go back to fundamentals and then build your theory based on the structure. Now that is what is done in the physical sciences and the natural sciences. The social sciences, however, have no such tools; and, what is much more difficult—the world just keeps changing. (North, 2009, p. 25)

Regardless of all skepticism expressed as to the value and validity of case study, it has even become popular among scholars of communities (e.g. political economists and quantitatively inclined political scientists) not traditionally associated with this type of research. (Acemoglu et al., 2002), (Bates et al., 1998), (Rodrik, 2003), and (North et al., 2011) are some prominent examples. Observing the trend earlier (Gerring, 2004) stated that "by the standard of praxis, therefore, it would appear that the method of the case study is solidly ensconced and, perhaps, even thriving" (p.341).

Based on such an understanding of social science, the present research takes case study as a justified type of study as a way of defining cases not analyzing or modeling causal relations with the broad definition proposed by (Gerring, 2004) as

> *an intensive study of a single unit for the purpose of understanding a larger class of (similar) units*. A unit connotes a spatially bounded phenomenon—e.g., a nation-state, revolution, political party, election, or person—observed at a single point in time or over some delimited period of time. (p. 342)

In this sense the present research is an intensive study of Iran as "a natural state" to understand economic development in "natural states" as described and classified by NWW. Based on this definition a single unit could be studied either temporally over a period of time between A and B or it could be broken down to some subunits which could then be studied either synchronically or diachronically.

Therefore, there are three research designs conceivable for case study with different methodologies of analyzing covariational evidences. A unit might be a nation-state studied before and after an event (e.g. a revolution) or it might be broken down to its subunits (e.g. smaller geographical, institutional or organizational components) studied at a single point of time synchronically or their development over a period of time diachronically. The current research intended to explore the relations between economic underdevelopment or underperformance, violence, institutions, organizations and the belief system (or more broadly culture) shall employ all three methodologies to achieve its aim. It is generally designed to identify the current rent distribution mechanism in Iran, identify the sources of violence and explore if they are related to culturally established institutions or otherwise. To achieve its aims the research is thus designed to answer the following main questions:

4. What are the sources of rents and how are they distributed?

5. What are the rent-related violence generating/promoting institutions in Islamic Republic of Iran?
6. Are there causal relations between country specific belief system or culture and rent-related violence generating/promoting institutions in Iran?

Answering the first question requires an analysis of sources of state revenue and their distribution mechanism by the state. This could be achieved by a descriptive analysis of the state organization, the ruling coalition, sources of revenue and the mechanism through which the ruling coalition manipulates the economic system to distribute the rents. Oil export and revenue is the key in this process that from its first commercial operation in the first decade of 20th century by the concession granted to a British subject (and then company) until the present day has affected all corners of economic, political and social life in Iran.

The division of revenue between the foreign operator (s) and the Iranian state, the security of the wells and oil installations, measures to keep the oil flowing from Iran at cheap prices, creating a monopoly of continued exploitation of the reserves by foreign beneficiaries, increasing reliance of the Iranian state on increasing revenues from oil exports, relaxing tax extraction both as a kind of rent for powerful economic agents and a means of avoiding widespread social and popular demand for greater political representation and power distribution, the distribution of the oil revenues earned, development of oil export related economic infrastructures, industries and services at the expense of basic economic necessities and sectors, economic and financial booms and busts and the accompanying or consequent persistent inflationary pressures and budget

deficits, etc., have all been and still are sources of rents, internal tensions, violence, corruption and external aggression, all in turn affecting the whole social interactions and organization and institutional arrangements. This would be an analysis in line with NWW conceptual framework of the state operation in "natural state". "The simplest genre of descriptive case study asserts that the unit under study (A) is like, or unlike, other similar units (B and C). . . descriptive case study propositions are implicitly comparative and these comparisons must have a cross-unit reference point"(Gerring, 2004, p. 347). The cross-unit reference point for the current research is obviously all "natural states' or LAOs defined in the NWW framework that currently constitute all developing countries and all now developed countries before their transition to become OAOs.

The answer to the second question ordinarily means identifying all violence generating institutions and then separating those related to rent distribution. This would involve an extensive research of all violence generating institutions of which a great number would certainly be irrelevant to the research purpose. To limit the research it would be appropriate to define rent related institutions in terms of its main source as defined by NWW framework, i.e. the political system. "Economic institutions—property rights and other social rules that we talk about in economics—are derivative of political institutions. The political system defines the kind of economic rules of the game and the judicial system you have" (North, 2009, p. 27). In this sense, therefore, all formal economic and social institutions are derived from the political institutions. That would logically mean that all public or social violence generated within a state ultimately originates from political institutions. This, in other words, means

assuming the state as sovereign authority. If natural state manipulates the economic system for rent generation by definition, and rents are generated by the state, then it means all political institutions could be potentially rent related and those political institutions subject of dispute or disagreement naturally could be regarded as potentially rent-related violence generating institutions. By this argument the number of "within the unit cases" to be studied is greatly reduced to those political institutions subject to dispute or disagreement. An analysis of such institutions and their operations and overall impact on other institutions should reveal how they cause, generate or promote violence and consequently cause or contribute to underdevelopment.

The last question to be addressed is the origin of such institutions. NWW despite avoiding making explicit causal relationship between belief system and such institutions, through dispersed interpretations and examples implies that violence generating or promoting institutions are endogenous of the belief system (culture) in LAOs[8] (North, 2009, pp. 25-26) (Weingast, 2009, p. 46) and because culture keeps changing, though at very slow rate of pace, different intensity of violence prevalence is a reflection of such cultural changes and

[8] e.g. "Now, before you despair with that, note that culture here plays a crucial role. Culture connects the past with the present. Much of our belief system, therefore, has evolved, and so we can have a culture that has some degree of coherence to it"; or " What we have first is belief systems, which then translate into creating institutions, but even that is complicated because institutions are rules, norms, social order, and enforcement characteristics"; or "With different experiences in the Islamic society, to take the classic modern illustration, from Western society, we produce differences of views, conflict, disorder, and warfare. We have not solved any of those problems". NORTH, D. C. 2008. Violence and Social Orders. *In:* CHAMLEE-WRIGHT, E. (ed.) *The Annual Proceedings of the Wealth and Well- Being of Nations 2008-2009.* Beloit College Press.

hence changes in different institutions that increase or decrease violence. It is the persistence or changes in such institutions that determines the forward and backward movement of natural states on the continuum of violence generation or promotion that makes them *Fragile*, *Basic*, or *Mature*, and determines their progress to or regress from the doorstep conditions.

The argument advanced by NWW framework is that as all these institutions are endogenously produced and established by the belief system in any given society, therefore, the particular belief system (or the culture) is the source of generating or promoting violence. This means supporting such argument either requires establishing a direct one way causal relationship from belief system to institutions or denying that no (at least with some acceptable statistical degree of certainty) political institutions has ever been generated exogenously which in turn requires providing sufficient evidence for the argument. Under such condition then if the causal relation between belief system and institutions is regarded as a necessary deterministic condition, then even a single contradictory case would falsify the argument. If not, and the relation is regarded as some kind of an association or correlation, then NWW needs to explain the relation, i.e. the argument turns to be a case or a proposition stated but not substantiated.

However, the important issue here is that if the relationship between belief system and institutions is considered a one way causal relation, it would mean either the belief system is given (something permanent and static) or there are non-institutional channels of belief generation and or modifications. NWW framework lacks any theory for belief creation. In the absence of any explicit explanation for this relationship I shall take the development of the idea of

"independence" in pre-revolutionary Iran and then its institutionalization (and the dominant state and national narrative) in post-revolutionary Iran that became the main driving force behind the Iranian foreign policy and economic and military self-sufficiency (autarky) was an idea or a belief developed out of constraints violently imposed on the country in the course of the 20th century.

Case selection, data collection and analysis

In applying the NWW framework to a case, the main concepts and independent variables to work with are violence, institutions and belief system. As the framework is presented as a conceptual framework based on "recorded human history", it is closely associated with historical approach. However, in designating the endogenously generated institutions as the main cause of generating development, the main emphasis is on "culture" and history. Based on this approach, selecting a state with a violent history, highly charged "cultural orientation" in organizing the affairs of the society and extensive institutional changes could present a "crucial" or "most fit" case to test the hypotheses presented in the framework. Obviously the "most fit' case as a case study may not present a strong case to support a theory, but "where the researcher is attempting to disconfirm a deterministic proposition the question of representativeness is perhaps more appropriately understood as a question of classification: Is the chosen case appropriately classified as a member of the designated population? If so, then it is a fodder for disconfirming case study" (Box-Steffensmeier et al., 2008, p. 676). In this sense perhaps Iran is amongst the few highly qualified "most fit" cases on the one hand, but more importantly treating the relationship between belief system (culture) and

development/underdevelopment generating institutions as a deterministic case, Iran would present a “disconfirming case”. Then the conclusion could be drawn that even the “most fit” case selected on the basis of “independent variables”, i.e. violence, institutions, culture does not support the proposition of the NWWW framework. And if the claim to deterministic causal relations between culture and institutions is withdrawn, then it becomes nothing more than an academic gesture, neither confirmable nor falsifiable.

As regards data collection and analysis, since the framework does not lend itself to statistical or quantitative data analysis the present case study is based on a historical approach utilizing publicly available secondary and tertiary sources both in English and in Persian. The Iranian current and past constitutions, laws, religious sources, and published research and written sources are used for data collection. Textual and descriptive analyses are employed to analyze the data. The basic primary data are collected through face to face open end interviews with a sample of 7-10 current and ex officials of Iranian development related agencies and organizations.

Conclusion

The failure of developed countries to transplant the assumed economic development generating or promoting institutions recommended by the so called “Washington Consensus” in developing countries through peaceful means of international advice, development aid, and pressure of international organizations or by direct violent interventions in some of them to establish the “democratic” market friendly institutions (economic liberalization, rule of law, transparency, privatization, etc.) has led some institutionalists, to develop the

idea that culturally generated institutions are the main cause of rejecting development generating or promoting institutions. This conflict is viewed both as the main cause of violence and economic underdevelopment or underperformance due to rent seeking nature of ruling coalition in these countries, being natural states. Even though the idea is presented only as a conceptual framework, lacking the necessary components of a theory and theoretical groundwork to explain the relationships between beliefs, institutions, behavior and organizations, it is of wide reaching implications both for developing and developed countries.

Such implications could include further financial, trade and international limitations for developing countries, greater conflict and violence in developing countries for establishment of such presumably development friendly institutions, and greater oppression for their citizens. The final result would be even further extremism (right or left) with an escalation of violence on international scale. It is this possible outcome of such an approach that calls for serious and immediate investigation of the proposed conceptual framework.

The biggest problem of the NWW Framework is its implicit assumption of a *Homo Economicus* actor. The idea that the powerful organization would choose peace if the payoff from peace is greater than violence, requires the actors to act purely on the basis of economic rationality as their motivation, have complete information of the outcomes of the two alternatives and have the capacity for calculation. This runs counter to their arguments for bounded rationality, limited information and limited capacity of the actors. It also fails to take account of the cases when actors find greater payoffs in fighting. Despite all preventive

institutional arrangements at least one side will resort to violence. In this case the only alternative for prevention of fighting is a third force, with greater authority and physical force to prevent violence when one side finds it its own (economic) interest to the detriment of collective good.

What NWW describes is the reality of human interaction and the ubiquitous problem of violence. The state as the coalition of powerful individuals and organizations has to establish an authority, that is, the ruler or the government, with a violence capacity at least greater than each individual member and greater than the nominal majority of the coalition. The relative violence capacity and balance of power of the members of the coalition determines the ability of the government or ruler to overwhelm each member and any subset of the coalition. The existence of such authority at least with support of the most powerful member of the coalition then is a necessity both for provision of any internal order and external defense. The relative power of the members of the coalition shapes the configuration of this authority and influences the degree of its autonomy, rule-making and enforcing capacity. While the existence of such authority at national or social level, greatly reduces violence, the monopoly of violence could be realized when the violence capacity of this authority, ruler or government, exceeds the combined capacity of the members of the coalition, otherwise, it remains a claim on actual level but exercised at legal and judicial levels. The absence of such authority in international relations, a situation generally referred to as anarchy, is the most fundamental problem of international relations. This is the external environment for the actors, where, violence and invasion is an eternal threat (a permanent uncertainty) and the state

has to live either at the mercy of the powerful and the military-political coalitions in which it enters or embeds itself, or must be sufficiently powerful to deter violence and defend itself when happened.

With NWW Framework basic assumption that long term economic growth is a function of reduced period of violence, political and economic development, then to a large extent is geared to how the state and government solves the problem of living in an acephalous society of states. This process is where change and stability come into play. Presenting a historical overview of post-revolutionary and contemporary Iranian political and economic developments, the role of violence and externally imposed institutions in shaping Iran's political economy is explored in next chapter. It demonstrates that economic policy making has been heavily influenced by increased level of external violence and coercive security threats, increasing the country's transaction costs in international relations and influencing extensive changes in domestic political institutions and organizations.

CHAPTER 2

How Institutions Affect Development: A Case Study of Iran

Introduction

> “Her [Skocpol] statement that "legitimate authority in the Shi'a community has long been shared between political and religious leaders" is misleading, as it suggests a rather static "traditional" state of affairs, rather than a dynamically changing series of relationships between Shi'ism and the state”.(Keddie, 1982)

> “Iranian domestic institutions are not studied fully or adequately by scholars in the West. Linguistic skills, the need for special knowledge of the working of these institutions, and the serious problems of access have prevented thorough and systematic study of many key Iranian institutions. This is particularly disturbing in light of these institutions' profound impact on Iran's domestic politics and foreign policy behaviour. The problem is exacerbated by the changing dynamic nature of these institutions. There has been significant modification and evolution in every one of these organizations as well as important changes in the composition of their top leadership. For a better understanding of Iranian politics, these transformations all need to be studied and analysed.” (Kazemi, 1993)

The establishment of a religious state after a popular non-violent revolution in Iran in the second half of 20th C. came as a shock to many Iran, Middle East, and development studies experts (Ajami, 1988) (Kurzman, 2009) (Misagh,

2009) (Skocpol, 1982) (Parsons, 1989). Even more surprising was that it came after five decades of consistent centralization of the state power, intensive industrialization program based on the recommendations of international development experts and organizations. The revolution happened when the country was experiencing the highest rate of economic growth in its history and the Shah (King) of Iran had started to talk of Iran becoming Japan of the Middle East in very near future. He boasted of being at the doorstep of the great Civilization, the ideal development status.

Over five decades of political, military, and technological support of the Iranian state by the British, the oldest foreign benefactor in Iran, and other European countries and the USA, coupled with the quadrupling of the oil prices in the course of 1960s and early 70s, had put the country on the full course of industrialization and modernization program. The fall of the Shah's regime and the establishment of a religious state dealt a real blow not only to modernization theory, but also to other mainstream development theories.

The multiclass nature of the popular participation in the revolution seriously put the world system theory and the dependency theory in question, because the religious or cultural element involved in the revolution indicated that the Iranian revolution, at least, was not about class struggle or replacement of the capitalist system with a socialist regime. Considering the importance of the Iranian regime in promoting the Western interests in its political, economic and military aspects in the Middle East, the gradual movement of peripheries, to semi peripheries and finally to core was also invalidated. Considering the huge oil revenues received by the country and its rich human resources, one could

reasonably conclude that it must have been the political and economic institutions which caused the regime's downfall.

The state of the Islamic Republic of Iran was established with sweeping political and economic institutional changes (Hakimian, 2008, p. 1) as reflected in its Constitution. However, despite those extensive changes in its institutional arrangements, not only much improvement is not observed in the area of economic growth, but also the political repression and violence that had ridden the Shah's regime continued and even intensified in certain areas and at some points of time. Except the first few years, initially political centralization and then economic rent distribution under the political centralization resumed and was justified due to the foreign aggression. Those processes continued and intensified after the end of the war with Iraq (1989). The last internal political dispute involving the most senior political figures of the state was displayed in the course of the last Presidential election in 2009, followed by the continued dispute between the President and his associates and the supreme leader and his supporters. Both factions agreement to suppress political opposition is displayed in their treatment of the opposition after the Presidential election of 2009.

In its foreign relations the nuclear standoff with Western countries has also put the country under severe international political, economic, and military sanctions and embargo. It is this prevalence of violence, both in its internal and external aspects that make the conceptual framework developed by North et al. (2009) which treats the problem of underdevelopment as the outcome of long periods of violence due to political institutional arrangements in natural states, *i.e.* developing countries, suitable for analyzing the Iran case. The role of

violence in political arrangement, the rentier nature of all natural states in which the political system manipulates economic system for rents, the centrality of politics in development outcome and the central role played by institutions in such an arrangement developed in NWW conceptual framework all are concepts that are capable of explaining development process in pre and post revolution Iran. However, considering institutions as endogenous products of culture on the basis of which it explains the development process in developed countries and builds an impenetrable cultural wall between developed countries (what it calls Open Access Order) and the natural states (termed Limited Access Order) and thereby completely ignores the cultural interactions between these societies and even more importantly eliminates the colonial relationship and process from development process, is its major deficiency.

This chapter is designed to show that the prevailing violence in Iran before the revolution was mainly imposed on the country externally and they did not have cultural origins. The same process, related to the role of oil in international economic structure creating political and economic path dependencies (Nye and Keohane, 1971) (Cooley, 2001) (Yetiv, 2015, pp. 1-33) also partly explains the current violence in Iran (Kinzer, 2003). It is also designed to show that the Islamic Republic of Iran is the product of the idea of 'independence" understood as a state free from foreign influences and intervention which was developed as a result of repeated foreign (mainly Western) intervention in the internal affairs of Iran manipulating the political system for economic rents (Gourevitch, 1978). The repeated interventions, the climax of which was the joint US-British coup against the democratically elected government of Iran in 1953, killed all

democratic politics in Iran, leaving no resource to turn to except religion as the only remaining means of reforming or replacing the political system (Dabashi, 2011, pp. 1-4) (Rahnema, 2012) (Nye and Keohane, 1971, p. 342) . That was not an institutional "choice", but the only "option" available due to constraints. The fact that almost all subsequent prominent figures of the subsequent "religious" movement were members, associates and sympathizers of the Iranian National Front under Mosaddeq is a strong testimony to political nature of this "choice". This of course does not mean to deny that many of them were religious individuals and even members of the clergy.

It was in no way a cultural product: part of the post revolution political disputes relates to disagreements amongst different factions in the religious establishment on the nature of Islamic Government and Economics. This disagreement was explicitly highlighted during President Khatami's terms and intensified during President Ahmadinejad's terms. It is in the absence of such ideological and cultural agreement that the Islamic Government implements "the new right" Washington Consensus of liberalization and privatization, unless one assumes a compatibility between Islamic Economics and Liberal free market Economics (Hosseini, 1988). Most of the privatized state owned firms and companies were distributed amongst the regimes key supporters, the military, paramilitary, religious establishment, security and intelligence authorities and other associates. The one critical change, however, that could be treated as a specifically culture generated change, is the role of the clergy and the religious establishment from a state legitimizer to that of the ruling coalition

or the state itself. This has become a new source of violence that could be considered a culturally generated violence.

In this chapter the post-revolutionary development in Iran is reviewed to show that while the concepts developed in NWW framework are capable of explaining the political, economic and social developments in Iran, also aims to show that part of the problem faced by the country stems from institutions created by external pressures developed as the result of historical developments, international economic structure, deliberate prevention of development of the country, path dependencies created as a result of such external pressures, and forcing institutional changes that have become new sources of violence. This chapter would serve as the basis of my critique of NWW conceptual framework and the contribution of this research to further develop and revise the NWW framework accordingly.

Review of Post Revolution developments in Iran

Three decades after one of the most spectacular popular revolutions in human history, Iran today is still besieged by military, political and economic tensions. With a population of 78 million and Gross Domestic Products (GDP) of about US$ 400 billion, Iran is the second largest nation (after Egypt) and economy (after Saudi Arabia) in the Middle East and North Africa. “Iran ranks second in the world in natural gas reserves and third in oil reserves. It is the second largest OPEC oil producer; output averaged about 4 million barrels per day in recent years. Iran's chief source of foreign exchange is oil and to a much lesser extent natural gas. Thus, aggregate Gross Domestics Product (GDP) and government

revenues are intrinsically volatile, fluctuating with international prices of these commodities.

So far, macroeconomic policies have typically not counteracted these boom and bust cycles in economic performance which increase the uncertainty faced by the private sector, impeding investment and job creation" (WorldBank, 2012). "Having been the 22nd largest economy in the world in 1980, it fell to 39th largest (in 1994 and 2000), and rose again to 29th largest in 2007 . . . . By 2014 the IMF is forecasting Iran to have the 25th largest economy" (Jones, 2009, p. 61). In 2010 it was still the 29th largest world economy just after Argentina and South Africa and higher than Greece, Denmark and Thailand, while Saudi Arabia (the largest oil producer of OPEC) and Turkey (a neighboring country with similar non-oil economic structure) were the 23rd and 17th respectively (WorldBank, 2011).

Despite some improvements in recent years, Iran's dependence on oil revenues is still very high (some experts even argue that it has increased compared to pre revolution era), economic growth is unstable and fluctuating as a of function of international oil prices, unemployment and inflation are still very high (IMF, 2011, pp. 6-7). Economic inequality (both in terms of income and opportunities) has increasingly deepened in the post war period and would certainly increase still further with the recent energy subsidies reform resulting in increasing the prices of gasoline and some other basic products (including wheat and bread) to as high as "20 times" (Guillaume.D, 2011, abstract) further pushing a great number of people below the poverty line. International economic sanction imposed on the country is probably one of the most severe in recent world politics, creating great political, economic and financial opportunities for a

small number of individuals and institutions (Hen-Tov and Gonzalez, 2011, p. 56) both in Iran and abroad and increasing the cost of legal transactions especially in foreign trade (IMF, 2011, p. 4). A very important note of caution at this stage is to keep in mind that there is usually a considerable gap between observable realities in many areas of economic activities and statistics published by the state and international organizations and institutions, a fact boldly reflected in live televised joint Presidential debates of 2009 election during which the incumbent President and the opposition candidates disagreed almost on all figures and numbers presented by the other side. The deficiency of statistics and data collection and reporting systems in some areas is reflected in the latest IMF report (IMF, 2011, pp. 16, 31 and 5-6 App. III).

On the political scene the picture is not much different. Political disputes and strife among various state institutions and the ruling elite have intensified (Yong, 2011), internal active public opposition has grown to an unprecedented level in post revolution period to the extent that in the aftermath of Presidential election in 2009, described as a "de facto coup" (Hen-Tov and Gonzalez, 2011, p. 45), a "Masquerade Coup" (Safshekan and Sabet, 2010, p. 544), a large number of people accusing the government of rigging the election, in a move reminiscent of the street demonstrations of 1978-79, poured on the streets of Tehran in many occasions. The protests which started by the two presidential hopefuls (Mir Hossein Mussavi, former Prime Minister and Member of the Expediency Council and Mehdi Karrubi, Former Parliament (*Majlis*) Speaker and a Member of the Expediency Council) later turned into a current political opposition movement known as the "Green Movement". In addition to internal opposition, international pressures and sanctions against the country have

increased, threat of foreign military intervention looms large, and a military security environment dominates the country. This great penetration of political scene by the military and security forces have progressed to the extent that Iran today is described by some as a "praetorian" state (Hen-Tov and Gonzalez, 2011, Safshekan and Sabet, 2010).

Socially, the situation is of a more mixed nature. In education and health Iran has been doing very well in the past three decades. "With a value of 0.72, Iran appears to be within reach of the level of high human development countries (starting at 0.8). Yet despite recent gains in life expectancy, literacy and educational attainment, current trends in income growth has resulted in small incremental increases in the HDI. Strengthening the economy remains an important challenge" (UN., 2003, p. 5). While the rate of female literacy and share in higher education has increased, the pressure on female "codes of behavior and dressing" in public has also increased. "Women continue to face widespread discrimination in law and practice . . . . Gender inequality is widespread and sustained by Iranian law" (Jones, 2009, p. 58).

Social crimes like fraud, rape, theft, burglary, and murder have been increasingly on the rise to the extent that for almost every five Iranians there is legal case in the justice administration (certainly cases which never reach the Judiciary either due to informal settlement of the cases or the unwillingness of either parties to report or register their complaint with the justice administration, are as high as the formal figure, if not more) (interview). The age of marriage (both for male and female) has risen to unprecedented levels, while the rate of divorce has also risen. Organized crimes, particularly in urban areas and cities,

both in terms of the severity and complexity of their nature and their instances, are also on the rise. Civil liberties, freedom of speech and press are limited only to those closely connected with different centers of power. A general sense of social tensions and insecurity prevails. As a result and perhaps not surprisingly, the fatalities resulting from road accident and the rate of brain drain (BBC, 2007) in Iran are amongst the highest in the world. But the most striking development in recent years has been Iran's involvement in development of her nuclear capability, space exploration, and a buildup of her military capability and industry, leading to accusations mainly from the US and its European allies of pursuing a secret clandestine plan for nuclear weapons and imposition of severe economic sanctions against the country.

The other side of this grim picture is the improvements made in the country's conditions during and after an 8 year destructive war with Iraq. "Despite all the financial difficulties, Iran's achievements have been impressive in education, health, and poverty reduction. Poverty has fallen from an estimated 40 percent before the revolution to close to 20 percent now"(WB., 2003, p. iii). Vast number of small towns, villages and remote rural areas during the past three decades joined the national grid, piped water and gas networks, and telephone communications. Thousands of kilometers of rural roads, irrigation networks, schools, and medical centers were built, now in use. There is hardly any residential area with a population of over 20 household without provision of these basic services of modern life. A large number of people living in rural areas and small towns are now enjoying little luxuries of the modern life they ever envied. Describing contemporary Iran while strongly rejecting the idea of

classifying Iran as a "failed state", one expert writes: "Thanks mainly to oil revenues, it has brought citizens a respectable standard of living: low infant mortality, reasonable longevity, high literacy, impressive college enrollment – including for women – and for many of its citizens access not only to electricity, piped water, and modern transportation, but also to such consumer goods as refrigerators, telephones, radios, televisions, and cars. It now contains a large salaried middle class and an educated working class as well as a traditional entrepreneurial middle class. In many ways, the country is no longer part of the Third World" (Abrahamian, 2008, p. 194).

These same "citizens" are the bulk of people who supplied the never ending "human wave" (Keddie, 2006, p. 251) to prevent the highly equipped Iraqi professional army and internationally well supported Iraqi regime of Saddam Hussein from perpetuating her occupation of the Iranian land and particularly the oil rich province of Khuzestan in south western part of the country bordering Iraq. *For the first time over a century, Iran did not lose any ground to "enemy" at the end of a war* (Farhi, 2005, p. 11) . For a nation who in the course of her recent history had lost vast geographical areas which now form countries like Georgia, Azerbaijan, Armenia, Turkmenistan, Afghanistan, Bahrain, parts of Iraq and Turkey, it was a historic achievement, though at a very high human and financial cost. Despite destruction of many economic centers and activities of the country down the line from the most north western corner of the country to most south western parts covering the Western half of the country including the capital city (Tehran) and dislocation of a large number of people from their homeland, the sense of pride and honor of the nation was restored and preserved

(Hen-Tov and Gonzalez, 2011, p. 56). In the face of the de facto political and military sanctions of Iran by all major world powers and their support of Iraq along with major regional rich oil producing countries during the war years and direct involvement of the USA in the last years of the war (Keddie, 2006, p. 259), such an achievement made it even more valuable.

However, the long war made certain groups incredibly wealthy (Mazarei Jr, 1996, p.30), and others unprecedentedly politically powerful leaving the majority of the population to struggle with the economic, social and psychological impacts of a war torn country and the government to deal with huge chronic budget deficit, high inflation rate, multi rated foreign exchange, an army of new labor force seeking employment, the largest refugee population in the world (both from Iraq and Afghanistan of whom about 1 million still remain in Iran (UNHCR, 2010, p.12) and above all reconstruction of the country and resumption of normal life. Part of the post war politics is shaped by the struggle resulting from the wealthy elite groups (those who made great fortunes from price differences in a two sector free market and subsidized economy consisting of local traders, importers, manufacturers, foreign and multinational companies reps and agents, and their formal and informal partners in the political system and bureaucracy making economic decisions and/or issuing various permits and licenses for economic and commercial activities) seeking greater political power and the those who had gained political influence (due to their roles and positions in war efforts) in search of the economic rewards and privileges, *e.g.* the Revolutionary Guards or *Pasdaran*, estimated to control something between 25 percent to 40 percent of the GDP (Hen-Tov and Gonzalez, 2011, pp. 49, 52).

The combined forces of these two groups (generally forming the dominant ruling elite) had managed to exclude all other active and potential political groups from the formal political processes and institutions based on what was regarded as the necessary "unity" required for a successful war effort. The personal charisma, power and authority of Ayatollah Khomeini the supreme leader up to the following year after the end of the war was also a key factor in addition to the war conditions in reducing political "disunity" (Hen-Tov and Gonzalez, 2011, p.47).

The successful management of the war efforts by the state despite all political, economic and social difficulties associated with it and the relatively unconditional popular support in providing human and material support for its continuation and successful conduct pointed to the change in the popular perception of the nature of the newly established state of the Islamic Republic of Iran. The initial pre-war distributive policies (more in the sense of confiscating the wealth and assets of the deposed Royal family and its top officials, and nationalizing major private industries, firms and financial institutions and bringing them under the state control with the assumption that their profits and benefits would be more equally distributed amongst the population, than in any positive practical sense of formulating and implementing specific economic policies) and discourse (Mazarei Jr, 1996, pp. 1, 5, 7, 27) (Pesaran, 1999) was sufficient to confirm in the eye of the general population the pre revolution strategy of replacing an state seen as representing foreign interests with one more popularly and nationally representative and inclined towards national

interests on the one hand and reverse and reconstruct the long time distrust of the state by the nation.

In a sense the newly established state of Islamic Republic of Iran initially was felt to have been the state established by the Iranian nation not any particular group or class of people. That change in the perception of the nation of the nature of the state, was a de facto practical reconfirmation of the legitimacy of the state legally established by a popular vote in 1979, filling the gap between the de jure and de facto legitimacy of the state that existed in most period of the 20th C. The Iraqi military aggression seen as representing the will of the then superpowers reinforced the perception of the independent and nationally inclined nature of the newly established state and helped to fully mobilize the whole nation in support of the state. This observation is supported by a survey of the Worldviews of Islamic Publics conducted in 2000-2001 in which the Iranians "despite living under a theocratic regime, placed *less* emphasis on religion and *more* emphasis on *nationalism* than did the Egyptians and the Jordanians" (Moaddel and Azadarmaki, 2002, p. 6).

Therefore, it can reasonably be argued that the perception of the nature of state as the most important political institution through its discourse and policies helped to sustain and bring close to reality the hope and the expectation based on which the people had participated in the revolution. In fact the newly established political institution through projection of its future economic policies managed to sustain the population's hope and expectations for some time. The trust of the state by the population was so immense that those in high offices could do almost anything without being questioned. And so they did.

Building up on this popular trust the clerics, who had the upper hand in organizing the general population in support of the state, excluded almost all other political groups starting with very limited number of non-cleric moderate Islamic intellectuals who had formed the close advising circle of the Ayatollah Khomeini prior to the Revolution and occupied high offices after the revolution. The solution of the state-nation or state civil society trust problem could have been continued and sustained through institutionalization of national political and economic demands and aspirations, but failed to do so for different reasons. Only 22 percent of the Iranian in the above mentioned survey expressed "very great trust" in their government and the percentages of the population who expressed "very great trust" in the press and TV were only 10 and 16 respectively (Moaddel and Azadarmaki, 2002, pp. 16-17).

Two important reasons could be accounted for such a great decline of the popular trust in the state: the external pressures forcing the state towards greater political repression in the face of external security threats with less transparency in its economic and financial activities (and hence greater opportunities and instances of corruption and abuses) and the disagreement amongst the clerics themselves on the nature of Islamic politics and economics and hence intensification of ruthless unlimited internal competition for greater political power using the state as the vehicle for political and economic rent generation machine to consolidate group power for final domination. The first was highlighted in the Iraqi aggression causing the centralization of political power, literally eliminating all political opposition and directing all economic resources towards war efforts, pushing much of the state economic activities underground.

The second cause of the decreasing popular trust of the state was the deep political and religious disagreement and disputes amongst the very high ranking religious leaders on almost all basic substantial political and economic issues.

The most prominent of such disputes were the accusation of Ayatollah Mohammad Kazim Shariatmadari the most senior grand religious leader of involvement in a plot against the regime in 1982 (Fischer, 1993, p. 178) and his subsequent trial and house arrest till his death in 1986 and the dismissal and later house arrest of Ayatollah Montazeri, the designated successor of Ayatollah Khomeini, in 1989 for opposing many political and economic policies of the Iranian state (Akhavi, 2008). The problem of succession as one of the most recurrent problems in the Iranian political system and culture (Katouzian, 2003c, pp. 240-245) (Hagigi, 2012) represents itself at this very early stage.

This period is marked by appearance of a super-rich group of merchants profiting from huge price differentials of heavily subsidized goods and services supplied by the state and those supplied by the open or free (and in fact black) market and a politically powerful group linked to political and military operation decision making centers. The two groups while managed to exclude all rival groups were divided amongst themselves. One group associated with the state and egalitarian state sponsored economic tendencies and the belief in the need for internal adjustment to accommodate the external pressures, and the other advocates of free market, limited state interventions in economy, aggressive foreign policy to force the external forces to adapt themselves and accommodate Iran with its new conditions.

The first group was mainly composed of state officials, bureaucrats, professionals, and technocrats associated with the war period governments. It is more representative of a "modern interpretation of Islam" linked with an elite orientation and tradition with connections and ties to a like-minded corresponding part of the religious establishment and figures. The second group consisted mainly of traditional merchants (*bazari)*[9], powerful religious charities and foundations (with vast economic operations and interest), and the on the ground war veterans was more representative of a "traditional interpretation of Islam" linked to the more powerful and traditionalist part of the religious and cleric establishment and figures. In the formal religious and cleric establishment, the former represented the minority and generally (with some exceptions) the junior levels and the latter represented the majority and the more senior levels. In the pre revolution period, the former advocated and actively participated in (and some of them were in fact amongst pioneers of) the revolution, while the latter actively opposed the idea of revolution (and an Islamic government) and a new interpretation of Islam, or just kept silent and joined the revolution at the last minute when its victory was almost certain. The former group is now known as "the reformers or reformists" and the latter as "the traditionalists".

At the end of this period, roughly coinciding with the end of Iran-Iraq war in 1988, considering the decline of the de facto legitimacy of the state due to contentious and exclusionary political processes and legal amendments to the

[9] Literally meaning "of" or "related to" bazar which means the traditional wholesale markets mostly in Muslim countries.

Constitution and other related documents by both groups and the question of succession open and unresolved, the two groups were set for a power struggle to get control of the state and (re) define its basic features and institutions. Amongst the most important issues discussed and contested were security of the state from foreign threats, the basis of its legitimacy and the question of succession, *i.e.* its operational institutions and procedures, or generally the state's governance structure.

In post war era six administrations led by three presidents have taken charge of the country. The first two administrations led by Hojatoleslam Ali Akbar Hashemi Rafsanjani (1989-1993, 1993-1997) the moderate cleric and one of the top key players in Iran's leadership focusing on economic reconstruction and Iran's reintegration into the international economy (Rakel, 2007, p. 160) initiated the reconstruction program and implementation of the IMF recommended economic reform of structural adjustment which included, among others, unification of multi exchange rate system, privatization of State Owned Enterprises, and reforming the tax system and administration. Welcome by the international community his first administration succeeded in partial implementation of the reform program along with acceleration of the reconstruction program partially financed by short term credits supplied by almost all trading countries, obviously the USA being the main exception. Suffering from historically low oil prices his second term was marked by the problem of the country's inability in repayment of her debts and as a result negotiating for rescheduling debt servicing on international level and the growing opposition of more conservative political factions (right) dominating

the 4th parliament with his political agenda and the radical factions (left) with his economic agenda. As a result some components of the economic reform stopped and others were reversed, leading to arrest and subsequent imprisonment and other forms of punishment of some of the high officials or key players of his administrations and political allies by the judiciary dominated by traditional conservatives. Thus his successor, Mohammad Khatami (1997-2005), elected with a high rate of electoral turn out and active support of Rafsanjani and his allies, focused on reforming the political system, with political development high in his agenda. "Khatami, as a protagonist of the Reformist faction, was first elected in 1997 because he focused on domestic issues (the popular longings for changes in Iran's social and political landscapes) instead of foreign policy propaganda" (Rakel, 2007, p. 178).

While at the beginning of his term Iran witnessed a relaxation of state imposed social pressures, civil liberties, speech and press freedom, normalization of foreign and international relations of the country, the later part of his administration marked an open opposition from the conservative factions dominating the military, especially the Revolutionary Guards, Law Enforcement Force, the security services and the Judiciary. Many of his officials were arrested and imprisoned, almost all press and media allied to him or supporting him were closed downed and social pressures especially on women, university students, journalists and political activists were intensified. "With the organs of power in the hands of these hardline conservatives and the potent force of public opinion solidly behind the reformers, Iranian politics in the Khatami era became mired in stalemate and intermittent unrest" (Maloney, 2000, p. 60). The first

signs of active military interventions and active presence in the political affairs of the country were displayed in the brutal suppression of student demonstrations and in organizing secret (illegal or informal) parallel intelligence, law enforcement and foreign policy agencies. The extent of these illegal and/or informal activities by the traditional conservative factions forming an alliance in the military, paramilitary and Judiciary and Khatami's efforts to resolve the problems through nonviolent and "democratic" processes led to alienation and radicalization of a majority of his supporters, including Islamic Iran Participation Front (*Jebheh Mosharekat Iran Islami*), the party formed in 1998 and led by his brother for his political and logistic support. Internal political disputes, lack of effective progress in negotiations on the issue of nuclear program, and the slowing down of economic reforms and activities created an environment of general pessimism, uncertainty, and insecurity that marked the two administrations of Khatami whose legacy became "Dialogue of Civilizations" and "Religious Democracy".

While some call it "Praetorian" (Safshekan and Sabet, 2010), others regard it ideological (Abedin, 2011) or a "Theocratic" state (Rakel, 2007, p. 161) (Ashraf, 1990) (Wright, 2000). However, the trend in the past three decades reveals the lack of a widely agreed agenda on basic definition and elements of politics, economy and society, a fact reflected in repeated amendments to the Constitution, creation and dissolution of various ruling institutions, repeated changes in rules and regulations, repeated dismissal and replacements of various political officials and economic managers and repeated sometimes totally contradicting changes even in general policy guidelines and formulation as

reflected in the Five Year development Plans (e.g. the totally opposing directions of 3rd and 4th Plans, the former pointing towards a developmental state and the latter moving towards the agenda of a neo conservative market economy). This lack of clarity and stability of defined ideal political, economic and social systems (other than general characterizations of a system in which the security, prosperity, salvation and welfare of all the Iranian nation is guaranteed!) amongst the ruling elite (or even amongst the larger population for that matter) together with a lack of general consensus on the basic "rules of the game" or a broad nationally accepted "codes of behavior" in politics is both the major cause of "trial and error" approach taken in the past three decades and the oscillating one step forward one step backward trend observed in Iran's major political, economic and social policies, features that some regard as characteristics of a "short society"(Katouzian, 2008, p. 279).

This could even be the major reason for the very mobility and instability of the political position of the ruling elite themselves, who in the absence of a clear road map to follow and move, have to act on and react to numerous political and economic events and developments in national and global scenes on the basis of their on the spot analysis and interpretation of each particular event or phenomenon. "One of the attributes of Iranian elite dynamics is the fact that the rules of the game are constantly in flux and are nowhere codified. Although participants certainly know the rules, for outside observers to understand them is naturally difficult" (Thaler, 2010, p. iii). Due to the variety and complexities of events they are sometimes forced to take conflicting and contradictory positions. The whole political and economic arenas are floating structures. ". . . .

Iran's political system appears to be in a state of flux" (Thaler, 2010, p. iv). But, to avoid running into such an unfavorable and undesirable situations and losing their credibility, the dominant approach of politicians and policy makers is "wait and see" passive approach formally and influencing informally, causing long frustrating "decision making processes", forced temporary alliances and re-alliances and sometimes completely opposing and conflicting positions, both individually and collectively. "As there are no legal political parties in Iran, the political factions represent different ideas on politics, economics, socio-cultural issues, and foreign relations. Rivalry among different political factions has a great impact on the process of political decision-making and is an obstacle to the formulation of coherent domestic and foreign policies" (Rakel, 2007, p. 165).

Prominent examples of this trend are the deep disagreements amongst the top leadership on the very basic questions of conducting election, treatment of the opposition and the fact that at a good number of the leaders of the current "opposition", "reformers" or the "reform movement" (demanding civil liberties, open market economy, integration into international economy, relaxation of dictated social behavior, etc. …) are the same people who had played prominent roles in creating the conditions that they condemn today. State controlled economy, US embassy seizure, exclusion of almost all political opposition including those with a long Islamic ideological political stance before the Revolution, among others, are only part of their past (in the first 10-15 post-Revolutionary years) political actions and policies. "Ahmadinejad's election brought to power a marginalized minority branch of the Conservative faction,

which had become radicalized after the Iran-Iraq war when it was excluded from policy-making by the then dominant factions of the Iranian political elite" (Rakel, 2007, p. 181).

In other words, changes in the political stance and policies of various individuals, political groups or factions in power or in opposition within the current political settings of Iran is more a reflection of their struggle for preserving or gaining of power within the concerned time and political frame rather than a basic well defined long term position for structural "reform" or "revision" of long term policy or orientation leading to the basic sociopolitical stability required for the country's development in proportional magnitude to its material and human resources. For this reason classification of leading politicians, political groups and factions (with some exceptions albeit) under common names and titles such as "moderate", "pragmatist", "reformist", "left' , "right", etc. should both be treated as meaningful proxies or proximities only within the current general political framework of Iran and temporary. This is a system in which "the informal trumps the formal, power and influence derive as much (if not more) from personality as from position, and domestic factional dynamics drive policy debates and policymaking. The system is much more than just the institutions authorized in the country's constitution" (Thaler, 2010, p. xiii).

The conclusion drawn by Rakel (2007) about Iranian foreign policy that "changes in foreign policy are not a reflection of reforming the IRI's basic structure, but of meeting domestic, regional, and international challenges" could be reasonably extended to the country's development as a whole. "Fundamental

foreign policy reorientation" she argues "requires the reform of Iran's entire political system" but until now "the prime objective of both foreign and domestic policy has been regime survival" (Rakel, 2007, p. 187). This implies the existing economic, sociopolitical situation in Iran is the joint product of the ruling elite who from a joint common position, due to various justified and unjustified reasons and causes (security concerns and considerations, war effort, distrust of foreign countries especially the USA and Western Europe, etc.), and their political and economic "partners" in some other major "beneficiary" countries, initially blocked reforming of the existing institutions (excluding all political factions demanding basic reforms) and subsequently reinforcing the same old "imperial" institutions of the "ancient regime" with a mix of revolutionary and Islamic flavor. "Iran's revolutionary mission, often invoked and never defined, developed into an instrument that over time was manipulated by ruling elements to serve their own purposes. Those who differed, or sought a more settled policy, could be easily intimidated" (Chubin, 2010, p. 165).

However, the major distinctive feature of the current system is its greater number of "centers of power", the outcome of which is further loss of "state autonomy". While the old regime had to some extent the assurances of the USA and Western Europe for its oil revenues and external security, and only needed the support of cleric establishment for some "legitimacy make up", the State of the Islamic Republic of Iran deprived from any external security and financial assurances had to entirely rely on the internal politics. In the absence of any pre-defined generally agreed upon "model of Islamic State", it needed the approval and sanction of the cleric establishment for its formal legitimacy and authority

and for its informal popular support it needed to rely on various factions (schools) within the cleric establishment who had the ear of the majority of the population. Therefore, in the course of the two years leading to the revolution of 1979 and the next 18 months after that, State in Iran underwent a major transformation from a powerful authoritarian state mainly relying on foreign and international recognition and support for its power, authority and legitimacy (the Shah was reinstalled in power by a joint British-American coup against democratically elected government of Dr. Mosaddeq in 1953) to one totally powerless and dependent on clerical establishment, internal institutions and popular support (Mokhtari, 2005). Mehdi Bazargan, the Prime Minister in Transitional Government installed immediately after the revolution used to say metaphorically that "my government is like a knife without the handle" (Abrahamian, 2008, p. 163).

While "politics in the Islamic Republic remains almost entirely the province of the clerical authorities who assumed control of the state after the ouster of Mohammad Reza Shah Pahlavi in 1979" (Maloney, 2000, p. 59) and the government has been reduced to a full subservient of the cleric establishment whose different factions are represented by different political factions and individuals, it is under extreme external pressure for preservation and perpetuation of current economic structure of an "oil exporting" country. "The Islamic Republic has been haunted by internal power struggles since its creation in 1979. In this environment, entrepreneurs are typically allies of one political faction or the other. In fact, without political connections, it is highly difficult to

operate a business above a certain scale in the Islamic Republic" (Bjorvatn and Selvik, 2008, p. 2322).

The current (and in fact the whole post revolution) complex political situation in Iran and her oscillating "development" trend, more than anything else, is a reflection of various cross conflicts and struggles among different factions of the cleric establishment (the traditionalist and the modernist), the Islamic intelligentsia and the whole cleric establishment, and various foreign "interest groups" and the Iranian ruling elite over the control of the state and its economic resources. However, due to various reasons which I shall attempt to explain in this research, none of the concerned factions had the will and resources to attempt the total control of the state. The recent increase in oil revenues (2004-2011), "economic structural adjustment reform" and development of nuclear capability created major incentives for some political factions for a serious attempt of the total control of the state. The serious divisions within the ruling elite mirrors the strengths and weaknesses of that attempt, but the major problem is that in the event of the domination of any one political faction, there is no guarantee for improvement in economic performance as experienced in some periods of the past three decades, especially in the immediate post war years. As (Bjorvatn and Selvik, 2008) suggest, in both cases of balanced and unbalanced power structure under current situation the economy will be performing well below potential. "To improve the economic performance of Iran, there needs to be a move toward a more autonomous state" (Bjorvatn and Selvik, 2008, p. 2322).

In this research I shall attempt, basically using a combination of different institutional approaches, to analyze and explain the cause (s) of this focus of domestic and foreign policy on regime survival (and its possible implications) by identifying a number of competing and conflicting (formal and informal) institutions directly or indirectly contributing to the creation and perpetuation of the situation in which a highly rich society in human and material resources is unable to develop in proportion to its potential.

Conclusion

The inability of the Iranian state to diversify its economic structure and its greater reliance on oil revenues as the result of war with Iraq and the subsequent reconstruction program of the country displays the fact that external factors play a crucial role on development process through creating and sustaining institutions and organizations that are beyond the control of the Iranian state. As the government attempts to gain greater control of that market through changes in supply, that in itself becomes a source of violence both in the external relations of the Iranian state and in its role as the distributing organization of those revenues amongst the members of the ruling coalition.

The actual use or threat of using military force against the state, which directly relates to the question of the state sovereignty and property rights of a nation over its territory and natural resources, gradually increased the role and influence of security and military related organization in Iran. In that sense the government is providing the basic public goods of protecting persons and property. In other words, it demonstrates the very close link between security and military organization on the one hand and economic organization and

performance on the other. In economic terms, it also demonstrates increased allocation of resources to protecting the resources which considering budgetary constraints leads to decreased allocation of resources to actual productive processes. The result is both a decrease in production of goods and services and hence a decrease in the living standard of population on the one hand, and greater influence and penetration of Iranian politics by its military, security and intelligence organizations and further centralization of political power on the other.

The increased power and influence of one group changes the balance of power in the composition of the dominant coalition vis-à-vis others. It creates greater opportunity for them to claim greater share of the rents from oil revenues. The greater share of the rents could be reinvested in further perpetuation of hostile political and military environment and thus increasing the rate of returns. It is important to understand that the same logic applies to both sides of the divide, internally and externally. In other words there exists an undeclared and informal coalition of formal enemies. The more the armed peace (or even war) situation continues the greater would be for them the opportunity to become politically influential and economically thriving. That means a situation in which there is the greater need for increased production and export of oil has at least two groups of beneficiaries domestically and internationally who benefit from the oil rents. But this does not disqualify the basic government policy of protecting persons and property. The only possible way to change or stop this process is a change in the composition of the dominant coalition, by peaceful means or violence. Therefore, if a revolution, a coup or a change of government by

democratic processes could succeed in changing or stopping the targeted process in itself could be the source of change. Whether it succeeds to achieve its other aims is a different matter.

The same is true of the network of powerful Western "multinational"[10] corporations which have an interest in keeping sufficient volume of oil supplied into the international market to be consumed by massive vital industries of the industrialized countries which heavily depend on fossil energy for its operation. Here lies one critical issue both for a theory of social change and a theory of international relations. Could those countries that industrialized on the basis of a commercial system providing for the free flow of the input from other countries and territories no more under their control, to let that commercial system and the required input for their industrial economies go? Perhaps we need to redefine the meaning and nature of "dependence" both in international relations and development theories. Is an industrial country dependent on natural products of an agricultural economy a "dependent" country or an agricultural economy exporting its products for centuries and still remaining an "underdeveloped" agricultural economy?

The emphasis on the issue of "property rights" as a critical institution in promotion of economic growth and development is only meaningful in this context. An economic system that in all it varieties divides the economic surplus

[10] The term "multinational" is misleading. Despite having shareholders from and operations in different countries, they are and have to be linked to specific countries for legal, political, diplomatic, military and financial protections. Some of them are very old organizations with colonial lineages and connections, but under different names.

between rent (land), profit (capital) and wage (labour) designating oil exporting countries "rentier" because of renting their land for productive activities is meaningless, unless for "rent seeking" pressures or changing the terms of trade.

Thus an undeclared alliance of economic vested interest between some local political and economic groups and international oil industry and business networks is created by which the supply of oil into international market is ensured. To ensure the continued profitable supply of oil by the second largest supplier of the international market, the foreign network, a coalition of different national and international financial, industrial and trading firms and groups and sometimes governments (as in British government controlling share in the Anglo Iranian Oil Company, now British Petroleum, BP), either should become (directly or indirectly) a member of the local and in this case the Iranian ruling coalition (the pre-revolution situation) or should resort (directly or indirectly) to other means including the use or threat of the use of force and military aggression to force the Iranian state to sell more oil to finance its war efforts or its military/security buildup (the post revolution situation).

Prevention of development of an alternative source of energy and revenue for the Iranian government allowing it to diversify its oil dependent economy and invest in more efficient and productive industries for a genuine process of industrialization, thus, becomes a policy priority and objective of the whole powerful non-oil producing Western business industrial networks. The nuclear stand-off between Iran and the West must be viewed in this context. A little manipulation of the international oil market by sending a fraction of the US strategic oil reserves into the market and/or asking or forcing Saudi Arabia (the

major producer and exporter of oil supplier of the Western oil market) to increase its oil export to glut the market to reduce the international prices would always help. Under such conflictual and threatening conditions, security concerns increases and makes greater political repression and militarization or securitization of the state justified. In turn, the foreign network having a large network of mass media at its disposal at global level, can put pressure on the state for lack of various types of freedoms and encourage, support and even organize local opposition and , hence, further increasing the extent and intensity of violence at local level. That is the process experienced by the Iranian state after the revolution by which the country was deprived of the opportunity to diversify its oil dependent economic structure.

The problem of nuclear energy could also be interpreted as part of that relation. The possibility of supplying local energy needs from sources other than oil would give the Iranian state a stronger hand in influencing the volume of oil supply to international market and hence the international prices reducing its risks of the cyclical boom and bust of international oil markets. The greater part of Iranian 20th century political economy has been shaped by this process. In this sense oil and gas production and export is both a source of conflict, violence and rent, not only for some Iranian groups, but also a large network of global business and industrial coalition who are depend on Iranian oil for their existence and survival. Therefore, one major conclusion is the need to revise our definition of dependency.

Conventionally, developing countries have been defined as depending on developed countries for their economic growth, but in the case of oil and gas as

a strategic commodity of military, industrial and business significance on which the whole structure of Western industrial power is based, the story of dependence is reversed. The industrial power of the West, and particularly Western Europe, is a mighty edifice historically built on someone else's property. To ensure the continued flow of the goods that property has been repeatedly trespassed, its property rights repeatedly breached and questioned, and its owners and their rights have been for a long time overtly and covertly violated, coerced, deposed, murdered, defamed and humiliated. That trespassed property is someone's mother or father land and the property right is the sovereignty of a state and a nation. The six special session of the United Nations in 1974 following the first oil shock in 1973 after the United States of America's unilateral unpegging of the value of US dollar from fixed price of gold in 1971 and the Central Intelligence Agency (CIA) coup in Chile was held to consider the demand of developing countries for establishment of a New International Economic Order (NIEO) for recognition of their sovereignty over their natural resources (United Nations General Assembly, 1974).

Therefore, to understand the political economy of post-revolutionary Iran and its outcome, it is necessary to analyze the institutions and organizations of Iranian politics and economy. But as they have their roots in historical events and processes their development and impact on economic growth needs to be understood, for it is only in that context that the current institutional arrangements and policies would become intelligible. This is the task of the next chapter.

CHAPTER 3

The State of the Islamic Republic of Iran: Origin

Introduction

Institutions are defined differently with different implications. They could be viewed as structures shaping and regulating human behaviour in social interactions or as the intended or unintended product of human decisions and actions to serve a purpose or interest (Hodgson, 2006) (Lal and Myint, 1998) (Chaney, 1994) (Greif, 2006, pp. 3-28, 379-405) (Greif, 1998) (North, 1991) (North, 1990). This very basic problem of the social science, the structure-agency dichotomy, is what distinguishes Old Institutional Economics (OIE) from the New Institutional Economics (NIE) and its more recent version that some have called *New* New Institutional Economics (NNIE) (Spiegler and Milberg, 2009).

In analysing social phenomena one could assume them as product of human action (individually or collectively) or other forces and structures external to human action and behaviour. Liberal and particularly its individualist version belong to the former while theories considering non-human force as the source or origin of social phenomena fall in the latter category. But even in theories where human action and behaviour is considered as the source of social phenomena human being could be treated as totally autonomous (with complete free will not subject to social forces) or a product of social forces (subject to social forces). In other words these theories despite their opposing approaches, share the assumption (explicit or implicit) that all social phenomena are the

product of human interactions, what they differ in is whether the human actor is the source of social phenomena or the social structure within which the interaction occurs. In this broad division of approaches Hegel and Marx share a structural approach that forces beyond individual human beings are the origin of social phenomena but a transcendental origin for the former and a human social origin for the latter. In the same vein Marx and Adam Smith share the same assumption that social phenomena, good or bad, are the product of human interaction, however, social structures, power relations as the cause for the former and human individual action and behaviour for the latter. They both assume a direct causal relation between the two sides but running in opposite directions.

Those who start social analysis from a fully autonomous individual, have to explain the cause of human action and behaviour from a source internal to human individual (social forces are exogenous, but individual interest, psychology, mental models, rationality is endogenous) on the one hand and explain the mechanism (s) through which individual actions get aggregated into social phenomena. For the structuralists, the problem is to explain the origin of those social structures and the channels through which they are disaggregated into individual human action and behaviour (social forces are endogenous and internal individual features are exogenous). While individualists cannot resort to any social phenomena to explain the cause of human action and behaviour, social institutions (e.g. family, private property, market) is the channel through which individuals actions are aggregated. But for the social structuralists, social institutions (e.g. family, private property, market) are both the origin of social forces and the channel through which those social forces disaggregate

themselves into human action and behaviour. In this sense not only Karl Marx and Adam Smith, but also Xenophon (1876) was an institutionalist Therefore, what is new about New Institutionalism?

The newness of the New Institutional Economics (NIE) was the response from within neoclassical economics to the application of its *Homo Economicus*, *i.e.* rational utility maximizing individual assumption to non-economic disciplines and social interactions referred to as Rational Choice theory which some regard as the imperialism and colonialism by Economics. The NIE is thus the rejection of that fundamental assumption of neoclassic economics from different starting positions with the basic claim that institutions are formed and complied with individuals in response to market imperfections. The imperfections are the outcome of imperfect human knowledge and limited computational capacity of human mind for which the market does not offer any remedies. Institutions are entities that fill the gap between the human perception of the reality and the real world and compensate human limitations by regularizing human behaviour to make them more predictable for all social actors and hence reduce uncertainty. A "non-rational" or "non-autonomous" individual cannot be the "uncaused cause" (Simon, 1993, p. 50), independent of social structures, the most fundamental assumption of liberal philosophy. It throws the whole foundation of liberal social science in chaos. This is why the NWW framework asserts there is no integrated theory of economics and politics *i.e.* political economy (North et al., 2009, p. xi). In other words with elimination of the basic assumption in liberal theory, a complete overhaul of liberal social science, including a theory of political economy and social development. The NWW Framework is

designed to provide the conceptual framework for such a task, that its central explanatory concept is institution.

In real political economy terms this theoretical changes have been associated with a turn from a state sponsored economic organization or the so called "welfare state" (Maddison, 2013) starting from late 1920s Great Depression, to a rolled back non-intervening decentralized state in economic organization of the 1980s and 90s and then a return to a more strong but minimal (constitutional) state regulating the economy in the first decades of twenty first century (Pierson, 1995).

In the New Institutional approach of the NWW framework, institutions shape and influence political and economic development. Economic development is the sustained economic growth over long run. This is achieved by reducing incidence of negative growth resulting from violence. This reduction is achieved through introduction of institutions that motivate powerful individuals and organizations which form the dominant coalition to refrain from fighting. In the Open Access societies this achieved by institutions which encourage cooperation through open access to organizations and third party enforcement. In Limited Access societies the aim of violence reduction is achieved by rent in classical political economy sense. Rent in this context is the difference between the current revenue and the next best use from an economic asset. The two different orders develop different institutional framework which determine economic development. The variation in economic performance of societies is explained by its institutional framework which links the past, present and possibly future.

To understand why an economy is stagnating or growing, the evolution of that institutional framework, the "cultural heritage", its origin and changes, has to be studied. "History is not simply a chronicle but an interpretation, encompassing suspected causes and values" (North, 2005). This is why "history matters" (North, 1990). Present performance is constrained by the historical past due to path dependence of institutional change. This is the context in which a historical review of the evolution of the Iranian polity and dominant coalition up to the time of its revolution of 1979 is presented in this chapter to attempt to understand why Iranian economy has not developed in post revolution.

The chapter is divided into two parts. In the first part the historical review is presented to understand the nature of political institutional framework and how it has influenced political development after the revolution. In part two the post revolution development of political Institutions is explained.

PART I

The State in Iran: A Historical Overview of Institutional Origin and Change

The state in Iran and its evolution as a social institution is one of the oldest, if not *the* oldest, in the world. There is hardly any old text on world history and politics free from mentioning Persia or Persians. However, there is an eight century gap in its existence as an independent state in the period between 651 AD when the Persian Empire was conquered and partitioned by the rising Muslim Caliphate (Empire) and its reappearance in its modern form of a "national state" in 1501 AD. Its reappearance was in direct response to the

economic and political changes of the world at the time, namely the military political vacuum created as the result of the demise of Mongol (13^{th}-14^{th} C) and Timurid (14^{th}-15^{th} C) empires in Central and South Asia and the rise of the Ottoman Empire (14^{th}- 20^{th} C) in west Asia and eastern Europe, conquering Constantinople (1453) and dismantling the Eastern Roman Empire and hence reconfiguring the East West trade in terms of players, routes and costs. This imposed extensive adaptations, adjustments, and changes on other players, routes and process. Persians and the different partitioned Persian territories constituting parts of the Muslim Caliphate until the fall of Baghdad (1258), its capital, were a major constituent of the east west trade, both as producer of silk a major export item, and as middleman importing and re-exporting spices and other items from China and East Asia and controlling large parts of overland transport routes of the trade. Thus the latest changes in 15^{th} century affected them extensively.

The establishment of Safavid state (1501-1736), with the double claim of its founder to the divine right of kings (of ancient Persia) and as the head of a Shi'ite Sufi (mystique) order descending from the seventh Shi'ite Imam (leader), was the effect of changes in the political and economic networks and conditions of the world of the day. The newly established state in turn and subsequently, caused extensive changes in the same political and economic orders. These developments displayed the continuous interactions, albeit of various degrees of rate and fluctuations in different historical periods, between internal and external factors in shaping and influencing political and economic development through changes in internal and external institutional frameworks

leading to (re) distribution and/or (re) configuration of power, authority and wealth of different organizations, groups and individuals and the country as a whole. This dynamic is periodized and presented schematically under separate headings for different periods the beginning and/or the end of which is marked with a turning point, idea or event, a "critical juncture" (Capoccia and Kelemen, 2007) (Collier and Collier, 1991, Overview, Chapter 1) (Hogan and Doyle, 2007) (Pierson, 2000). For ease of visual comparison of the changes in different periods they are also presented graphically in Figures 6 to 13 at the end of this part (part I) of the current chapter.

The External/Internal Institutional Dynamics of Survival and Development of the Persian (Iranian) State (1501-1979)

Changes in external environment (13^{th} to 16^{th} C)

The fall of Baghdad by Mongol invasion through Persia in 1258 AD completed destruction of the eastern flank of Islamic Empire and initiated disintegration of its western flank from south west Europe (Spain & Portugal or as it was called Andalusia), North Africa and the Middle East; the fall of Constantinople (1453 AD) and demise of Byzantine (Eastern Roman) Empire and the rise of mighty (Sunni/orthodox) Muslim Ottoman Empire (1299-1923 AD) gradually monopolizing major East West trade routes encouraged the Western Traders (particularly Venice and Genoa, the dominant European beneficiary of the East West Trade) searching for alternative trade routes and Popes and the Church for new alliances, land and riches to expand Christianity;

Changes in internal institutional framework of Persia (1501-1905)

The establishment and rise of the Shi'ite (Muslim minority branch of Islam) state in Iran by Safavid (1501 AD) offering alternative trade routes and military alliance to Western traders and powers was a response to changes in external environment. The Safavid state (kingdom) was established eight and a half centuries after conquest of Persian (Sassanid) Empire by Muslims (651 AD) was the first Persian (Iranian) modern (national absolutist) state (Woods, 1999, p. 9). Shi'ism as official state religion was realized for the first time in history of Islam with migration of some senior Shi'ite clergy from different parts of the Middle East, particularly from areas in contemporary Lebanon, Syria and eastern parts of Arabian peninsula, supporting and legitimizing the newly established Safavid rulers claim of (ancient Persian) kingly and (Islamic Shi'ite) religious divine rights (Abisaab, 1994) (Keddie, 1969) (Hourani, 1986) (Newman, 1993). Conversion of Persians (with Sunni majority at the time) to Shi'ism made Iran the first and only Muslim country in the world with a predominantly Shi'ite population in which Shi'ism became the state religion and has remained so up to the present (a unique feature of Iran in the Muslim world). The establishment of the Safavid state transformed the intra-state Muslim elite religious differences (mainly on the issue of political succession and who should rule the Muslim community) into inter-state conflict of Safavid Persian state vs. Ottoman Empire, Shi'ites vs. Sunnis forcing the Ottoman Empire to divide its military power between its Western (European) and Eastern (Asian) borders, thus changing the military and political balance in Europe, gradually removing the perceived military and security threat of Ottoman Empire to Europe (Brummet, 1994, pp. 11-12,) which remained fundamental British (and European) security

policy arrangement right to the First World War (WWI 1914-18) and the 1917 Communist Revolution in Russia;

This state was, contrary to standard Eurocentric theory of the state, the first modern absolutist "national state" in the world with more or less defined borders, a standing army, a bureaucratic (administrative) organization, and a legal system of jurisprudence based on Shi'ite version of Islam. It was established by a coalition of military tribal forces (hard power) under the leadership of a mystique military order almost immediately joined by Shi'ite clergy as its legitimizing authority and provider of legal, administrative, and bureaucratic service along with the traditional Persian administrators (soft power) (Arjomand, 1985, pp. 175, 180, 185) (Keddie, 1983, p. 582), broadly referred to in Persian literature as "men of sword" and "men of pen" respectively. The structure of this state remained almost unchanged up to early twentieth century. The whole period was ruled by two major dynasties, the Safavid (1501-1736) and the Qajar (1789-1925), with a short disruption in between of Afshar and Zand reign (1736-1789) (Matthee, 1998). During the interruption the role of the clergy declined to some extent, but recovered and incorporated into the state during Qajar period (Algar, 1980, pp. 1-25).

It was the establishment of the Safavid state and the subsequent fierce competition between the few existing Muslim powers that ruled a large geographical extent from North Africa to Central Asia and Indian subcontinent (e.g. Mughal 1526-1875 & Ottoman Empire 1299-1923) granting different trading and revenue concessions and privileges to competing European merchants, especially to the English East India Co (EIC, 1600-1874 AD) and

Dutch East India Co (VOC, 1602-1799 AD)[11] (Newman, 2006, p. 61) (Standish, 1998, pp. 78-80), as their trading partners and military allies (e.g. exemption from payment of import duties and collection of import duties from other importers to EIC in return for the company ships transporting Iranian soldiers to Hormoz Island in the entrance of Persian Gulf to fight and expel the Portuguese settled in the trading posts in the entrance of Persian Gulf in 1622). The establishment of this trade and business relations by the three major states of Ottoman Empire, Persia and India gradually in the long term facilitated EIC's control and monopolization of the East West trade from production to transportation and marketing and total penetration and control of public revenue and financial systems. It was the extreme profit (corporate and individual) (Farrington, 2001)[12] far above the interest rates in England (Europe) from the establishment of this trade monopoly (initially production of raw material on the Eastern side and consumption on the Western side, subsequently complemented with the start of manufacturing on Western side and consumption on the Eastern side through Industrialization) that led to subsequent military and political domination of the Europeans in Asia not the other way round.

[11]There were many of these companies with different names formed from late 16th and early 17th century, but as almost all these countries had an East India Company active on the Eastern side of the Eurasian continent, I have used this name to refer to a group of trading military companies with similar missions, though different degrees of success.

[12]The net investor dividend paid for the first twelve voyages of the English East India Co is reported from %95 (p.144) to %334 (p.149). As a return voyage lasted roughly 24 month, the rate of investment return was roughly between 4 to 15 percent per month, i.e. %48-180 per annum. An investor could at least double his wealth by the end of each voyage.

In other words, the political, military and economic competition of the Asian powers in the aftermath of the demise of Mongol Empire (13^{th}-14^{th} C) and their successors, not the military, technological or institutional superiority of the Europeans, that turned the small financially unfit European trading merchants into balancing powers in Asia creating huge economic wealth and political influence for them which in turn were used to reinforce, expand and perpetuate this relationship encouraging new competitors.

The sustenance of this relationship required reorganization of Western political, military and economic relationships which contributed to extensive ideological, political and economic reconfiguration in Europe. Almost all major European wars (both in Europe and all over the globe) from 16^{th} century on reflected their rivalry for dominating whole or parts of this East West trade relations that now included America on the one hand, and maintaining the resulting European dominant position relations as a whole on the other (List, 1856, pp. 483-486). These relations relies on the existence and operations of extensive networks of local, national and regional players, coalitions and processes subject to change in different times and places, i.e. contexts, as the intended and unintended consequences of decisions and actions are the outcomes or aggregates produced by all the players not only one side.

Changes in external environment (1905 -1917)

The expansion of Russian Empire in the course of eighteenth and nineteenth century had alarmed the British of the possibility of Russian invasion of India, the jewel of British Crown and colonial empire and her major source of wealth and colonial military power. Thus in addition to various European and Asian

alliances the British forced cession of many parts of Asia from their motherlands to create buffer zones to protect this jewel. The competition between the two powers for territory and sphere of influence created the situation that was dubbed the Great Game in Asia. The Persian defeat in two wars with the expanding and modernizing Russian Empire in early and mid-nineteenth century (1813 and 1826 leading to two treaties of Golestan and Turkmanchay respectively) with huge territorial losses (Azerbaijan, Armenia, Georgia and Daghistan) made Iran increasingly dependent on Britain both financially and for its security, sovereignty and territorial integrity in turn further reducing the country to a *de facto* British buffer state against Russia causing further territorial losses to Britain (Afghanistan and many small and large islands in Persian Gulf), granting extensive trade concessions to British individuals and firms and the British control of a large number of Iranian public and state sources of revenue (e.g. Customs, Imperial Bank). Despite all these the Russian kept expanding and matched the British influence in Iran. The Russian defeat in Russo Japanese war (1904-05) with British help changing the balance of political and military power both in Asia and Europe, and the growing rise of the United States in international relation and the British liberals support of the Iranian modernizing reformist movement helped the success of Constitutional Revolution (1905-6) in Iran. Thus Iran became a Constitutional Monarchy with a Parliament.

Changes in internal institutional framework of Persia (1905-1917)

The new institutional arrangement after the Constitutional Revolution (1905-6) initiated a new foreign policy of bringing the rising America into Iranian politics

to counter balance the dominant Russian and British power and influence in Iran through reforming its public finance and tax administration. The appointment of American Morgan Shuster as the Treasurer General of the revolutionary government of Iran by the newly formed Iranian Majlis (Parliament) (May-Dec. 1911) although ultimately failed under immense pressure and intrigues of Britain and Russia forcing his resignation and expulsion from Iran, never the less opened a new chapter both in Iran-US relations and the subsequent developments in Iran and the Middle East region and international politics. This was especially important after division of Iran into British and Russian sphere of influence in their 1907 Entente to contain and fight the rising power of Germany. The discovery of oil in Iran by a British citizen (subsequently Anglo-Persian/Anglo-Iranian Co and later British Petroleum, BP) in 1908 and the subsequent secret purchase of over fifty percent controlling share of this company by British Government (Navy) without the knowledge of Iranian government, and the British Royal Navy switch from coal to oil just prior to WWI (1914) and constructing the largest world oil refinery in Iran (Abadan), transformed the status of Iran from just a mere buffer state to an essential element of British empire's global security and military strategic component. This status became further reinforced and critical with the Communist Revolution of Oct. 1917 in Russia and the establishment of the Soviet Union (USSR).

Changes in external environment (1917)

The victory of the Communist Revolution in October 1917 with pronounced ideological hostility towards Capitalism, Colonialism and Imperialism with

subsequent and immediate renunciation (1918) of all Tsarist concessions forced on Iran (formalized in the Russo Persian Treaty of Friendship 1921), created an environment making British critically sensitive to political and economic situation in Iran and its possible consequences for preserving their access to the most valuable source of wealth and military supremacy, i.e. oil. This called for a "strong" buffer state to contain both possible ideological and military expansion of the Communist Soviets in Iran.

Changes in internal institutional framework of Persia (1917-1925)

To counter the new development in external environment the British initiated a military coup in Iran (1921); replaced the ruling Qajar dynasty (1789-1925) with Pahlavi (1925-1979) by promoting the agent of their coup to a king, Reza Shah (King Reza), with some passive and implicit support from the Iranian clergy as the main state legitimizing institution and the most powerful anti-Communist ideological local and regional ally; established a centralized power structure with reinforced military power to resist a possible Soviet invasion; encouraged and supported extensive social, administrative, political and economic "reform" programs to resist ideological Communist penetration of Iranian society. One important military and security imperative in the required changes, considering the military might and geographic extent of the Communist rule, was to remove local differences, including religious ones, to allow a geographically wide military, security and political Western led alliance around the Communist state. Ideological secularization and political and economic "modernization" in line with dominant liberal Western model of "development" was that integrating force to counter possible Soviet expansion. Thus an authoritarian state led

program of modernization with local coloring and imperatives, with top priority given to military organization, started not only in Iran, but in the whole Middle East states created after partitioning of Ottoman Empire and establishment of modern Turkey (parallel reform measures in Iran under Reza Shah and Turkey under Ata Turk). It is important to note that "modernization" of the so called "traditional" societies, later called the Third World, and their "development" had started, both theoretically and in practice by the British, long before the American President Truman's "development" speech (1949). An important development in Iran's external relations during the period was the Soviet Persian Treaty of Friendship of 1921 in which the Soviets formally denounced and relinquished all concessions of Tsarist Russia in Iran but preserved their right of intervention if Iran was used by a foreign power against the Soviets;

Changes in external environment (1925-1945)

The Paris Peace Conference (1919) saw the presence and leadership of the rising United States of America, but President Wilson's failure to impose his Peace Fourteen Points on British and French delegations showed, on the one hand, Americans were still far away from leadership of Western alliance, and on the other, the different vision American leadership had from the dominant European powers. But never the less, American presence and to some degree insistence supporting widespread Iranian opposition, prevented British design of making Iran a British "protectorate". The increasing failure of Britain to uphold its Western hegemony, "the Great Depression" (1930s), American protectionist and isolationist policies in the interwar period, the rising anti colonial movements in European colonies and "semi-independent" states, the ideological

expansion of the Soviets along with technological advances and the German and Japanese quest for resources to support their industrializing economy led to the WWII the outcome of which reduced Europe as a whole to an American dependent territory. The irony of the war was that the capitalist imperialist Britain had to accept the Soviet Communist as their ally in the war against newly industrialized Germany and Japan. To supply the Communist Soviets in the East with British and American arms and equipment, British and Soviet forces invaded neutral Iran (Aug. 1941) from South, West and North forcing the British made king, Reza Shah, accused of friendly relations with Germans to abdicate in favor of his young son who immediately signed an agreement to give all non-military support to Allied forces later joined by Americans occupying the country opening and operating the Persian Corridor supply line. In Tehran conference in Dec. 1943 Roosevelt, Stalin and Churchill pledged their support for independence of Iran by withdrawing their forces within six months of the armistice. The Soviet continued occupation of North West Iran (Azerbaijan) province after the deadline was the start of what came to be known "the Cold War" further entrenching Iran into Western anti Soviet security arrangements and pacts.

Changes in internal institutional framework of Iran (Persia) (1925-1945)

Many academic works define the period of Reza Shah's rule (1921-41) the period of modernity and "modernization" of Iran. Extensive military, political, economic, legal and social changes implemented during the period are invoked as evidence. This period is certainly the one in which many "traditional" Iranian

institutions in almost all fields were replaced by “Western institutions”. This position ignores all previous successful and failed attempts of “reform” and “modernization” by Iranians starting from early nineteenth century especially after the military defeats from Russians. It also falls in line with the sociological view that places Western modernity after its industrialization in nineteenth century and derives Western modernity and institutions, including the “modern state” and its “assumed” associated social, political and economic institutions (e.g. social security, democracy and universal suffrage, modern financial instruments and intellectual property rights) as products of industrialization, that is, the basic explanation of Western economic development that was later formulated as the basis of “modernization theory”. In that sense, this period in Iran witnessed the start of deliberate and conscious dismantling of “traditional” institutions and powers. Political power was centralized to the point of personal dictatorship; modern cabinet system, new ministries and a professional relatively educated bureaucracy were established; European legal codes replaced religious Sharia laws and clergies were driven out of the judicial system; European education was adopted and modern universities established and some aspects of traditional cleric religious seminaries were placed under state control; compulsory military conscription including for clergy was introduced and a modern army with generous budget, handsome rewards for its commanders and officers and relatively modern equipment including air force was organized; European attire with tie and a special “hat” became standard clothing for public servants and unveiling of women first encouraged and then mandatory; oil revenues started to become a critical element of government revenue and budget mainly financing the military organization at this stage;

large and extensive infrastructure projects including a north-south transnational railway, consistently opposed by both British and Russians earlier, and roads networks were constructed, and perhaps paradoxically, to invoke "national" feeling and support for the process the official name of the country was changed from its Greek form of "Persia" to its ancient name of "Iran". Iran in this period started to move in the direction of a Western ideal "modernizing" state: politically authoritarian; militarily and security wise dependent; economically industrializing; and socially promoting an enlightened liberal model. In sum, Iran was placed on the road to "economic development" through suppression and banishment of "traditional institutions" from public life and substitution of "modern European institutions", thus heightening the conflicts between formal and informal institutions, powers and authorities. In practice the state that was established by eliminating the traditional military base of the Iranian state through the British coup, was put on a course of eliminating its only remaining social base: the Shi'ite clergy and its traditional followers, that is, the majority of Iranian population. Thus it became a state not based on any social class but relying on the newly created military organization with a very limited social base of modernizing intellectuals and the beneficiaries of the new regime. Two decades of military modernization managed to resist only four days when British and Russian forces occupied Iranian territories in 1941. The British made king had to abdicate by the order of the British served by Soviet ambassador, as the invaders were the "assumed supporters" of the state.

Changes in external environment (1945-1953)

The most important external changes with extensive global implications, however, were the rise of Soviet Union to shared global leadership with extensive ideological and geographical advances in Europe on the one hand and change of leadership in Western Alliance from Britain and Europe to the United States of America on the other with both sides equipped with the unprecedented destructive nuclear power in human history threatening the very existence of human species. Establishment of new military, political, economic alliances and international organizations meant extensive rearrangements, renegotiations, re-alignments, re-alliances and "adjustments" to the new international environment on global, regional and national scales. The monopoly of the technology on a bipolar line entailed a bipolar global military and security arrangement and division for many non-nuclear states.

Establishment of the Bretton Woods international monetary system (BWS) for provision of long and short term financial assistance and support to member states for government centered economic "national planning" modeled after President Roosevelt's successful "New Deal" experience (1930s) subsequently implemented through the American "Marshall Plan" in reconstruction of post war Europe and creation of the "welfare state" in line with Keynesian theory of "full employment" and "management of demand side" of the economy by government was both an ideological retreat of the Western Liberalism vis-à-vis Eastern Communism and Socialism and a partial theoretical and ideological defeat of liberal free market (*laissez faire*) economy within the liberal tradition. It was mainly these strands of economic literature that started attacking the new institutional and organizational arrangements and "the welfare state" and their associated ideologies, theories and policies from different organizational,

economic, political and ideological perspectives that led to the rise of various "neos" in political and economic theories, rise of the neoliberal and neo conservative ideologies, their capturing of the same institutions in the 70s and 80s and turning them into instruments of "rolling back" and "hollowing out" the state as a "predatory", "rentier" and "exploitative" institution and unleashing the and re-enthroning the "free market" policies.

For Iran which under military occupation became a founding member of these newly established "international organizations" the good news was the continuation of government centered "modernization" project, the bad news was the entry of a new and more powerful external player with much greater military and industrial force and a more liberal individual centered ideology different from and at times opposing to the hitherto dominant conservative British policies. The first test for all parties concerned, including the newly established United Nations Security Council (UNSC), came with the implicit diplomatic ultimatum of the USA to USSR in 1946 for withdrawal of its forces from Iran manifested in second, third and fifth UNSC resolutions[13] with positive outcome. This was a formal declaration of the change in the political and military leadership of the Western world on the one hand and the beginning of the rise American influence in Iran replacing centuries old British domination of the Iranian politics. From this point on the competition and the conflict between the

[13] Resolutions S/RES/2 (1946), S/RES/3 (1946) and S/RES/5 (1946) under the heading of "the Iranian Question" were adopted after the first UNSC resolution establishing the "Military Staff Committee": http://www.un.org/en/sc/documents/resolutions/1946.shtml

British and American interests on the one hand and their mutual cooperation to promote their common interests regardless or in tandem with the interests of Iranians is a major framework for extensive strategic, military, political and economic changes in Iran.

Changes in internal institutional framework of Iran (1945-1953)

The entry of the USA into Iranian politics required institutional changes in the Iranian state to accommodate their interest in return for their military and security protection against the Soviets. This naturally meant redefinition of division of labor and the associated distribution of resources and economic and political privileges within the ruling coalition. Fifteen prime ministers and cabinets were changed in the ten years from the occupation of the country by the Allied forces and enthroning the new Shah (1941) to the premiership of Mosaddeq (1951) and nationalization of Iran oil industry, which indicates the turbulent political environment in this period most of which was the reflection of the contentious interplay of the wants, interests and power of members of the occupying Allied forces and the Shah's and Iranian statesmen's attempts for their accommodation. Security of Iranian oil fields and installations, under British monopoly in the interwar period, and the possible entry of the newcomers into production activity became the major post war issue in Iran after the Soviet withdrawal.

Encouraged by the new 50/50 oil agreements offered by the Americans to Saudis and Venezuela in the light of Iranian modernizers' optimistic view of American liberalism as a liberating force (considering their positive earlier experience of Shuster's employment, the post WWI Paris peace conference and

the most recent issue of Soviet troops withdrawal) and the rising competition between the British and Americans and pressured by the Soviets for oil concession in Northern Iran, a process of renegotiation of oil agreement with British started that finally led to the passing of nationalization of Iranian oil industry bill in the Majlis (parliament) (1951) and Mosaddeq's premiership as a symbol of Iran's exercise of its national sovereignty over her natural resources. This was a major overarching change of principle in Iran's foreign relations, both political and economic, from "positive" to "negative" balance of power, that is from granting political privilege and economic concessions equally to every great power to balance them against each other to that of denying such privileges and concessions to them equally. This is the very basic principle of state "sovereignty", "self-determination" and "autonomy" that probably motivated the idea of a "non-aligned movement" in the then bi polar world. The outcome of this event was the Shah leaving the country, the British boycotting Iran completely and blocking her sale of oil militarily (supported and reinforced by her allies) despite Iran's agreement to pay compensation to the Anglo Iranian Company for nationalization of Iranian oil industry, British filing a complaint against the government of Iran with the UNSC and International Court of Justice the former rejecting consideration of the case as a dispute between a company and a government and the latter voting in favor of Iran as an exercise of her sovereignty. Although a specific case between the government of Iran and a foreign company, but it was a test of the newly established "international organizations" in supporting and upholding the "sovereignty" of its member states watched by the whole world. This was a victory both for Iran and for those organizations. Despite the judgments of all international bodies in favor

of Iran, the joint Anglo – America coup of Aug 1953 and reinstatement of the Shah forced the Iranian to arrive at a new understanding that regardless of Western liberal slogans their first principle of action is "economic self-interest" for the realization of which they'll kill even democrats and democracy. The reinstatement of an illegitimate ruler through an unlawful covert operation of CIA/MI6 not only closed the file of reforming the Iranian political system on the basis of Western liberal democracy for foreseeable future, but also opened a new file for reform: that "covenants without the sword are but words and of no strength to secure a man at all" (Hobbes, 2003, p. 117). The coup of 1953 against the democratically elected government in Iran was a public display of the high transaction cost in International Relations of trading national security for economic development. The only options left for reducing that cost was a total overhaul of the system and reconfiguring the dominant coalition and institutional arrangements. The available alternatives theoretically for such a reform at the time were either religion or Marxism. In a predominantly Muslim (Shi'ite) country with its religious leaders, the clergy, part of the dominant coalition, and the majority of population "locked in" that culture and institutional heritage, there was no chance for Communism. The wave of movement towards religion, both ideologically and politically as the more viable available option, for social, political and economic reform started. The Iranian revolution of 1979 was the outcome of that move in an increasingly favorable academic and ideological international environment created by the rise of neoliberal/neoconservative alliance to dismantle state led development.

In part II the three themes of violence, rent and their sources as the main factors influencing the reduction of negative growth periods up to the revolution of

1979 are investigated in order to set the context in which the revolution occurred. But before that we need to have an analysis of the elite coalition in order to find out the configuration of the state and their relationship. Figures 6-13 in the following pages visually demonstrate periods of major changes in the political and economic development of Iran from 1500-1979. The end or beginning of these periods could reasonably be identified as "critical junctures" in Iranian history and its cultural heritage. Some of the conclusions drawn from the analysis may not be immediately relevant in the following analysis but they'll be incorporated in other chapters and in the final conclusions.

Figure 6: First Sovereignty claiming National State in Iran 1501 (Safavid State Establishment)

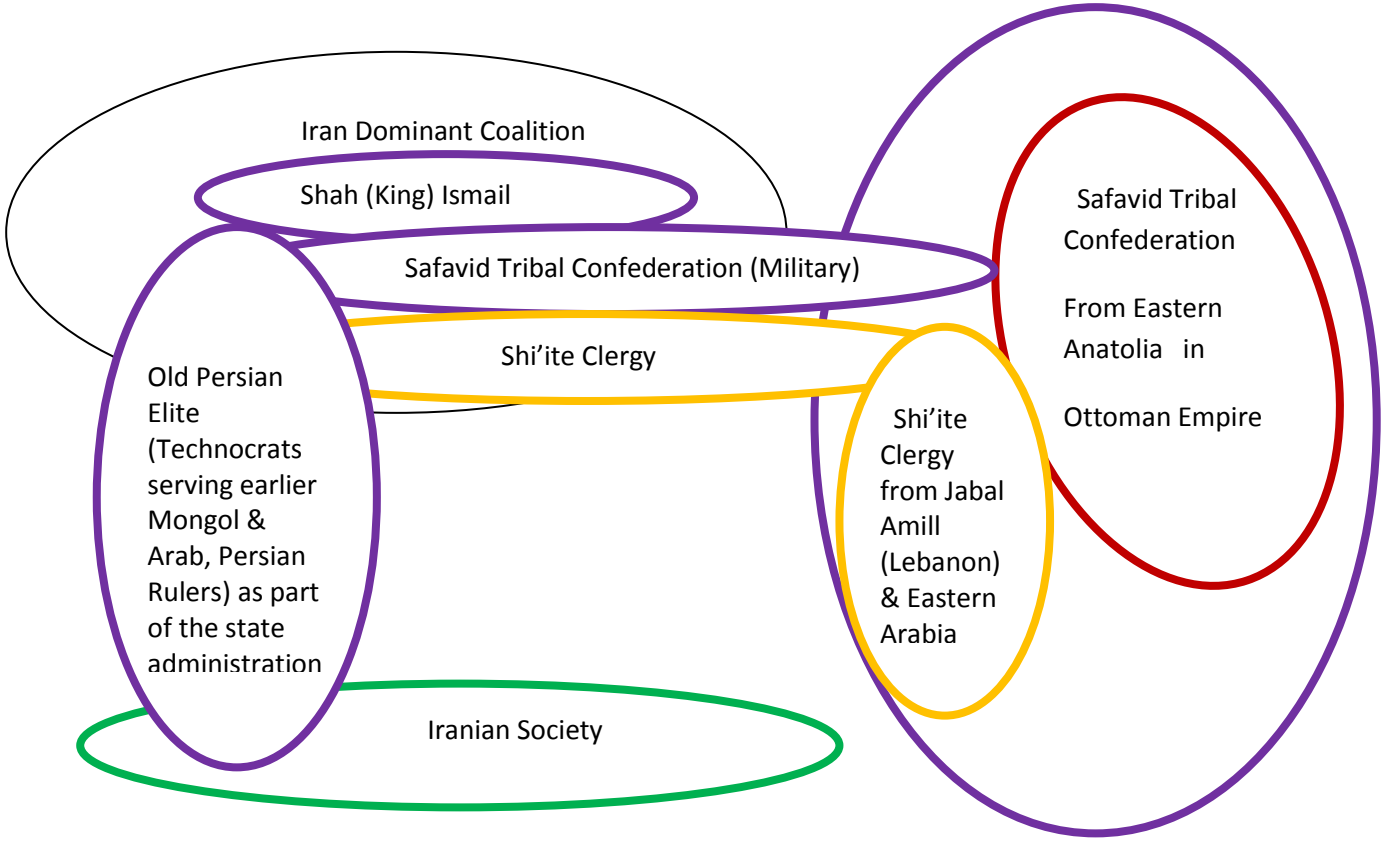


Figure 7: Dominant Coalition in Iran 1501-1722 (Safavid State)

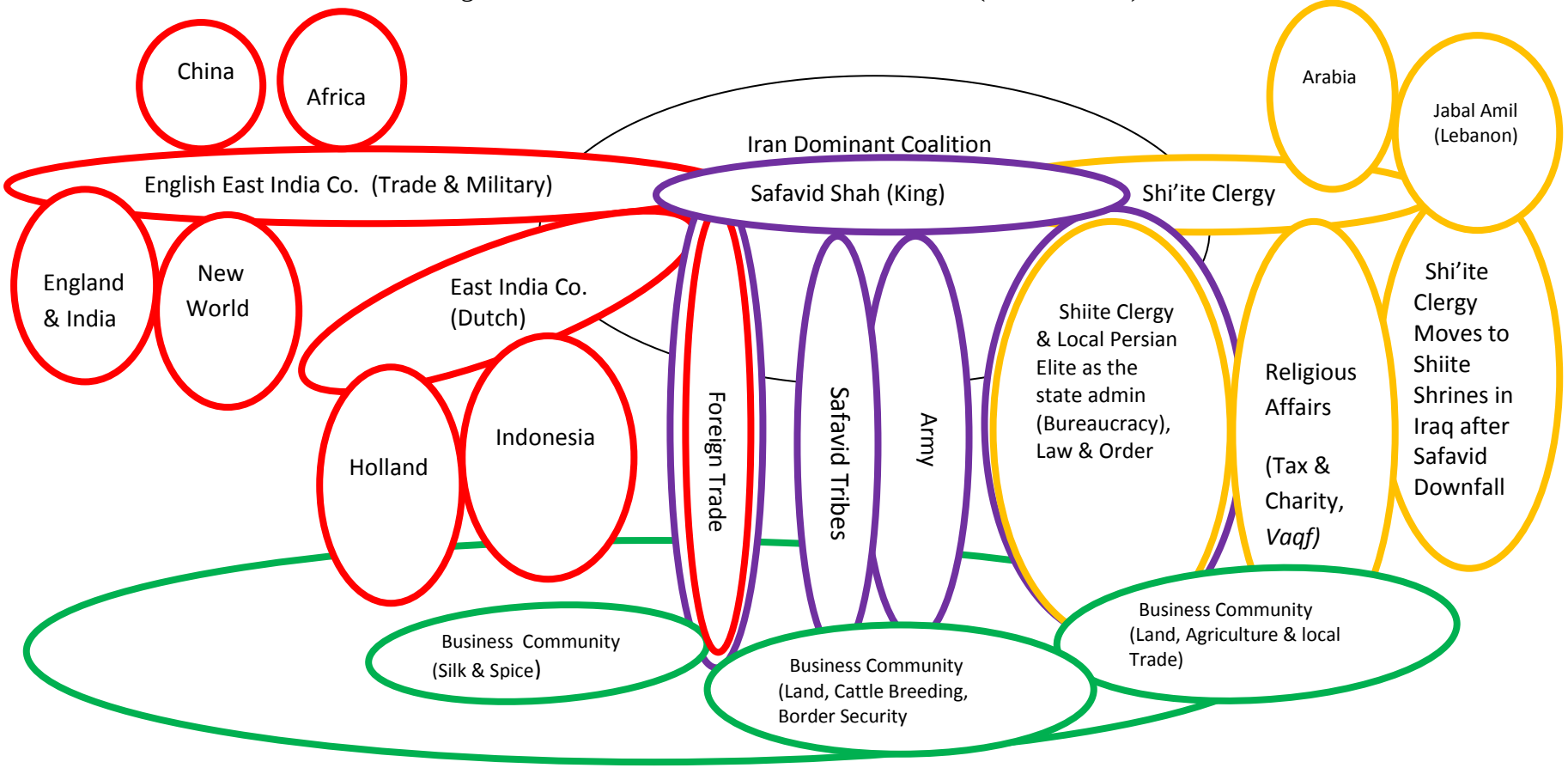


Figure 8: Dominant Coalition in Iran 1798-1921 (Qajar State) (Constitutional Revolution 1905)

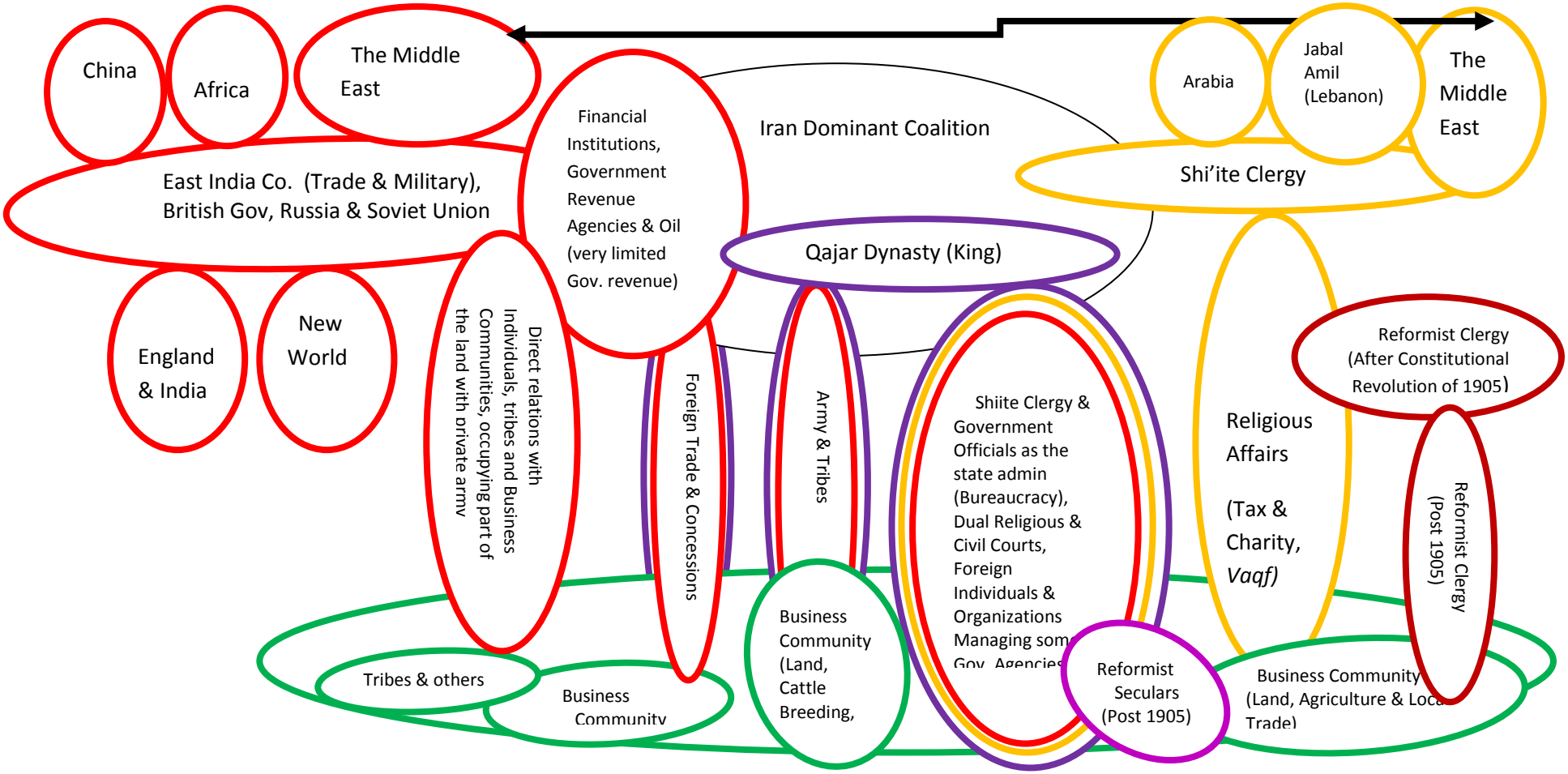


Figure 9: Dominant Coalition in Iran 1921-1941 (Pahlavi State to the start of WWII in Iran)

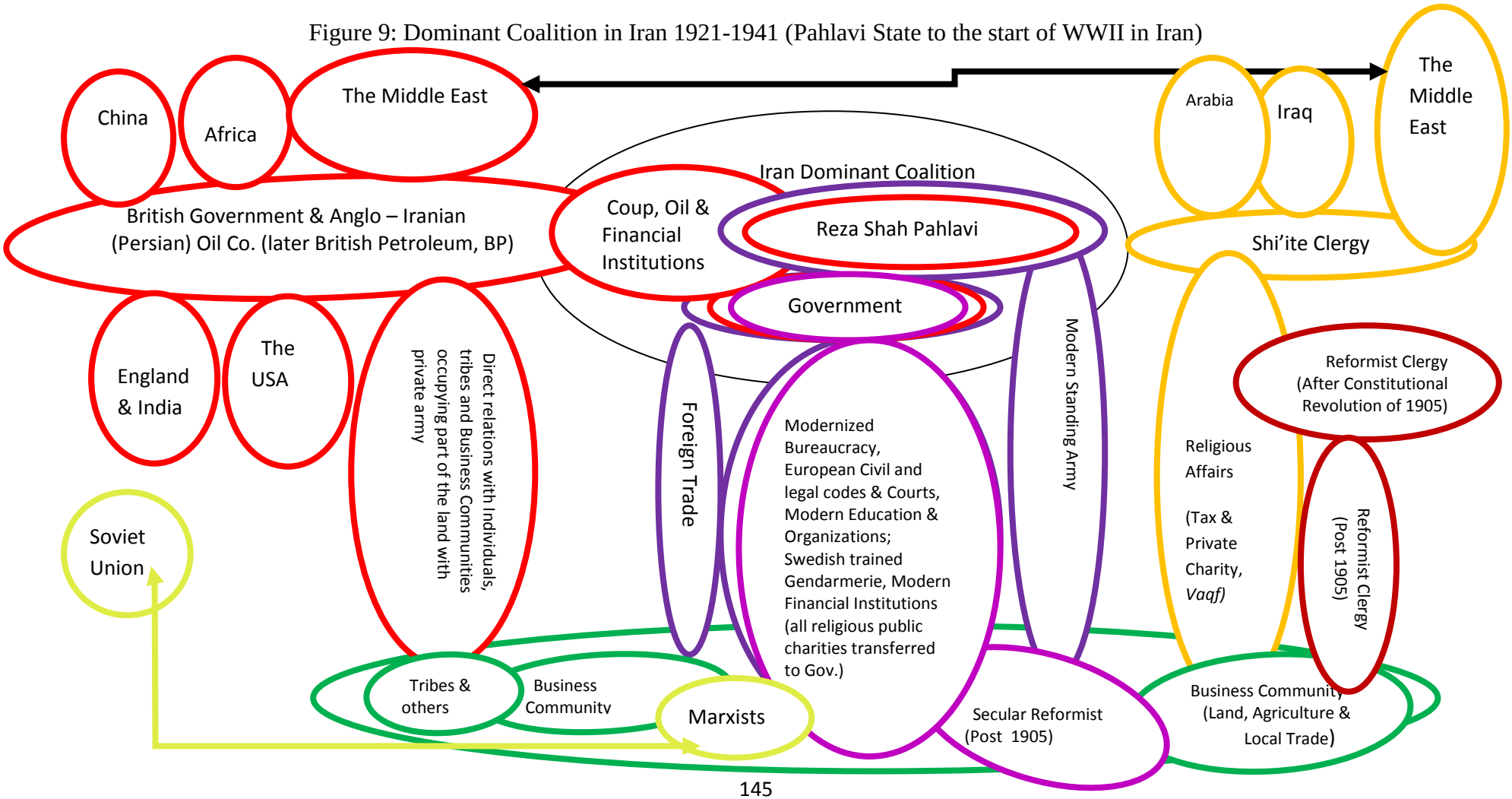


Figure 10: Dominant Coalition in Iran 1951-1953 (Mosaddeq Premiership, Oil Nationalization & American-British Coup)

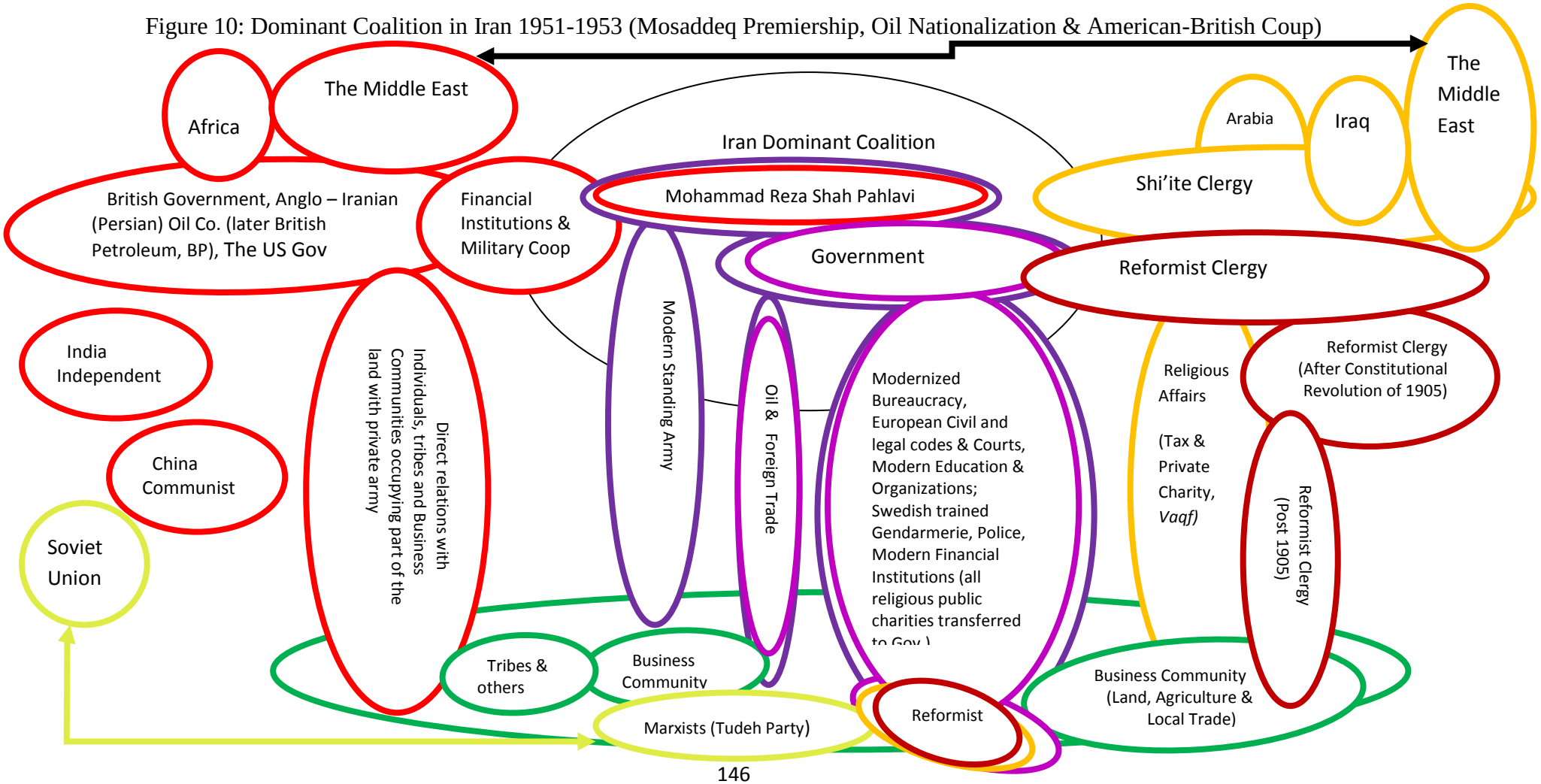


Figure 11: Dominant Coalition in Iran 1953-1979 (Mohammad Reza Shah Reign, New Oil Consortium, Oil Price Increase & Revolution)

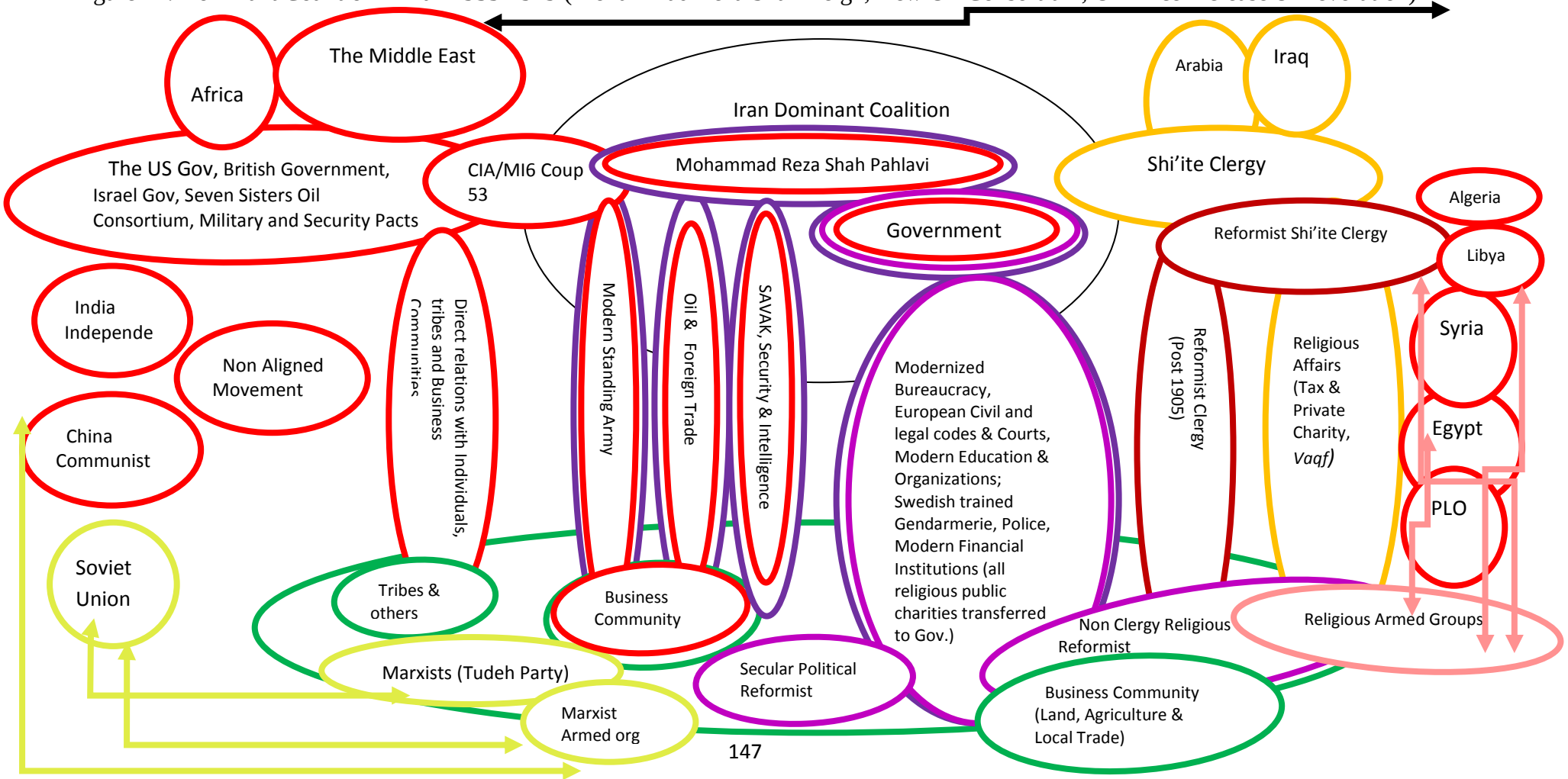


Figure 12: Dominant Coalition in Iran 1979-1989 (Revolution, Khomeini's Rule, Iran – Iraq War)

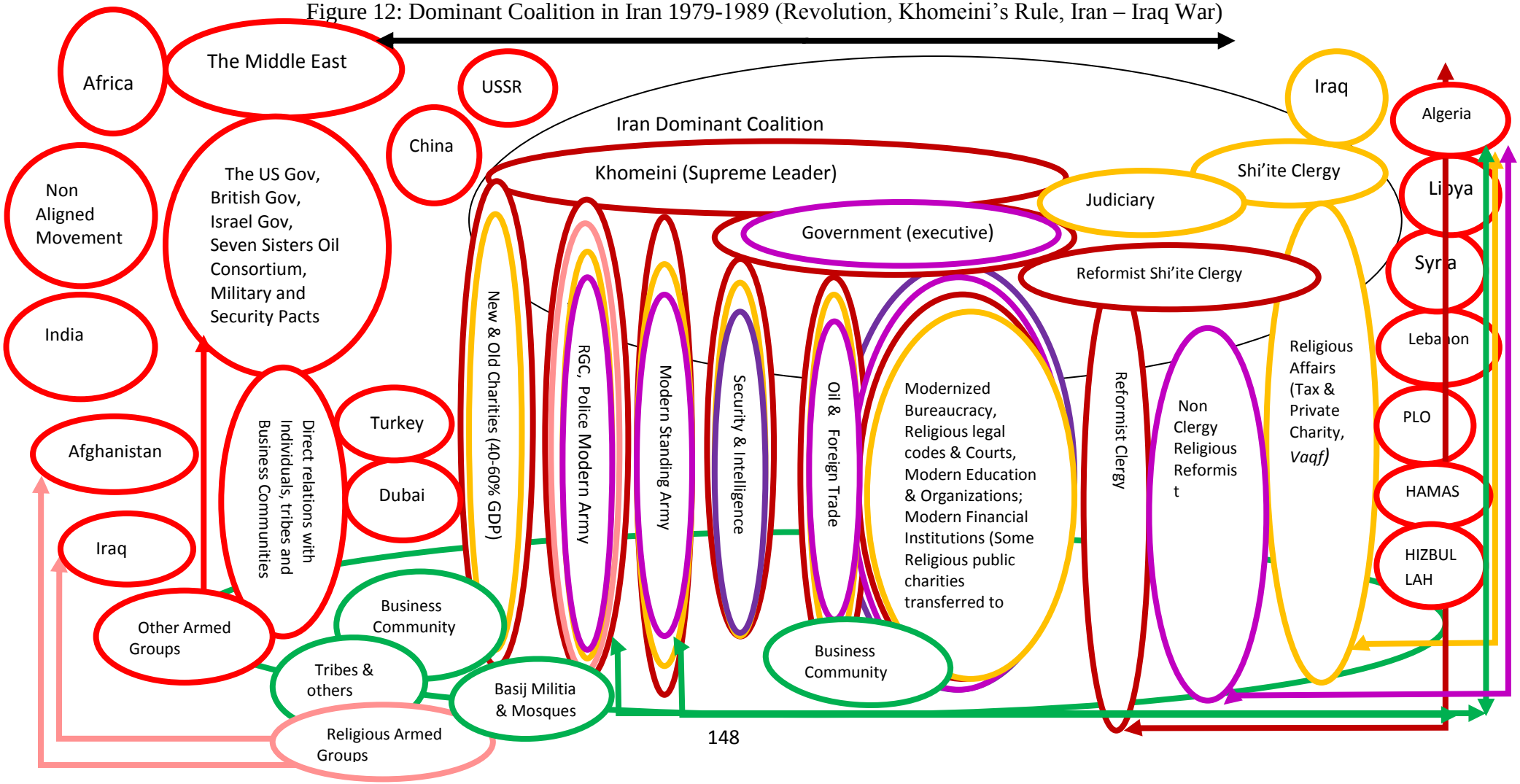
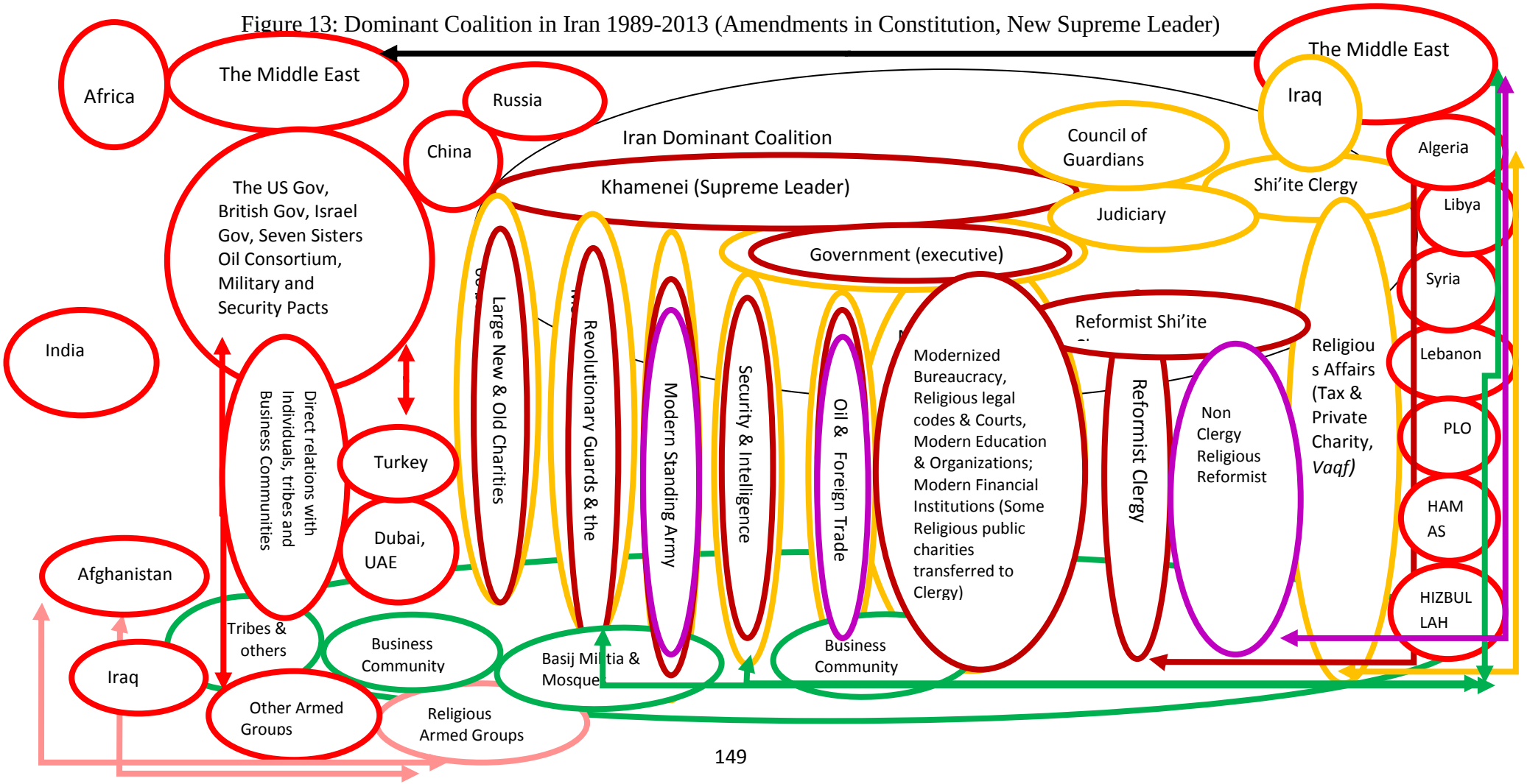


Figure 13: Dominant Coalition in Iran 1989-2013 (Amendments in Constitution, New Supreme Leader)



PART II

Violence, Rent and their sources in Political Economy of Iran: The institutional Heritage of Iran

A catalogue of institutional and organizational changes in Iran extracted from the above figures can include the following points:

1. The establishment of the Safavid state was a historical event of global scale both politically and economically. It was the first national sovereignty claiming state based on the divine rights of kings a century and half before the Peace of Westphalia (1648) as the origin of the European system of states and more than a decade before Machiavelli introduced the concept of the state to Europe (Savory, 1974). It established the first Shi'ite state in history in the sense of formally declaring Shi'ism as state religion. This was a new development in the Muslim world with regional and global security, economic and political consequences. Iran still is the only country in the world with Shi'ism as its religion and the majority of its population Shiite. In this sense the Iranian Revolution of 1979 is a continuity of its belief system (Newman, 2006) (Abisaab, 2004) (Algar, 1974) (Amoretti, 1986) (Roemer, 1986) (Statins, 2000);
2. The state was established from above. The majority of Iranians at the time were non Shiite, although earlier attempts to build up links with Shiite Imams (religious leaders) were made but had failed. The religious leaders required to rationalize and legitimize the state and provide the required public services were imported from other areas in the Middle East. This was clearly an institutional innovation, but the over two centuries of Safavid rule indicates its successful embedding of the state both in the society and in the external

environment. The acceptance of the new coalition by at least the majority of the population thus supported their claim of legitimacy and sovereignty. The self-sustaining division of the Middle East in which the major powers acted like pulling back force for each other provided a free security arrangement for Europeans. This arrangement actively upheld by the British right to the end of the WWI, provided the British with full control of all waterways from Indian Ocean, to Persian Gulf, Gulf of Aden, the Red Sea and eastern shores of Mediterranean and secure movement of goods and service between India and Europe;

3. The trade, military and political importance of this event soon brought all major European delegates to Iran for trade or military alliance. Considering the hostile environment in which this state was established, and the larger part of the first century witnessed frequent wars, no major military alliance during this period is reported. The Ottoman Empire was the most militarily powerful state against whom Europeans were attempting to unite. No militarily powerful European existed at this time. But the country almost immediately entered in the network of international political and economic players.

   The English East India Company after a century joined the coalition of the Safavid military tribal element and Shiite clergy as a minor member collecting import taxes in the Persian Gulf. This tripartite coalition, obviously with changes in their weight and relative power and roles at different period remained the structure of the Iranian state right to the end of WWI. But a visual survey of figures 6-11 displays the gradual move of the European trading military network from a minor coalition partner to “capturing” almost

all “governance structure” of this state. To understand the reasons behind these changes the whole political and economic changes affecting their positions have to be studied. For example, the initial conflicts between the English East India Company and Dutch East India Company (VOC) over import tax duties (Standish, 1998, p. 80) and the complete disappearance of VOC later (Rietbergen, 2014) cannot be understood unless the Glorious Revolution (1688) which was the invasion or the invitation of William of Orange of the Netherland (1650 – 1702) to become the king of England, Scotland and Orange (Netherland) to ensure a Protestant line of succession and its importance, especially for an economic theory of politics, is taken into account.

A Catholic king could not support the legitimization of usury and all the institutions (e.g. insurance), the backbone financial institution of a joint stock company and “capital market development” which had allowed the establishment of the English East India Company in 1600 through raising the required capital to do business with eastern traders. Even Calvin did not dare to announce it publicly for some time (Van Baumer, 1978, pp. 231-33). Economic and political development in Iran (and the rest of the East at this time which consisted only of a few large states like India, China and the remaining Khanates of disintegrated Mongol and Timurid Empires) could not be understood unless it is studied within the “context” of this colossal underlying structural changes taking place in the structure of global economy. The sudden rise of the Scottish Enlightenment and their obsession with justification of “usury”, “scarcity”, and economic rationalization of human action either as self-interest or “utility maximization” is

understandable in the “context” of this political integration of economic interest (Hopfl, 1978) (Calder, 1987) (Maddison, 2006) “coordinated” and directed by a “secret committee” (Philips, 1940b) (Philips, 1940a) . In other words, read in its historical context, the self-ordering “invisible hand” of Adam Smith’s “free market” advising minimal state intervention in economy (and in fact trade) would mean nothing more than advising the British government attempt to get control of the expanding network of the EIC’s unprecedented profit distributed as rent among the beneficiaries, including the economically backward Scotts (Farrington, 2001). The difference between the gains from this foreign adventure and the rate of domestic interest was “the rent” distributed among the beneficiaries including the Dutch and the Scotts. It is highly unlikely that the tribal military elements of the East, including Persians had the information which was not available even to the British Public at the time. The political integration of Western beneficiaries allowed their creation of a centrally coordinated trade structure linking the producers in East with consumers in West. Considering that all European East India Companies were state licensed chartered monopolies (rather than even imperfect competition) on the Western consumer market side (Irwin, 1991) , their control of Eastern producers (sellers) could create a single self-sustaining “free market” regulated only by the “invisible” secret committee. The creation of that single market, recently dubbed “globalized economy” or “globalization”, is the direction towards which the structure of international economy has been pushed to after the post WWII “interregnum” due to the rise of two new competitive superpowers changing the “global” rule of the game;

4. The changes in the configuration of the Iranian dominant coalition from a tripartite coalition of a military tribal element, the Shiite clergy and the foreign trading military element in early seventeenth century to that of complete elimination of the local tribal military element and limitation of the role of clergy to a "silent legitimizer" in the sense that the majority of population affiliated to this institution would consider the state legitimate unless an active public opposition from the clergy is displayed, corresponds to the global hegemonic rise of that trading military network that managed to expand itself through creation of politically dependent states in strategic points (both geographically and economically) over the globe, trans/multi-national companies to control resource markets, transportation and shipping routes, and consumption markets.

   One should remember that after all the American Revolution started from the dispute over the tax imposed on EIC imported tea from India (Tilly, 1977, p. 1). The statement that "by the eighteenth century, their military power allowed the British, French, and the Dutch to overwhelm every other state on the planet" (North et al., 2009, p. 181) is not supported by any historical evidence other than occupation of small, but commercially or strategically important, islands. The military power gradually developed by using the Eastern rents to support the economic structure gradually put in place. In Iran after the demise of the Safavid in 1722, the EIC was granted a trade representation by the Zand in 1763. It was this trade representation in Bushehr that became the "Uncrowned King of the Persian Gulf" (Wright, 1987, p. 347). It was through the commercial links that "points of access" (Risse-Kappen, 1994) were established, local interest groups formed,

political institutions shaped and influenced and ultimately captured (when necessary by military force or coercion), new institutions introduced or local institutions manipulated to reinforce, perpetuate and expand the huge rents originating from abundant resources of the East (generally referred to as non-European societies) and flowing to West. In Iran as in India the story started with trade and tax exemption and collection granted to the EIC by the Shah in 1622. The immediate impact was the diversion of transportation of trade between India and Iran to EIC ships because they could be declared as EIC goods and exempted from import duties.

This penetration of the political system for preservation and expansion of economic interests of the network went to the extent that even the so called "Oriental Despot" or "pivot of the Earth" for nomination of his own heir had to seek the prior approval of the British (Hagigi, 2012). The domestic political structure and hence the policy making apparatus could only best serve the foreign network, when it was highly centralized and could quickly responds to their demands. Highest decision making authorities are the potential access points for foreign relations especially at initial stages. Thus every measure was taken to ensure the perpetuity of the installed political structure to support and expand the economic structure. This is the reason that the most politically stable period in recent Iranian history in the second half of the nineteenth century, coinciding with the *Pax Britannica*, is also the most politically and economically static period of the Iranian history. Every move for political and economic reform was blocked, unless it served the foreign network's interest or was perceived as harmless (Bostock, 1989) (Galbraith, 1989) (McLean, 1979) (Ingram, 1973). Any explanation of

development and long term economic growth must integrate the domestic structure at particular point of time within the structure of this transnational network. The members of the coalition act as access point for each other to embed each other both in social structure and international network. The rent accrued from this division of labour correspondence to the degree of the sensitivity of the service provided and the relative power of each to bypass the other;

5. Following the defeat of the last Safavid king by the Sunni Afghan tribes, that could be considered locally generated conflict all wars were conducted for reestablishment of the state (mainly by Afshar) (Axworthy, 2007) (Axworthy, 2011). By the beginning of the nineteenth century and the establishment of Qajar dynasty, the rising Russian Empire was added to the external threat. Three major wars of the nineteenth century involving Iran were all externally imposed, by Russians and British leading to huge territorial losses that are now independent state. Iran was not involved in any war for over a century till the Iran- Iraq war in 1980 ;
6. The twentieth century development in the Iranian state is the completion of the control of the Iranian state by the foreign network. The key internal factors were the discovery of oil by British external factor and the communist revolution of 1917 in Russia. The British coup of 1921 and the change of dynasty completely removed the military tribal element from the coalition. The subsequent attempt to build a strong centralized state by modernizing its political and economic organization financed by the revenues from oil industry, introduction of "modern" European institutions and army promoted as "modernization of Iran" (Banani, 1961) (Arjomand, 2002) (Atabaki and

Zurcher, 2004) (Cronin, 1996) (Boroujerdi, 2003) (Katouzian, 2004b) (Ghani, 2000) (Halliday, 1978) was the reversal of more than two centuries of policies that had kept Iran a backward country. The fear of losing the huge revenue from the oil concession received under total submission of the Iranian statesmen was the cause and reason for speedy measures. Everything, from the king down to population cloth and hats were to change. This also limited the role of the member of the coalition, namely the clergy and drove them out of judiciary, education and government bureaucracy they had controlled after they were brought back in the coalition in nineteenth century following the two devastating wars with Russians. The second coup jointly by the British and American in 1953 deposing the democratically elected government of Dr. Mosaddeq removed all remaining social and political support from the regime making it a socially baseless hanging state totally dependent on the foreign support and domestic suppression of all opposition (Abrahamian, 2001) (Balaghi, 2013) (Etges, 2011) (Gasiorowski, 1987) (Kinzer, 2003). It worked until the changes in configuration of external environment opened the way for workings of domestic forces. The Iranian Revolution of 1979 was thus made;

7. Figures 12 and 13 show the changes in post revolution dominant coalition. The revolution drove out the external network representative member of the coalition. Thus it claimed popular sovereignty based on the religious leadership which itself was based on a religious institution of *Marjaiat Taqlid* (the emulation authority). Charismatic leadership of Khomeini was an additional feature. Although Charisma is something individual, it more relates to what one does or says. While up to 1989 the state and its governing

apparatus, *i.e.* the government institutions and organizations were dominated by the reforming clergy, after 1989, the Constitution was amended to allow non *Marjaiat Taqlid* clergy to be appointed as leader. Coupled with the establishment of the "expediency council" consisting of the highest current and ex state and government officials, the two new institutions provided for what NWW calls "adaptive efficiency" (North et al., 2009, pp. 133-36) (North, 2005, pp. 6, 154, 169) (North, 1990, pp. 80-82). It has tried to bring in a new military force grounded in society. This element is composed from the lowest social classes to highly educated groups of society. The clergy, both from reformer and the established traditional factions with their transnational networks are present in the dominant coalition. They have mobilized all their ideological and economic resources for popular mobilization and democratization in the sense of popular and mass participation in politics (Skocpol, 1988, p. 150). Based on the institutional and organizational changes in the configuration of the dominant coalition and provision of domestic laws and rules and exercise of state sovereignty it has succeeded to develop politically in the sense of an autonomous independent state in the very hostile environment. It has been a politically stable state over the last three decades with the power and capacity to whether massive internal and external shocks. Economically however, it has not been as successful, though it has experienced the usual boom and bust of economic growth.

Post Revolution State Building

The struggle and contention between different political groups in post revolution Iran has been the most manifest feature of the post revolution Iran noted by many scholars

of politics and area experts. It has been attributed to different conflicting ideas and processes from disputed sovereignty, legitimacy, authority to struggle for control of resources. The contended sovereignty is noted by some experts but it is seen as a conflict between divine and popular sovereignties and therefore the contention is seen between the civil society and the state (Jahanbegloo, 2010, pp. 24, 26). This view of the contention has to assume either a unified civil society or a divided civil society with unified expression of political demand for "reform", "Modernization", "representative government and democracy", on the one hand, and a unified state comprising of all Shi'ite elites and laymen, on the other. This becomes then an upside down picture of a modernizing state faced with a traditional civil society which is the standard version of modernization theory or explanation given for the Iranian revolution. Both become oversimplification of a complex process of interaction of external and internal institutions, presented as a contention between tradition and modernity depicting the clergy as the backward traditionalist opposing modernizing reformers (Ringer, 2004, p. 47) regardless of their being in power or in civil society. The problem with this explanation is that neither of them is able to explain the diversity and even conflicting fundamental views within the state and the civil society. It simply obscures the causes why a large section of the whole society opposing the "modernizing" regime of the Shah should not be considered "traditionalist" at the time and why that society has become "modernizer' or "reformer" today. With such explanations one then should wonder where to place the reformers within the state, manifested in many instances through disputes and power rivalry amongst the leading clergy and the supporters of the clergy view in the civil society widely manifested in endless supply of human resource in the war against Iraq and public support through ballot boxes.

It seems in analysing Iran state one has to start with the state itself. The Iranian state started with the institution of referendum. Therefore, its legitimacy that was recognized both within the Iranian society and internationally was based on active popular consent (at least simple majority consent). The constitution that institutionalized a dual sovereignty of both people and the clergy was again established through referendum; that is active popular consent. Therefore the state that was established was a state established with active consent of the population. This state started to operate with the expectation of the population to provide two basic functions of any state; order and security after a whole year of low economic activity. Internal order was provided mainly by local communities in each town and villages that demonstrated a state of affairs close to a stateless society managed and ruled by self-organized collectivities generally advised and directed by individuals with some professional experience in military and security services.

Under such circumstances the population could be organized through social organizations and institutions. Those with such organization and institutions were the traditional clergy operating through their hierarchical social organization based on *Marja Taqlid* institution which granted them the possibility of directing and organizing different section of population. Their extensive access to wealth, land and economic privileges facilitated such organization. Therefore a large section of population following the Shi'ite religion was organized in different parallel organizations. Another section of the population who did not fall under such organizations was those of non-religious, secular, or followers of other religious creeds or political organizations. Considering that in the absence of any organized large scale military or police organization all social matters were settled by popular

organization, the latter groups either to lack of access to any organization, or their effectiveness, were quickly eliminated.

The new rulers, the "reforming clergy" led by Ayatollah Khomeini, had to start by relying on three members of coalition: the traditional clergy, the foreign trading and military element, and the non-clergy religious intellectuals who had become part of his pre revolution coalition acting as his medium of communication with religious intellectuals and foreign states. This group were mainly organized under Ayatollah Khomeini's political organization moving to the positions in the new government organization and agencies. The Provisional government in charge of preparing the formal establishment of the Islamic Republic of Iran were made of this group. On social level though they had their following, but compared to widespread popular mobilization, they had no effective impact. The social space was occupied by the population organized by the clergy; the "traditional" and the "reforming". The foreign element had lost its chains of command due to exit of its commanding leaders from Iran, but started to settle in different countries around Iran with their commanding centres in Europe and the USA. Therefore, right from the start of the new process of state building different centres of power and decision making existed (Bazargan, 1984 (1363), pp. 12, 123, 143, 192). The process became of building a new state by a new group of people with "no previous state rents" who had to interact with two established members of the ruling coalition. The non-clergy religious members of Ayatollah Khomeini's political organization were soon removed from his organization either due to being suspected of collaborating with the other two members or left due to their disagreements. Nevertheless, despite removal of the non-clergy member of Ayatollah Khomeini's organization, his

legitimacy was based on popular consent rather than religious. Many have argued that it was his "charismatic" leadership that led to the victory of the revolution and management of the affairs of the country, but it is important to note that this "charisma" was based on his open and public opposition to Shah and his regime that made him a "charismatic leader".

On the political dimension Ayatollah Khomeini and his associates had to conduct their Islamic state building process against a historic demand of independence from foreign domination. Nowhere, this domination had been obvious in the past than Iran's relations with Britain and America. Therefore, he and his associate targeted that relationship both for political mobilization and to make such demands redundant from other groups. The animosities expressed by hardliners in Europe and the USA and unsuccessful attempts in supporting the ex-military senior officers in trying to attempt a military coup facilitated such attitudes. The war that Iraqi regime started covered up many internal problems, the most obvious of which was the lack of any specific political and economic program and plans. Whether intentional and encouraged by the USA and other European powers or not, it helped the new member of the coalition to consolidate its political power.

For the established member of the dominant coalition, the war created an opportunity to increase its influence on the state's policy through mobilizing their organizational resources, both human and material. An increased participation gave them the opportunity to further penetrate the government and start to exert pressure especially on the economic policies of the government. Their opposition towards the final years of the war against government policies of rationing basic necessities as communist

economy were increasingly voiced through their newspapers and leading members. Even opposition to the rule of senior clergy were voiced at some points

For the foreign trading element, the network of international corporations, there were a few basic important points that were important. First was the question of the flow of oil into international economy. The other was to prevent the Soviets from getting their hands on Iran's oil and gas. Third was to prevent Iran from extending its control over Iraq's oil resources. And last but not the least, was to control or minimize as much as possible the impact of the Iranian revolution on other countries of the region (Cronin and Masalha, 2011, p. 7). Therefore, the obvious conclusion was preventing Iran from becoming a model for others. This could have detrimental effects both on international and regional balance of power, and the Western countries' economies which were up to %60 of their oil consumption dependent on the Middle East. The war guaranteed the flow of oil both from Iran and Iraq while neither of them had any control of the international market. Through the war the multinational corporations were happy that oil flows and through the oil market they manipulated and to some extent controlled the revenue allocated to each side while they increased selling military equipment to many countries of the region to boost their defence systems against much publicised Iran's military threat.

The real changes started after Ayatollah Khomeini's death in 1989. The first problem the Iranian state faced was the question of leadership. The Constitution had stipulated the position of Supreme Leadership for a *Marja Taqlid* with the majority of popular support. Having succeeded in eliminating Ayatollah Montazeri, Khomeini's close disciple that had been appointed as his successor from his post prior to Ayatollah Khomeini's death, none of his associates had such qualification.

To reach such point even if it was granted it needed some time for the individual to write a manual and start gathering followers to the extent of reaching a majority of followers. None of them enjoyed the popularity of Ayatollah Khomeini either. To keep his associates in power, the Constitution was amended and the condition of *Marja Taqlid*, that is seniority in clergy hierarchy, was dropped. This had to be done with the support of the established senior clergy who gained extensive political and economic concessions for this support. After the elimination of Ayatollah Khomeini's appointed successor from his post, the established traditional clergy had changed its strategy to support *Velayat Faqih* or the rule of Jurist in the hope that as there was no senior clergy amongst Ayatollah Khomeini's associates or the reformer clergy, a leading traditionalist senior Ayatollah could take up that position, but the change in the Constitution delayed that plan. Nevertheless, with new concessions and support of the new Supreme Leader they found further influence in the state institutions. Having had gained a monopoly of control over the Judiciary and the Council of Guardians, they started changing election laws and the extent of the Council of Guardians powers from an initial passive monitoring or supervision institution to an active vetting agency deciding who can nominate for elected positions, excluding a section of society from political activity. This gave them an extensive power of decision making through unelected bodies attached to the office of the Supreme Leader. This was the period in which formal politics was dominated with economics, economic reform and formal drop of state sponsored economy, taking up the IMF economic reform package for structural economic reform to bring back Iran into global economy. The domination of the traditionalist clergy with full control of the Judiciary, majority control of the parliament in the second presidential term of Hashemi Rafsanjani, and new extended power for the Council of the

Guardians to pursue a policy of excluding non-traditionalist political players was a gradual move to transfer the executive branch, the government, into an executive arm of the office of the Supreme Leader, the *Vali Faqih*. This is what Ayatollah Khomeini had proposed in his Islamic Government (*Hokoomat Islami*) but he himself did not follow (Bazargan, 1984 (1363), pp. 85-86), for reasons that have not been researched at all. It was during this period that severe social restriction by the police and security service especially for women and various social activities were imposed on society. Physical elimination of opposition both inside and outside the country became an active policy of some security and intelligence groups and agencies under the control of the traditionalist clergy. It was one such an incident in Germany that led to collective protest from EU countries withdrawing their ambassadors.

The foreign trading element during this period resumed their political and economic relations with extending credit facilities, loans, and short term deferred payment system to the extent that a downturn in oil prices created huge problems in Iran's debt repayment service. During this period some degree of external cooperation between this group and British and American forces in Afghanistan were initiated. A secret meeting between a top Iranian foreign policy advisor and a British foreign office diplomat in London negotiating for the British support of their future Presidential candidate revealed efforts to reinvigorate the old cooperation between the two sides as members of the Iranian dominant coalition.

The surprise election of President Khatami, a moderate reformer with some ministerial experience in 1997 above all revealed a few important facts. First was that despite all limitation imposed by the traditionalist group, the electoral system

still had the capacity of reflecting the majority will, for every attempt was made by the traditionalist clergy to ensure the election of their nominated candidate. It was first and foremost a confirmation of the soundness of the election system even with severe limitations imposed. The second was that the number of vote casted for Khatami was the highest that up to then had put a candidate onto presidential position, which indicated a growing popular discontent with the traditionalist policies despite some degree of economic improvement. Third was the fact that despite all traditionalists' efforts they had not yet had the power or the will to rig the electoral system. This marked the appearance of new reforming political force from within the political system with an agenda of reforming the system from within, in the historical tradition of the Iranian chain of top down reformers starting from the Qajar period, but this time with greater emphasis on political development and institutions rather than economic development. The assumption was that political development is the prerequisite for economic development. Khatami's public praise of the American people, their revolution and common ideals with the Iranians greatly improved his foreign policy and started a process of *detente* with Europeans and Americans. However, this improvement was successfully blocked both by the Traditionalist Clergy internally and the Foreign Business Network externally. While the Traditionalist Clergy affiliated and controlled formal and informal organizations made every effort to bock these reforms, the Bush Administration suddenly put Iran in the list of terrorism supporting Rogue States or "axis of evil" (Cronin and Masalha, 2011, p. 1), indirectly supporting a more hardliner policy against such accusation and throwing doubts on the utility of the reformist policies of external rapprochement. The outcome was the government of President Ahmadinejad supported by the most extreme factions of the Traditionalists who publicly and

openly denied any role for people in electing the political leadership, ultimate authority and sovereignty of the Shi'ite clergy, and pushing for an "Islamic Government" in the sense of *Velayat-e- Faqih* instead of an "Islamic Republic" that is elimination of the democratic elements and institutions of the state and formally turning the whole state apparatus into an executive arm of the Vali Faqih or the senior clergy selected or appointed by the clergy themselves.

Ahmadinejad's two terms of presidency brought a dismantling of many political and economic reforms. His second term triggered a widespread popular protest against the government accused of rigging the election in the sense of just ignoring the higher votes of other candidates and announcing Ahmadinejad as the winner. It caused widespread popular protest and a social movement internationally known as the Green Movement marked by brutal suppression of protestors not only by the state violence excising agencies, but also by Para-military and plain clothes armed groups believed to have been organized by the Traditionalist Clergy organizations. The two hopeful presidential candidates who believed the result of the election was changed and protested were the country's 10 year Prime Minister of war period and three time Majlis (Parliament) Speaker, both closely associated with Khomeini and his policies. They are both under house arrest up to date.

Ahmadinejad, however, succeeded in implementing two critical parts of the economic structural adjustment, privatization of large state owned companies and removing indirect energy subsidies given on products to direct cash subsidies paid to households, that both his predecessors in the previous two decade had failed to implement, either due to their risky political consequences or by practical blocking of the move by the Traditionalist Clergy affiliated agencies and organization. In the

absence of direct foreign competition and active opposition of security and intelligence agencies with transferring to private sector on security grounds, they were mainly bought by companies affiliated to security and intelligence agencies, including the Revolutionary Guards. The subsidy removal project that its first phase started in December 2010 ended in its second phase being formally called off by *Majlis* in November 2012 citing "rising inflation and unfavourable economic developments in the country" (IMF, 2013, p. 28). The policies he and his supporters promoted were matched by both the extension and intensification of sanctions which in practice now covers almost everything from oil to financial and banking transactions, and the sale of precious metals to Iran. The open and public threatening of Iran by military aggression and war on the one hand and the economic pressures on the other, more than ever before displays both the self-help nature of international relations and its double standards, the priority of the economic and strategic interest of the global business network that have further converged through multinational companies constituting the interests of the most powerful financial and industrial groups. That is the contradictions of the basic liberal ideas of self-determination and freedom with the institutionalized economic and security. It display the fact that while some societies have "national interests" covering every corner of the world (Voice of America, 27 August 2014), the "national interests" of majority of nations cannot extend even beyond their capitals.

The post revolution state building in Iran up to now has been an experiment of building a nation state within an institutionalized network of global economic interests the preservation of which has created extensive vested interest within almost all societies of the world since the beginning of 16th century which mutually

reinforce and support each other. Iran has built a semi regional powerful state with relatively capable military might on the back of a policy of popular mobilization based on the power of Shi'ite clergy vertical social organization utilizing formal democratic institutions of the state to ensure its survival in the self-help international system dominated by a global business network of multinationals. It has achieved this under severe punishment designed by that global network to ensure the flow of Iranian oil to ensure the survival of the network and preservation of its rents. Oil revenue has been used to pay for government's expenses and distribution of rents for further internal support which has further reinforced challenge to state sovereignty leading to further inefficiency in raising non-oil export revenue and further dependence on oil and the vicious circle that could be broken either by alternative sources of energy, or alternative sources of revenue the realization of which without a serious reform in the state's public finance and tax policy and administration, seems to be elusive. A withdrawal of clergy claim to the monopoly of rule and sovereignty could also relieve the Iranian state from its historical financial impotence. Such a move not only boosts the financial position of the Iranian state but also greatly changes the structure of the Iranian state to a more democratic and popularly based state. Whether the clergy would find this move in its long term interest remains to be seen.

Conclusion

The aim of this chapter was to show that the modern state in Iran since its establishment in 1501 has been a coalition of powerful individuals and organizations distinct from the government, the organization through which laws and rules are

made and enforced. The analysis of the coalition shows that in has had three different configurations in the over five hundred years of its existence.

The first period starting from its establishment to the downfall of the Safavid in third decade of the eighteenth century it was a strong state with a strong administrative government. In the first century where it consisted of two military and religious elements and the latter dominated by the former , despite half a century of frequent wars with Ottoman empire it rose to be a powerful state due to which it entered in the network of international political and military players. In this period it also experienced its golden age of economic growth unparalleled down to twentieth century.

The second period from the end of Safavid reign to the last decade of the eighteenth century it became a single military tribal element state. During this period it achieved great military successes and territorial expansion even in its encounters with rising Russian Empire. The single dynastic rule came to a sudden termination with assassination of Nader Shah in 1747. The nineteenth century started with a new military tribal element establishing a single element state successfully, but having been defeated by the rising Russian Empire, it brought back the clergy into the state. The difference however was that the clergy had become an independent self-sustaining *adherent organization* reluctant to accept state patronage. In this period for almost three quarter of century Iran experienced one of its most politically stable periods with devastating economic consequences. Contrary to the NWW the long term stability not only did not bring economic growth but reduced the country to the status of a buffer state granting unheard economic concession for survival. It was twice virtually partitioned between competing external powers. Discovery of oil and its geographical position turned it to the center of external attention again.

The third period started with a revolution for Constitution and rule of law, but was soon suppressed by the external powers. For over seven decades speedy "modernization" financed by oil revenue to encounter the ever rising power of the Communist Soviet Union and prevent a revolution from below instigated, encouraged or abused by the communists was the agenda. The WWII and the military occupation of the country in less than four days by the British and Soviet troops proved that what had been achieved was nothing more than "pseudo-modernization". The deposing of the king by the British who had brought him to power, displayed the complete arbitrary nature of the foreign imposed kingdom. The coup of 1953 more than anything else, was a change in the perception of Iranian to end the process that had started with modernizing reform movement in the middle of nineteenth century. The declaration of "neither West, Nor East, Islam is the best" was an echo of that change in the perception.

The Islamic Republic of Iran was the intentional outcome of a process starting with the change in belief leading to action for revolution, creating new institutions for political rule and forming the required organization (s) through a constitution for making policies of a process of state building. This supports the NWW Conceptual Framework that institutional change occurs in the framework of the existing institutional and belief system, the cultural heritage of society, whereby individual experiences are socially transmitted through formal and informal institutions turning incremental changes to qualitative fundamental changes in political and economic institutions and organizational changes. Based on what has been discussed up to now, it can be concluded that the new state of the Islamic Republic of Iran is a new experience in state building, this time using the untried religious establishment with the military element subordinated to the religious establishment to try to solve the

historic problem of the Iranian state's contested sovereignty and dual state religion authority by fusing the two together in the state as a measure of "adaptive efficiency".

CHAPTER 4

Political Economy of Iran

Introduction

Iran has been politically rising to the status of a regional power despite three decades of external military, political and economic pressures. However, it has not been growing to in any proportion corresponding to its potentials, neighbouring countries or comparable economies. The very fundamental economic aspiration of the population, diversification of the oil dependent economy, not only has not been achieved, but there are reports that the dependence has even increased. Despite two decades of implementation of the International Monetary Fund's (IMF) economic structural adjustment, privatization of major state owned companies, tax collection and administration system, the economy has not improved noticeably. The most recent IMF report states:

> The sharp decline in global oil prices, tight corporate and bank balance sheets, and postponed consumption and investment decisions ahead of the expected lifting of economic sanctions, have significantly slowed down economic activity since the fourth quarter of 2014/15. Real GDP growth is projected to decline from 3 per cent in 2014/152 to somewhere between 0.5 to -0.5 per cent in 2015/16. Twelve-month (point-to-point) inflation has declined to around 10 per cent in recent months, largely reflecting lower food and beverage inflation, and the

> inflation rate is expected to remain close to 14 per cent by year-end. (Jones and Ville, 1996).

That is after a contraction of over 9 per cent over the two previous years. In the NWW framework used here, economic development is the outcome of incremental changes accumulated over long term, although economic growth as the increase in per capita income is necessary. It is quite difficult to expect a country under the most severe external economic sanctions for well over two decades intensified in the past five years to the extent of depriving it from the most basic international financial transaction in a global economy in recession to grow ideally. However, in this chapter I have tried to analyse the economic condition of the country in terms of policies and strategies to make the country return to the international oil market but with much limited influencing power over the market and pricing compared to pre revolution. One could argue that it is the "transaction cost" of the politics of independence and sovereignty along with rents accrued to beneficiaries. It is analysed in terms of the power relations of the members of the dominant coalition and an economy embedded in the structure of the international economy where politics decides economics.

The State, Politics, Economics and policies

The state of the Islamic Republic of Iran is neither a theocracy nor a modernizing state. It is neither a rentier state nor a developmental state. It is a state in the process of rebuilding itself as a state, which is, reclaiming and exercising the most basic feature of what makes a sate: sovereignty.

Historically, it was established as a modern state in 1501. It first lost part of its sovereignty to the Shi'ite clergy in exchange for a distinct identity through the legitimation process. That led to a division of state authority, loyalty of its subject, division of its sources of revenue, and weakening of its military power. The granting of extensive trading privileges, tax exemptions and unhindered presence to European trading agents in its territories in the same century, in the hope of military support and alliance, led further to its loss of military power, loss of its sources of revenue in foreign trade, distortion in the composition of its national economy, and finally reduced to a state without reliable sources of revenue and military power, and hence total loss of sovereignty. From there it was reduced to a helpless buffer state and even a protectorate territory under British tutelage to sell its natural resources to finance its bare existence to defend the interests of the buyers of its natural resources in 19th century. This loss of sovereignty was utilized to the full extent by the British through taking full control of all the key affairs of the country and its natural resources in exchange for external security depriving it from every possible reforming measure by actively kicking away the development ladder. Feel free military occupations and coups at any time not only added humiliation to total domination, but forced the country on a course of single product based, oil, economy.

The revolution of 1979, notwithstanding the consequences of a fast dependent industrialization program, was, more than anything else, an attempt to remove the interface through which this historical domination and humiliation was exercised. Since then it has been struggling, through popular mobilization, to regain and reassert its lost sovereignty against the same two elements that contributed to this

loss in the first place. The most basic requisite for exercise of the state sovereignty is military power for the provision of security and order. That is what the state of the Islamic Republic of Iran has been doing in the past three decades with a high degree of success, although at too heavy a price imposed by the same two external and internal elements. In the self-help system of international relations and in the face of open and public threats of external aggression and regime change, nothing but survival is the top priority of the state. This priority is nowhere more reflected than in the creation of the Council of the State Expediency with a critical note that based on this priority even the most basic obligatory religious practices hitherto like saying prayers becomes second priority and could be indefinitely postponed. As long as it has not been able to reach some hard and soft powers of ensured survival, it shall remain an unsettled organization, in search of novel channels of perpetuating and exercising that sovereignty.

It is not a theocracy, because it has not even attempted what its Leader regarded to be an "Islamic Government", that is a system of one man rule of the most senior clergy with the state as its executive arm. There are political groups and one member of the dominant coalition which tries to push the government in that direction. Therefore elements of theocracy are observable in the state institutions and functions. But it is not a full theocratic state.

It is not a "modernizing state", for many of the state institutions actively discourage popular participation in the economic and political processes and "economic development", except technological modernization and that mainly in military and related industries, is not the first priority of the state policy. The major development in this respect has been giving up the mere lip service to "Islamic economy" which

has never been developed or presented as an economic model. Despite expression of the necessity of modernization, either political or economic, by some groups, it never became active state policy either due to lack of collective willingness in the state actors or due to lack of a commonly acceptable model. State policy in this respect has been forward and backward move by successive governments pushing their preference without a broad based consensus even amongst state elites. What was promoted by one government was dismantled by the next.

There are opposing tendencies in the state actors for modernization, but never realized. Military modernization is the most observable feature of the State of the Islamic Republic of Iran. Huge money has been spent on highly modern machine and equipment, but hardly incorporated efficiently in the system. Billions are spent though to control the access to internet and satellite broadcasting systems that should be classified as modernization of military and intelligence services. Online payment or international credit system though, is still a risky privilege of a few. Some facets of modern life could be seen in very limited spaces and closed communities, but they are the most privileged parts of the ruling coalition.

It is not a "rentier state", though "rent distribution" is a feature of all Limited Access Orders. It was exactly due to the logic of the "rentier state" approach that the Iranian state, especially in the first decade and during the war period supported by the sanctions imposed, followed an active industrial policy of "import substitution" trying to manufacture almost everything locally under an overarching policy of "economic self-sufficiency" close to "autarky". This policy created huge "rents" for some groups of insiders who were granted licenses, huge down payments, subsidized land and facilities, foreign exchange at official rates and financial and administrative support to develop or import know how, transfer technology and manufacture locally

various input of different industries including oil and gas. Though it did succeed to some extent create a "local industry" but itself became the source of a new rents creating huge income and wealth gap, political and economic power and became a source political conflict. It turned many traders and industrialists into commercial "commissioners" of new state companies or projects for joining big foreign corporations with national decision makers. Reporting cases of local manufacturing or development of parts or equipment with "much lower price compared to its imported version and saving huge amount of foreign currency" is the legacy of that policy that has lingered.

The inefficiency or inadequacy of that policy and its huge direct financial burden and the associated corruption, and indirect damage was and still is a source of criticism and dispute amongst the state policy makers of different persuasions. It is also important to note that export of unprocessed raw materials by developing countries was the policy of now developed countries to transfer the maximum added value of finished products and manufactured goods to their own economy to be exported to developing countries for further profit. In the case of strategic items like oil, as the Iranian case showed in its dispute with the Anglo-Iranian Company (now British Petroleum, BP) they monopolized its production, transport and marketing totally excluding local population from the process except for petit service and labour works. In that case it was a deliberate policy of kicking away the development ladder from the reach of the host society by the outsider rather than the feature of the host state. That was true for production of sugar, coffee and steel as much as it was for the oil.

Furthermore, the argument that the "rentier state" due to huge foreign receipts does not pay attention to tax collection seems to be historically disputable. In the case of

Iran, the Qajar dynasty during the 19th century already was suffering from structural inability to collect revenue through an efficient tax system or customs receipts. That certainly related to the structure of the state and its inability to build up a centralized administration system or its inability to revoke the control of its customs revenue from foreign domination. And it was due to this inability in tax collection that they found selling concessions as a considerable source of revenue. The fact that American Morgan Shuster was recruited as Treasurer General to reform the Iranian public finance and tax system by the post Constitutional Revolution parliament in the first decade of the 20th C is itself an evidence that the state had long faced the problem of tax collection and unruly finance system (Shuster, 1912). Therefore the relationship between "rentier state" and tax collection efficiency seems to be the other way round. The inability to collect sufficient revenue led to the state to take active measures for reforming the system but active opposition of Britain and Russia in preventing the state from implementing such reforms, forced the state to embrace a policy of relying on oil as its main source of revenue a few years after the suppression of the reforms. Under such circumstances, oil revenue is not only a "windfall" for the state, but it acts as a source of hope for some degree of autonomy both from foreign and internal pressure. In some respects it became a source of autonomy, in others, an elusive aspiration.

And finally it is not a developmental state, despite the fact that the state heavily controls almost every major economic activity. Neither privatization, nor economic structural adjustment has led to a substantial reduction of the state control on the economy. The main reason is security, distribution of rents for political support, and popular mobilization. In every profession dealing with people, from catering to cab service to internet and communication service provision the state is there to facilitate

or prevent depending on who the applicant is. Many of privatized companies ended up in the hand of public enterprises under the control of the state or the Supreme Leader, or foundations and charities controlled by senior clergy closely associated with the clergy establishment or private companies created by the state's money and people for various purposes. Neither efficiency nor productivity is the purpose of the privatization, but first and foremost that it is under the control of the state and its affiliated agencies; and second it provides sources of political and economic interests and privileges for members of the dominant coalition.

To conclude and sum up, from the arguments developed in this chapter, one may reasonably conclude that while elements of democracy, theocracy, and authoritarianism are observable in the state of the Islamic Republic of Iran, none of them is the predominant feature of this state (Takeyh, 2003) (Jones, 2007, Chapter 2, pp. 28-57). The recent Presidential election (22 June 2013) of a "non- conformist" clergy from a pool of six vetted candidates of whom four were supported by the Traditionalist clergy is itself an evidence of popular political participation in a sea of formally imposed constraints, and true or false perceptions and claims of domination of politics by the Supreme Leader and/or the Revolutionary Guards. While the outcome of the election in itself does not deny any of the above claims or perceptions, it however confirms that still the people in Iran believe that they have a say in politics and the outcome of this election seems to confirm that belief. One should not forget that the group mainly occupying state's formal institutions have been placed in those positions from the political platform of popular social movement as an act of regaining and exercising the state's sovereignty on their behalf. In the absence of any new political and economic model, the only function of this state for the time being is its own survival and exercising its sovereignty, *i.e.* a

process of state building through “destructive creation” of new institutions and organizations in the NWW model for moving towards the “doorstep conditions” for a transition (North et al., 2009, Chapter 5); or in the long period of preconditions for “take-off” in the Rostowian model (Rostow, 1956, p. 27). In a non-ergodic uncertain world that the survival of a state is not only dependent on what it does or does not politically and economically, but also on what others do, its success or failure is a function of its success or failure in building up its bargaining power. Whether Iran can improve her position, still remains to be seen.

CHAPTER 5

Conclusion

Findings

My aim in this research was to answer three questions on Iranian political economy on the basis of the NWW Conceptual Framework. The framework is based on the idea that problem of economic development is sustaining economic growth over the long run. Developed countries have achieved this aim by reducing the frequency of negative growth periods by reducing violence even though, their rate of growth has been less on average. For natural states to transform their economies to the status of a developed country they should find some ways to do this. The NWW framework recommendations for a society to move from the status of a "natural state" or Limited Access Order to that of an Open Access society is first to move from the state of fragility to that of a basic type, and then to the state of maturity to arrive at the doorstep conditions to become qualified for a transition.

The increase in the number of organizations and their dependence on the support of the state mark and explain the move in the "natural state" period. For the transition, turning the elite rents to rights for elites; impersonal and equal law for all; and consolidated control of military by politics, are key measures to be taken. The model does not provide much clue as to how these should be done. "Elites" of the dominant coalition should, somehow at some point of time, find it in their interest to relinquish their rights and privileges and extend them first to other elites and then to wider population. Institutions explain the improvement for moving forward from one position to another, but there is no deterministic inevitable progress. The framework

is not a theory of progress but a theory of social change. There is always the risk of going back to earlier positions. Therefore the model is built on two explanations: one is the explanation of how very few societies made the transition to Open Access, and; the other for other societies if they want to make the transition. Therefore, the first component is the "Ideal Type", or the "image" for aspiration.

In this research I have tried to explain the post-revolutionary political economy of Iran by applying the NWW Framework. The three questions of my research were:

1. What are the sources of rents, who are the beneficiaries, and how are they distributed?
2. What are the rent-related violence generating/promoting institutions in Islamic Republic of Iran?
3. Are there necessary causal relations between country specific belief system or culture and rent-related violence generating/promoting institutions in Iran?

In attempting to answer the above questions I started to analyse the Iranian "ruling coalition" (state) for in the NWW framework in the group of Limited Access societies it is the political system that manipulates economic system for economic gains. I identified mainly the clergy establishment and its associated political and economic groups as the main domestic beneficiaries of such manipulation. But I was puzzled that in the post-revolutionary Iran hundreds of foreign trade and industrial contracts were signed and implemented at much higher prices when comparable goods and technologies at lower prices were available. Naturally, this meant the NWW Framework emphasising only domestic and endogenous variables would not suffice for analysis. This was also part of my field research interviewing a number of ex-officials. The explanations mainly were that they are paying the extra transaction

costs for getting a foreign political support in a major issue in an international organization or preventing a political or military coercion from a third party. In short I had to incorporate external variables into the model to work. This formed my critique of the model and incorporation of external variables into the framework in Chapter One.

I also learned that some of these transactions relate to historical connections and issues. A theory of institutional change should have the capacity to answer the origin and development of the institutions and/or organization that is studied as the explanatory variable. For example the Iranian clergy's claim to exclusive right to rule and their extensive present political and economic power could not be understood without going back to the history of their presence in Iran. Here again, one cannot understand the presence of a large number of decision makers from tribal areas close to the Iranian borders without finding out that they were part of the coalition that established the first Shi'ite state in Iran and play a critical role in military and security arrangements of the country after the revolution due to cancellation of pre-revolution security support from big powers. Therefore in Chapter Two my findings confirm the NWW proposition that in natural states there is logic of rent distribution. But it does not confirm the NWW claim that its recipients are solely local armed groups and it is only for reduction of violence. This could be correct if only external violence and coercion is incorporated into the framework which then means it is also instrument of increasing the domestic capacity for violence as deterrence to foreign aggression or invasion.

Therefore, to define institutions only as violence reducing devices in human interaction is a reductionist definition. Some states even promote violence capacity of their citizens by making carrying gun legal and means of self-defence. This needs

to be addressed in the model. The change of political system in Iran also reveals the primacy of politics in political economy as it showed extensive institutional changes in some areas of social and labour relations and expropriation public properties (commons) by private individuals and organizations. It also revealed the arbitrary nature of property ownership in line with the NWW Framework, that political institutions define economic institutions through legal processes. Therefor any institution or organization powerful enough to grant such rights, is certainly powerful enough to revoke it. The externally imposed war a year after the revolution revealed the extreme vulnerability of the newly established states without security and military arrangements and alliances with neighbouring countries and big powers. It also displayed how war could be used and abused for political and economic purposes and the shifts it brings both in domestic and external coalitions and alliances thus leading to institutional changes.

In Chapter Three the dominant coalition of the state in Iran is historically analysed to find out its origin and logic in order to understand its behaviour. The exclusion of almost all members of pre-revolution coalition from government by the clergy shortly after the revolution is a manifestation of the extreme importance of power relations in decision and policy making. The social policies of the clergy-led state in Iran seem to suggest a different conception of *adherent* and *contractual* organization that runs counter to the NWW framework. While the extensive legalization of the informal social institutions in Iran suggests that the government is attempting to turn certain desirable patterns of behaviour into routinized habits and thus reduce the risk of violence and cost of transaction just by its threat of force, the NWW Framework believes it is the other way round. An important finding in Chapter Three is that there is an event, idea or change at the beginning of these extensive institutional and

organizational change that challenges the NWW Frameworks belief in cumulative incremental change as source of institutional change and development. These abrupt changes, like the establishment of the Safavid state not only succeed in complete overhaul of a society's institutional framework, but also lead to fundamental external change. This also challenges the NWW idea that revolutions, as sudden and abrupt change, cannot lead to long lasting changes or satisfy the aspirations of the revolutionaries. As the past forty years in Iran shows, revolution, like any other big social changes has its winners and losers both in political and economic terms. The chapter also reveals there is a correspondence between the composition of the dominant coalition and social and economic policy making, depending of course on the relative powers of the members of the coalition.

In Chapter Four I have summed up my analysis of Iranian political economy. It does not have a rent-seeking nature in the sense of Directly Unproductive Activities. But as a natural state it is a rentier state in the sense defined by the NWW. It is not a developmental state, as in the past for decades the thrust of its policies is in line with the neoliberal market centred liberalization and privatization. But considering its extensive investments in particular economic sectors and technologies, it seems it is pursuing a policy of industrialization to act as the leading sector. Encouragement and investment in generating local knowledge signals perhaps some undefined and vague endogenous growth stimulation.

The summary of this research findings is that following the coup of 1953 that deposed the democratically elected government of Iran the main political actors came to the belief that relying on foreign powers or a balance of power foreign policy as the main strategy for survival and progress under the changing international relations and the United States replacement of the British in Iranian politics will not

improve their position. The attempt of those groups that looked to a democratic model of politics in Iran for economic development that had started with the Constitutional Revolution of 1905 also came to an end. For in 1953 they witnessed the destruction of their democratically elected by the same forces that promoted that model. That coup destroyed the credibility and legitimacy of those groups and their inability to sustain a democratic political system in the face of external violence. This represented a major change in Iranian belief system driving them towards local ideas and models, i.e. culture and existing national and religious institutions. From this a gradual move towards religion and religious ideas and even violence starts. The major change in the external environment of the country was the change of leadership in the West and replacement of the British with Americans. This meant a vast renegotiation and transfer of connections, contacts and rents from the former to the latter. The rise of new grass root political forces within these countries opened up new political opportunities for the forces demanding change. The older players had to some extent succumbed to the new forces. The new alliances paved the way for changes around the world. Many of them like the neoclassical political economists assumed a stationary world. The Iranian elite won the battle of changing the political system but lost its influence in the movement of events under the weight of religious leadership with mass popular support. The sweeping institutional and organizational changes were merely formalization of informal social institutions existing and regulating the interactions of Iranian for many centuries. A similar event also happened in the West. The old political forces have lost their role and influences to new forces who are new claimant in the distribution of rents in their own countries and from members of their broader regional and global networks creating an unstable external environment for everyone. A concrete outcome for all concerned is geared

to the success of the renegotiations processes first at global levels to create a stable environment. Iran at present, like the majority of countries in the world, even some big powers, is in a state of limbo. In the absence of an authority in international relations it has no other options but to allocate a large part of its economic resources for the provision of its physical security and survival while negotiating the rent distribution claims with active contenders. "Adaptive efficiency" is meaningful when there is a fixed point, pattern or order. In the absence of such state and under the conditions that the whole external environment is in motion, only trial and error works. The Islamic Republic of Iran is still an unfinished business, "a work in progress".

Challenges

Despite having the name of a conceptual framework, it is quite similar to a grand theory as it is presented as a framework for interpreting recorded human history. That means it should have some ontological, epistemological and methodological foundations which are not clearly spelled out in the framework itself. At times different parts seem to be inconsistent. For example the Ideal Type development model is based on European Industrialization based on a different set of assumptions than the one in the Framework. The use of vague language through upward integration of more specific terms does not help to create a parsimonious theory. The word "violence" can cover World Wars to domestic violence between two individuals the nature of which is essentially different.

But the biggest challenge is the methodological position of institution. If it does not resolve the agency/structure problem of the social science and stands in the middle

way it should have the capacity to represent the constitutive manifestation of both agency and structure which currently is lacking. Research on the nature and definition of institution will certainly be a breakthrough in creating a more consistent social science. But after all in the non-ergodic world of uncertainty, trial and error, and experimentation in the face of institutional traps is the one choice available as the means of "adaptive efficiency" for survival.

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