

The State and the Rise of the Middle Class in Iran

Abstract

There are different definitions and opinions about the rise of the middle class in different areas and countries. This is because historically the rise of the middle class has brought change in society, politically and economically. This claim is based on the historical role of the middle class as an important element of change in society, political transitions and ending authoritarian regimes in developed countries. With attention to the role of the middle class and the process of social and political change in developed countries, it can be argued that a capable middle class is requested, for changing and creating a real democratic future in Iran. However, due to the role of the state it can be seen that an emerging and rising middle class in Iran has differed with developed countries. This has had an effect on the characters of the middle class and as the result its role in the democratization and development of Iran.

Introduction

The Iranian middle class have failed to achieve political reform and democracy despite making several efforts. Thus, the question that will rise is: why was the middle class in Iran not successful? The present study is an attempt to analyze the rise of the middle class in Iran. This is because democracy requires a large middle class of people whose economic position is independent of those who hold power. However, the relationship between the middle class and the state in Iran is influenced by the role of state in the economy. This is because Iran can be regarded as a rentier state, the emergence of which has prevented the country from having a strong and independent middle class.

The reason is inferred from the theory of rentier states, a concept that is applicable to most Middle Eastern states, who receive substantial amounts of ‘petrodollars’ or other types of revenues from the outside world on a regular basis. At the same time the rentier state is supposedly autonomous from society and unaccountable to its citizens, that means – autocratic. In addition, internal rents (in the form of taxation) are in most cases low while citizens are also less demanding in terms of political participation. Thus, the government does not really rely on taxation as a main form of revenue. Instead, they rely on the huge oil revenues they acquire to support their government.¹

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¹ See Hazem Beblawi, ‘The Rentier State in the Arab World’, in *The Arab State*, Giacomo Luciani (ed.), London: Routledge, 1990.

Moreover, the ruling elites keep oil and natural gas firmly in their own hands as state monopolies. This offers more mechanisms for keeping any independent-minded middle class at bay. In addition, payments through citizenship have helped to breakdown tribal loyalties. Free healthcare, education and strong state infrastructure have silenced the masses for a time; however this is not sustainable. Governments have provided jobs to appease citizens but this has destroyed the work ethic. A rentier state also creates a public-sector middle class that is loyal to the system. At the same time, it puts at a disadvantage anyone who tries to succeed in business privately. Such independent-minded people are easily pushed aside by those with connections.²

It seems that the middle class which exists in Iran needs to be changed and transferred from a dependent middle class to a productive and independent middle class. Thus, the present research will review the emergence of the middle class in Iran, and in addition will be a short discussion on the rise of middle class in Iran after the Islamic Revolution.

What is the middle class?

Although there are different opinions among sociologists about the number of social classes, generally speaking three major social classes have been recognized by the most of liberal sociologists in the capitalist system. They include: an Upper Class, a Middle Class and a «Lower» Class (the «working» class has been considered as part of the «lower» class or sometimes as a «third» class by itself and the «lower» class designated as a fourth class). Based on this dominant definition, the ruling class is the one that owns and controls the predominant part of the means of production, as well as controlling the labor power of others. It also exercises control over the state apparatus. This class is also regarded as the capitalist class, basically the bourgeoisie, or, the bosses and rulers. Regarding the lower class, it can be argued that this class neither owns nor controls the means of production. As a result it is forced to work for the ruling class for wages, and without real control over the work process (or society). The poor such as the unemployed, the alienated youth, and many of the self-employed who are marginalized by the capitalist system are also included in the lower class. These groups are sometimes called the “lumpen-proletariat”. Other terms for the working class: the proletariat or the “workers and the poor”.³

Based on the Marxist ideology the third class is defined as a middle class. Although the middle class has been stuck in the middle of the lower class/ ruling class, nowadays there are different views towards its definition but the two most important include:

Consumption and income level approach: Some social scientists and economists, especially in the United States, tend to focus on the volume of consumption and income levels. Based on this approach, the middle class are those who have regular

² Charles Recknagel, ‘The Middle Class: After Decades of Disruptions, A Weak Force for Change’, *RFE/RL’s Radio Farda*, January 12, 2010.

³ Erik O. Wright, *Class, Crisis, and the State*, London: New Left Books, 1978.

jobs and income and can dedicate at least one-third of their disposable income to discretionary spending other than food, shelter, and absolute necessities.⁴

It seems this definition has been accepted by many organizations such as the United Nations and the Organisation for Economic Co-operation and Development (OECD). These organizations also emphasize that a middle class person is someone who earns or spends \$10 to \$100 per day. That's when you have disposable income and enough money to consume things like fridges, or think about buying a car.⁵

Homi Kharas in his work "The Emergence of Middle Class in Developing Countries" has mentioned the ideas of different scholars and organizations, particularly those who have similar opinions. He documents the following definitions: "...W. Easterly (2000) and N. Birdsall, Graham and S. Pettinato (2000) defining the middle class as those between the 20th and 80th percentile of the consumption distribution and between 0.75 and 1.25 times median per capita income respectively. S. Bhalla (2009) takes an absolute approach, defining the middle class as those with annual incomes over 3,900 USD in purchasing power parity terms. A. Banerjee and E. Duflo (2007) use two alternative absolute measures – those with daily per capita expenditures between 2 USD to 4 USD and those with daily per capita expenditures between 6 USD and 10 USD. M. Ravallion (2009) takes a hybrid approach, defining a «developing world middle class» as having one range of incomes (between the median poverty line of countries in the developing world and that of the USA) and a «Western world middle class» (above the US poverty line). The World Bank (2007) also uses an absolute definition, arbitrarily defining the middle class as those with incomes falling between the mean level in Brazil and Italy, or 4,000 USD to 17,000 USD in 2000 purchasing power parity terms".⁶

In simple words, it can be explained that in the US "middle class" means middle income – which is to say, people whose earnings really are in the 'mathematical' middle of the range: neither very low nor very high. In other words it means ordinary working people: those in either blue collar or white collar clerical jobs⁷ (as opposed to higher professional ones). This is how the term is used both by politicians and 'real people'.⁸

⁴ Vali Nasr, 'Forces of Fortune: The Rise of the New Muslim Middle Class and What It Will Mean for Our World' in interview with Joanne Myers: <http://www.carnegiecouncil.org/studio/multimedia/20091214/0247.html?withOthers=1> (accessed 14.12.2009).

⁵ L. Yueh, 'The Rise of the Global Middle Class', *BBC*, <http://www.bbc.co.uk/news/business-22956470> (accessed 18.06.2013).

⁶ H. Kharas, 'The Emergence of Middle Class in Developing Countries', OECD DEVELOPMENT CENTRE, Working Paper No. 285, January 2010, p. 11: <http://unpan1.un.org/intradoc/groups/public/documents/UN-DPADM/UNPAN044413.pdf> (accessed 12.07.2013).

⁷ The distinction between white collar jobs and blue collar began in the 1920s and 1930s when it was the norm for the growing class of office workers to wear white shirts, and for manual workers to wear darker colors which would not get soiled as easily. However, the term "white collar jobs" has evolved beyond the historical meaning to mean those whose work is knowledge intensive, non-routine, and less structured. Management positions, for example, are considered white collar jobs, as are professional jobs such as lawyers, doctors, accountants and engineers.

⁸ J. Daley, 'We Need a New Definition of «Middle Class»', *Telegraph*, January 25, 2010.

⁹ Ibidem.

Regarding an emerging middle class, followers of this approach believe the growth of a middle class is being driven by industrialization. The industrial revolution of the 19th century transformed the economies of Britain, the US and Germany. The move from agrarian to industrial societies generated income rises that created the middle class.⁹

While for American economists the amount of income is the main factor in distinguishing between a middle class and other classes in society; European-Marxists place more of an emphasis on property, not on income or status. This approach is influenced by Marxism theory.

Class structure approach: Although Marx was not the first one who used the term “middle class”, the term was described in his theory. Marx had different definitions and analyses of social class, class structures and changes in those structures key to understanding capitalism and other social systems or modes of production.

According to the theory of Marxism, class is a theoretical and formal relationship among individuals. In this theory a class is defined by the ownership of property. Such ownership vests a person with the power to exclude others from the property and to use it for personal purposes. Marx believed that in relation to property there are three great classes of society: the bourgeoisie (who own the means of production such as machinery and factory buildings, and whose source of income is profit), landowners (whose income is rent), and the proletariat (who own their labor and sell it for a wage). Class is thus determined by property, not by income or status.¹⁰

Marxists – including Marx and Engels themselves used the term middle class – in two different ways: Firstly, in the historical sense, of the French word ‘bourgeoisie’, i.e. possessing class which is differentiated from the so called aristocracy. Secondly when speaking of modern capitalist society, with the meaning of the ‘petty bourgeoisie’.¹¹ The English interpretation of the word ‘bourgeoisie’ is derived from the French word ‘bourgeois’ meaning “...the trading middle class” as distinct from the landlord class.

According to Marxist theory, capitalism developed from the breakdown of the medieval feudal system and became the engine that drove modern development in Europe. Thus, the capitalist mode of production emerged out of European feudal society, causing eventually the demise of the feudal system and producing a capitalist society. Regarding the historical view of the bourgeoisie, as it is mentioned above, Marx’s arguments are based on the role of bourgeoisie in the French revolution. However, Marx considered the French Revolution to be the classic example of the “bourgeois revolution,” in which capitalism overthrew feudalism, creating the legal conditions under which capitalism could flourish.¹²

¹⁰ Rudolph J. Rummel, *Conflict in Perspective (Understanding Conflict and War)*, Sage Publications, 1977.

¹¹ Communist League Britain, <http://www.mltranslations.org/Britain/Marxclass.htm> (accessed 10.05.2013).

¹² Saul K. Padover, *Karl Marx, The Karl Marx Library*, New York: McGraw Hill, 1972, Vol. 1, pp. 245–46.

According to the theory of Marxism, the petty bourgeoisie (member of lower middle class) are the independent men of ‘small property’, the owners of their own means of production. This gives them an experience of autonomy and independence in their productive life, qualities they bring to politics, where they are particularly conscious of their interests and willing to act in pursuit of them. Their capacity for independent political action, including its most militant forms, makes the men of small property a crucial political force. Their large numbers make them even more important.¹³ Following this definition regarding middle class, European – Marxists take into account a larger number of variables such as education, type of work, family size, type of housing, and the level of engagement with civil society organizations.

The middle class in Iran and the consumption and income approach

In 2010–2011, the amount of income between \$487 to \$993 was regarded as the income of the urban middle class in Iran. In 2013, while the price of the dollar has increased almost three times, to live as a middle class citizen required the proportional increase of salary, which did not happen.¹⁴ This fact shows that due to the high inflation rate it is difficult to recognize a middle class based on parameters such as income and salary.

Although, there are some different reports about the rate and size of the middle class in Iran using income as a key determining factor, they seem to lack reliability.. For instance, according to research done by the Federal Research Division Library of Congress, after the Islamic Revolution, the composition of the middle class in Iran did not change significantly, but the size doubled from about 15% of the population in 1979 to more than 32% in 2000.¹⁵ The Iranian newspaper *Shargh* has published different statistics about the middle class. According to the report, the rate of middle class representation as part of a demographic whole, increased from 38% to 58% after the Islamic Revolution.¹⁶ Saeed Leylaz, an economist and journalist, mentions another differing statistic. He believes that 50% of Iranians can be considered to be middle class over the last decade.¹⁷

While some sources have considered figures around 50% to 60% for the rate of middle class representation in Iran, the rate of a ‘productive’ middle class or a ‘strong’ middle class which produce higher levels of growth, is not more than 10%.

¹³ J. Weiner, ‘Marxism and the Lower Middle Class: A Response to Arno Mayer’, *The Journal of Modern History*, Vol. 48, No. 4. 1976, p. 666.

¹⁴ S. Shafiai, ‘Decline of Middle Class during Ahmadinejad’, *Majaleh Farsi*, <http://www.majalla.com/far/1392/04/article3440> (accessed 15.06.2013).

¹⁵ Glenn E. Curtis and E. Hooglund, *Iran, a Country Study, Area Handbook Series*, United States: Library of Congress Cataloging-in-Publication Data, 2008.

¹⁶ *Shargh Newspaper*, No. 1764, <http://www.magiran.com/npview.asp?ID=2759175> (accessed 12.07.2013).

¹⁷ Saeed Leylaz, ‘Middle Class and State’s Policy’, in interview with Matin Ghafarian, *Mehrnameh*, No. 29. 2013, p. 119.

The Iranian middle class and class structure approach

Research on history of Eastern countries, including Iran, India, the Ottoman Empire, and China has brought the idea that these countries had their own special history. According to research after the communal primitive period they have entered a period which is known as the Asiatic mode of production or Eastern exploitation. These countries however did not progress in this period in historical terms, and that is why Marx believed that the East lacked history.¹⁸ As it is mentioned earlier, according to Marxist theory, capitalism – developed from the breakdown of the medieval feudal system – and became “the engine” that drove modern development in the West. The feudal system produced the “capitalist mode of production,” which caused the demise of the feudal system and produced a capitalist society by the late 1700s, along with the separation of church and state, increased secularism, and freedom of thought.

Regarding an emerging middle class in Middle Eastern countries such as Iran in comparison with Europe, Marx and Engels placed more emphasis on the theory of “Asiatic Production” (oriental despotism) and argued that the water shortage in oriental societies forced separate and scattered rural ‘units’ to gather around the least trace of water in dry deserts and from independent societies. They believed the situation eradicated the most significant core of the western feudal system; namely, private ownership.¹⁹ Following this idea and also with attention to the shortage of water and the possibility of a crisis in Asian and Middle Eastern countries, Karl Wittfogel tried to explicate the theory of the Asiatic mode of production while elaborating on Marx and Engels’ theory of despotism. Wittfogel has argued that since Asian governments had complete control on crucial public affairs including irrigation, they became the absolute and dominant power. This situation was a symbolic barrier in the road to the feudal system and the new order.²⁰

With attention to these theories, there are two different views towards the emerging of a middle class in Iran. Based on the first view, it is said that Middle Eastern countries in general and Iran in particular, never experienced feudalism due to climatic factors – the shortage of water – and the role of a “king” as owner of the land for the development of agriculture. As a consequence, Iran never developed the capitalist mode of production, and the rest is “history”.²¹

These theories, particularly the one about the Asiatic mode of production have been used by Homayun Katozian.²² Katozian believes in Iran in terms of capitalist order, where water shortage begot the formation of autonomous rural units, in which

¹⁸ Z. Khazaei, ‘Feudalism in Iran’, *Life Science Journal*, Vol. 9, No. 3, 2012, p. 2686.

¹⁹ R. Afzali and M. Ghadiri, ‘Background of the Modern Territorial State in Iran’, *Discourse*, Vol. 7, No. 2–3, 2007, pp. 38–39.

²⁰ *Ibid.*, p. 40.

²¹ Kazem Alamdari, *Why the Middle East Lagged behind: The Case of Iran*, University Press of America, Lanham, Inc., 2005.

²² Mohammad Ali Homayoun Katouzian, *Nine Articles on the Historical Sociology of Iran*, trans. Alireza Tayeb, Tehran: Markaz Publication, 1998, p. 58.

their individual surplus was not enough to establish a feudal power.²³ Therefore, the middle class which exists in Iran has been formed with different characteristics. Based on this view, maybe it can be argued that there has been a middle class present in Iran during different periods but it has not had the same quality and characters in comparison with the middle class in Europe.

In opposition, there is another approach that believes in the existence of feudalism in Iran and a resultant class system and middle class formation similar to those found in Europe. Based on this idea, there is evidence about the feudal society of ancient Iran during the Sassanid era which will be referred to. One of the main features of feudal systems is the existence of an independent and powerful aristocratic class. Another important feature of the feudal system was the existence of private ownership by the aristocrats according to the rules and regulations and customs of these societies.²⁴ According to this idea, aristocracy's power weakened in the wake of events that occurred in the late Sassanid era. The Arabic conquest of Iran (Persia) has been considered as an important reason behind the collapse of a civilization and which can be explained based on feudalism standards.²⁵

With attention given to the existence of feudalism some other researchers have argued that Iran had made a transition from feudalism (isolated villages and tribal clans), to state capitalism (urbanized, integrated economies with classes struggling for power). These groups talk about the area after oil discovery and modernization in the country. Based on this idea it can be argued that before modernization there was not a complex bureaucratic and political system, and that higher standards of education and the modern state were established only after modernization. However, there was a middle class which has been recognized by some scholars as a traditional middle class. A traditional middle class but with different characters in comparison with the middle classes of developed countries.

Traditional middle class

Between the rise of the Qajar Dynasty and the end of the Constitutional Revolution (1906), Iran went through drastic political, social, and economic changes. Brought on by several diverse forces, most specifically internal turmoil, western influences contributed to Iran's drastic changes throughout the Qajar Dynasty. Before these changes, according to Ervand Abrahamian, by the 1850's Iran had divided into four cardinal sociological classes. The first, the upper class, consisted of the elites, such as the Qajar dynasty and regional notables. The second, the middle class, included urban merchants, landowners, and Bazaar shopkeepers. The third class consisted of urban wage earners, such as laborers and household servants. Lastly, the fourth class consisted of the majority of the rural population and peasantry.²⁶

²³ Afzali and Ghadiri, 'Background of the Modern...', p. 40.

²⁴ Khazaei, 'Feudalism...', p. 2687–2688.

²⁵ Ibidem.

²⁶ McCleary, 'Changing Iran: the Qajar Dynasty', *Study Mode*, <http://www.studymode.com/essays/Changing-Iran-The-Qajar-Dynasty-1485479.html> (accessed 20.05.2013).

Traditional middle class: Historically, towns in Iran have been administrative, commercial and manufacturing centers. The traditional political elite consisted of families whose wealth was derived from land and/or trade, and from these were recruited the official representatives of the central government. In larger cities, these families could trace their power and influence back several generations. Influential families were also found among the Shi'a clergy in large cities. The middle stratum included artisans, laborers, and providers of personal services, such as barbers, bath attendants, shoemakers, tailors, and servants. Most of these, especially the artisans, who were organized into trade associations or guilds, worked in the covered bazaars of the towns in Iran.²⁷ Therefore, the traditional middle class who lived in the cities can be considered in two groups: 'Bazaar' and Clergymen.

The Bazaar: "Bazaari" is a term applied to Iran's heterogeneous commercial class located in historical urban centers. However, Bazaars are more than local markets for the 'truck and barter' of traditional goods and handicrafts. They are urban marketplaces where national and international trade is conducted. The Bazaar was the national commercial emporium for the import of almost all consumer goods and for many intermediate goods used as inputs in manufacturing.²⁸

Bazaaris have often allied with other social groups, including the clergy, in anti-government protests when their grievances have overlapped. Under the reign of Mohammad Reza Shah Pahlavi, bazaars benefited from a long period of economic growth, but they were also alienated by the monarchy's rapid modernization agenda. Thus, some scientists, referring to economic development, argue that the Bazaar-economy behavior was the cause of underdevelopment in the country. They believe, this is because Mark-ups on imported goods were often high, the system of exclusive agents reduced competition and choice, bribery was prevalent to circumvent import controls, all of which meant that the country got relatively poor value from their development budgets.²⁹ The Bazaar in simple terms was against international trade and as a result modernization and liberalization.

The Bazaar was also an important public forum; the exchange of information that took place as part of the hustle and bustle of trade was arguably the most important conduit for news for the key opinion-shapers in society. Regarding the social and political life of society, the Bazaar was a space for social interaction forming a communicative network that functioned as a bridge across several social classes and groups of society. The Bazaar consisted of a vast and diverse set up of people, including street vendors, shopkeepers, money lenders and traders. Due to this fact, the bazaar has always played a major role in the social and political life of the people in Iran. For instance, in all the political movements of the past century, one finds the

²⁷ Curtis and Hooglund, *Iran...*, p. 156.

²⁸ K. Harris, 'The Bazaar', *The Iran Primer*, <http://iranprimer.usip.org/resource/bazaar> (accessed 8.05.2013).

²⁹ Rodney Wilson, *Economic Development in the Middle East*, Routledge: New York, 2002.

bazaar as an active player along with other political forces.³⁰ In addition, the Bazaar merchants were a powerhouse in Iranian politics through their financial and political support for traditional clerics. Thus the bazaaris are viewed as a force for conservatism in Iranian society and, in alliance with the clergy. More recently, the bazaaris contributed to the collapse of the regime of Mohammad Reza Pahlavi during the 1979 Islamic Revolution, when they went on long strikes. The merchants have played this role in alliance with the clergymen.

Clergymen: Clergymen and religions have played a big role in the dynamics of Iran's society. They are considered to be one of the main pillars of society, and individuals are stereotyped based on religion. Generally, clergymen have been financially supported from different sources and as the result they do not rely solely on the government. The Bazaar is one of them. Their relationship has been developed gradually and covered different issues. Marriages between bazaari families and families of the clergy enforced this bond. On many occasions, tradition-oriented merchants and turban-wearing clerics had joined forces to protest against the ruling powers. The two groups were crucial in orchestrating successful protests against a British monopoly tobacco concession in 1891–92. The alliance also took part in Iran's Constitutional Revolution of 1905–11, forcing the ruling Qajar dynasty to form a rudimentary parliament. As it is mentioned above, this unification can be seen during the Islamic revolution in 1979. The important point is that the Bazaar and clergymen were against modernization, westernization and secularization for many years. Clergymen have had important roles in the country after the Islamic Revolution, but although the thinking of the bazaar is still influential, it is not in the same way. This is because the country has a new middle class with different characters and behaviors.³¹

Modernization and a new middle class

Following the interregnum and anarchy of the 18th century, Iran was politically reunited under the Qajar dynasty (1794–1925). The Qajar period marked Iran's long and at times bloody transition from a traditional kingdom – where the existence of semi-independent magnates limited political unity – to a socially and politically integrated nation-state. The centralization of power during the Qajar period was the major impetus for the modernization of the military, the administration and education. However, it was Reza Shah Pahlavi during the period 1925–41, who ended regionalism and tribalism and established a nation-state for the first time in Iranian history. He initiated Iran's first industrialization program and dramatically improved Iran's infrastructure by building numerous roads, bridges and state-owned factories. He built the Trans-Iranian Railway and started branch lines toward the principal cities (1927–38). The change continued later when Mohammad Reza Shah came into power

³⁰ Arang Keshavarzian, *Bazaar and State in Iran: The Politics of the Tehran Marketplace*, Cambridge: University Press, 2007.

³¹ T. Kuran, 'Why the Middle East Is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation', *The Journal of Economic Perspectives*, Vol. 18, No. 3, 2004, p. 64.

in 1938. By increasing the oil revenue, Mohammad Reza Shah Pahlavi undertook the modernizing of the economy and much of its infrastructure.

Following these changes, modern government, political officialdom and cultural organizations were established. The result of modern education was familiarity with western philosophies. Thus, the state brought change to societies and created a new middle class. This middle class was the first group of people in society who were not automatically members of a class because of family ties. They formed a new middle class primarily because of their personal qualifications. Moreover, the new middle class was distinguished from the rest of the middle class by their reliance on secular, non-traditional knowledge to attain their positions. But, a problem emerged came out with this middle class because it was not independent from the state, in other words it was a middle class that was largely state-dependent. The new middle class consisted of government personnel, journalists, engineers, doctors and other educated groups.

The more these reforms succeeded, the stronger the middle class became. According to Harrison, “the development of a substantial middle class or middle classes, of professional, technical, clerical and managerial people, is the most notable feature of the last 35 years of Iranian social history”.³² It is important to know that at the same time, oil revenue created rentier states which were autonomous from societal demands, political accountability and transparency.

Islamic government and a supportive middle class

The modern middle class and traditional middle classes (clerics and Bazaar) have been considered as an outcome of the existence and the activation of a civil society, as well as its conflict with the ruling regime behind the Islamic Revolution. However, after the Islamic Revolution, the coalition between the modern (new) middle class and the traditional middle class particularly Shi’a clerics, was highly unstable and very soon the coalition was replaced by conflict. The powerful, dominant Shi’a clerics dismissed the new, urban middle class from power. Some middle class political leaders, even pro-revolutionary ones such as former Foreign Minister Kareem Sanjabi and former Prime Minister Mehdi Bazargan, were left marginalized. The leftist, revolutionary organization that participated in the revolution, particularly the People’s Mujahedin of Iran and their leader, were arrested or fled the country. And the latest battle against the leaders of the urban middle class and their followers was the Islamization of universities or the ‘Cultural Revolution’.

The Islamic government from the beginning started to support the lower classes. Thus developing rural areas became a main priority to them. This was because, both the religious and secular leaders of the Islamic Revolution believed that the deposed Pahlavi monarchy deliberately had neglected agriculture and rural economic development in its efforts to create in Iran an imitation of a European urban, industrialized society. Consequently, revolutionary ideologues perceived the rural

³² Ali. M. Ansari, ‘The Myth of the White Revolution: Mohammad Reza Shah, «Modernization» and the Consolidation of Power’, *Middle Eastern Studies*, Vol. 37, No. 3, July, 2001.

sector as “deprived” and deserving of remedial programs. The rural inhabitants were the true *mostazafin* (downtrodden). The support of the rural areas took place at the same time as the marginalizing of the urban middle class. For instance, the proponents of rural social change put pressure on the provisional government of Prime Minister Mehdi Bazargan, to force it to create a special organization, the Jihad-e Sazandegi (Struggle for Construction), with a mandate to wage “war” against rural deprivation. It has to be considered that 53% of Iran’s total population lived in rural areas in 1979, so the new government’s attention to the rural *mostazafin* was politically expedient as well as ideological.³³

In practice, this mandate translated into a mission to provide a basic infrastructure for all of the country’s 70,000 villages. Jihad attracted, and trained several hundred idealistic young men (mostly in the age group 18–25) and, later, women. Many of these men – between 30% and 40% of them – were from villages, and enjoyed a measure of local respect due to their education, and often the reputation of their families. Up to 40% more Jihad members were men who had migrated with their parents to and been raised in cities but still retained ties to their natal villages.³⁴ Because the Jihad’s philosophy stressed local participation in development projects, the personal ties of so many of its trained cadres proved to be an asset in mobilizing thousands of villagers in cooperative efforts that eventually brought modern amenities to, and transformed the appearance of most villages.

While the government’s policy was based on developing rural areas; because of a lack of constant supervision on urban lands, and the start of a war with Iraq, people were forced to migrate to central cities in order to escape from potentially dangerous border-line cities. As a result of this ‘informal’, temporary settlements quickly became prevalent in the cities. Until around 1977 the rural population outnumbered the urban population but this year is regarded as pivotal and after that urban population became the majority. In addition, declining employment opportunities and worsening living conditions forced the rural population to migrate.³⁵

It seems that due to a rapid increase in migration, the Islamic government tried to establish a new urban middle class which was characterized by villagers’ immigration to cities. According to some scholars, the government tried to create and encourage the expansion of a new middle class in order to get support from it.³⁶ It is important to know that because of the Iran–Iraq war (1980–1988), Iran faced negative rates of real economic growth, declines in oil production and revenue, and higher levels of inflation. However, the economic situation created also an opportunity for the government to increase dependency of the new social group on the government. For instance, it was

³³ E. Hooglund, ‘Thirty Years of the Islamic Revolution in Rural Iran’, *Middle East Research and Information Project*, <http://www.merip.org/mer/mer250/thirty-years-islamic-revolution-rural-iran> (accessed 20.06.2013).

³⁴ *Ibidem*.

³⁵ N. Zali and other, ‘Evaluation of New Towns Construction around of Tehran Megacity’, *Journal of Urban and Environmental Engineering*, Vol. 7, No. 1, 2013, p. 22.

³⁶ Leylaz, ‘Middle Class...’.

ordered to implement special discount coupons for 10 emergency first products and services, and to reduce the overall prices. Thus, the new middle class could manage its affairs. As it is mentioned earlier, the Iran–Iraq war also united Iranian public support for the Grand Ayatollah Khomeini’s leadership. The Iranian public was ready to pay a price to liberate Iranian territories, and in general gave the benefit of the doubt to the young revolutionary regime. However, the situation changed after the war.

Liberalization and the productive middle class

After the Iran–Iraq war and during the President Hashemi Rafsanjani in the 1980s, the Iranian government declared its intention to privatize most state industries in an effort to stimulate the ailing economy. Rafsanjani advocated a free market economy. With the state’s coffers full, he pursued an economic liberalization policy. Also, he tried to attract Western investment and reduce the government’s dominant role in the economy through privatization. Rafsanjani’s first Five-Year Plan aimed to reduce state control in the economy, market the distribution of consumer goods, borrow capital on international financial markets, and reform the country’s multi-tiered currency exchange rates.³⁷

After Rafsanjani, President Mohammad Khatami found himself confronted with the onset of a global recession and a deep slump in oil prices. He also faced persistent inflation, unemployment, and mismanagement. His major accomplishments around this time included: unifying the exchange rate, establishing an ‘Oil Stabilization Fund’ as a cushion against market volatility, authorizing the first post-revolutionary private banks, pushing through some improvements to the framework for foreign investment, stewarding the economy through a tumultuous period of unprecedented low oil revenues, and luring new interest and investment from the West.³⁸

Khatami’s biggest economic success during his two terms in office (1997–2005) was opening Iran to greater foreign trade and investment, particularly with the European Union (EU), which by 2004 accounted for 44% of all imports to Iran.³⁹ Khatami faced fierce opposition from his powerful opponents within the unelected official bodies of the state, which he had no legal power over, and this led to repeated clashes between his government and these official bodies. For instance, the Guardian Council blocked several proposals for privatization and launched an independent probe of irregularities in NIOC and oil Ministries.⁴⁰ More ambitious plans, including efforts to reduce the costly energy subsidies, met opposition from conservative

³⁷ Robin B. Wright (ed.), *The Iran Primer: Power, Politics, and U.S. Policy*, Washington: US Institute of Peace Press, 2010, p. 97.

³⁸ S. Maloney, ‘The Revolutionary Economy’, *The Iran Primer*, <http://iranprimer.usip.org/resource/revolutionary-economy> (accessed 20.07.2013).

³⁹ European Commission, Iran, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/iran/> (accessed 20.10.2013).

⁴⁰ Dan Brumberg and Ariel Ahram, ‘Market and Politics’, Georgetown University Prepared for the Baker Institute Energy Forum Rice University Houston, 2007, p. 2: www.rice.edu/energy/publications/docs/NOCs/Presentations/Hou-Brumberg-Iran.pdf (accessed 10.06.2013).

parliamentarians. They adopted an obstructionist approach to Khatami's economic agenda, as a means of subverting his political and cultural reforms.

However, Khatami and his lieutenants were never able to transform this winning electoral coalition into a coherent force for pro-democratic governance. The intra-regime reformists behind Khatami focused too closely on the cultural and political demands of the modern middle class, that had grown so much in size and influence during the 1990s, and neglected the socioeconomic demands of the poor – an omission that would come to haunt the reform movement in 2005.⁴¹ It might be one reason for Mahmoud Ahamdinejad to secure the vote of the lower classes in the next election. The 2005 election marked a transition of power to the post-revolutionary and even post-Khomeini generation, a new demographic cohort whose values have begun to define the tenor of Iranian politics. At the same time, the vote seemed to signal a shift of momentum away from the affluent or middle-class part of this cohort (particularly its youth culture, so prominent since 1997), and towards the poorer classes and their discontents. Indeed, it appears that Ahmadinejad owes his presidency to lower-income voters.⁴²

Ahmadinejad's policy: In opposition to the modern middle class

Although, the main aim of privatization was reducing the economy's dependency on oil revenue, Ahmadinejad's policies seem to have intensified it. Ahmadinejad sought greater control over the oil sector and established the Petroleum Council to supervise the awarding of oil contracts. Ahmadinejad decreased the role of reformist groups in the oil industry which had increased during the Rafsanjani and Khatami periods. In 2004–2005 radical groups which had almost no say in oil decision making processes took power. Radical groups in opposition Ahmadinejad's government lambasted the management of the oil sector and claimed that Iranian oil wealth was controlled by a single powerful family (specifically the Rafsanjani Family). Ahmadinejad has remarked that "... the atmosphere ruling over our deals, production and exports is not clear. We should clarify it".⁴³

One more policy which Ahmadinejad followed was the "rationalization" of subsidies. In the early 1990s, technocrats under Rafsanjani were arguing for a "rationalization" of subsidies particularly energy subsidies. Although Rafsanjani promised to enact the reform plan, conservatives who controlled the Fourth Parliament stopped him from achieving his goal.⁴⁴ In addition, while privatization, subsidy reform, foreign investment, and welfare expansion were all considered as a part of the Khatami administration's economic plans between 1997 and 2005, the Seventh Parliament

⁴¹ Vali Nasr, 'The Conservative Wave Rolls On', *Journal of Democracy*, Vol. 16, No. 4, October 2005, p. 9.

⁴² Ibidem.

⁴³ R. Bayegan, 'Iran's New Oil Disorder – an Interview with Dr Parviz Mina': <http://bayegan.blogspot.com/2005/08/irans-new-oil-disorder-interview-with.html> (accessed 25.08.2013).

⁴⁴ Ibrahim Mahmoud Yaseen Alnahas, *Continuity and Change in the Revolutionary Iran Foreign Policy*, Department of Political Science Morgantown, Morgantown, West Virginia, 2007, p. 131.

overruled the bill arguing that such a law would boost inflation and put more pressures on low-income social classes. The members of parliament approved another plan to fix the price of goods and state services, which prevented the government from increasing the price of some goods such as gas and gasoline.⁴⁵

The important point is that Ayatollah Khamenei, as a supreme leader, did not support Rafsanjani and did not stop any opposition to Khatami's plan in the Seventh Parliament. Meanwhile he pressurized the members of parliament to approve Ahmadinejad's bill which was almost based on Khatami's plan for the restructuring of the subsidy system.⁴⁶

In July of 2006, Supreme Leader Ali Khamenei issued a decree to accelerate the implementation of the country's privatization law (known as Article 44) and called for 80% of state-owned assets to be transferred out of the public sector. Based on this policy, the privatization of the oil industry was considered as an important element for transforming a rentier economy (an economy depending on oil revenue) into something more liberalized. In addition, Ahmadinejad's plan was also supported by the Islamic Revolutionary Guards. This support was limited to opposition from the newspapers and most academics, and any protests which might come against the plan. As a result, Ahmadinejad's government, with the help of the Guards, enacted a plan which all of the previous governments had failed to do, and since 2010 the Guards have been a major player in Iran's oil industry.

Ahamdinejad's government had a plan to create a new middle class and replaced it by the modern and urban middle class which was raised during Rafsanjani and Khatami's period.⁴⁷ Due to this fact, he followed this policy. Ahmadinejad emphasized that the privatization and "rationalization" of subsidies, particularly energy subsidies, can redistribute wealth to the poor. Moreover, he emphasized that people deserved to gain tangible economic benefits from the government's oil revenues, and that this could only be accomplished if a portion of those revenues was distributed as cash payments or spent. According to his plan some 60 million Iranians, including most of the country's poor and lower middle-class residents, received the equivalent of \$40 a month in their bank accounts to compensate for the steep price increases. But the remainder of the population, some 15 million by government estimates, including many in the upper middle class, had to fend for themselves.⁴⁸

Ahmadinejad argues that the distribution of economic wealth and opportunities prior to his presidency was unjust – and he was particularly mindful of underdeveloped

⁴⁵ 'High Oil Price Undermines Economy, an Interview with Kamal Daneshyar', *Iran International Magazine*: http://www.iran-internationalmagazine.com/issue_39/text/high%20oil%20price.htm (accessed 06.06.2013).

⁴⁶ R. F. Worth, 'Ayatollah Supports Bid to Sharply Cut Iran Subsidies', *The New York Times*, April 6, 2010, http://www.nytimes.com/2010/04/06/world/middleeast/06iran.html?_r=1 (accessed 10.10.2013).

⁴⁷ Leylaz, 'Middle Class...'

⁴⁸ T. Erdbrink, 'Iran's Middle Class to Be Hard Hit as Subsidy Program Is Overhauled', *Washington Post*, November 6, 2010.

regions of the country. This belief was the main motivation behind his frequent visits to the provinces and remote areas. On average, he visited a province every twenty-three days. He used these visits to deliver funds for thousands of development projects in small towns and villages.⁴⁹ However, Abbas Abdi, a political analyst critical of the government predicated that "...the subsidy plan will lead the middle classes to becoming more dependent on the state. They will be poorer and lose influence. The government will be pleased with this".⁵⁰ Some scholars were also concerned that he would use the delivery of monthly cash payments and periodic increases in those payments to boost his popularity among low-income and middle-class households.⁵¹

Moreover, with the implicit approval of the supreme leader, Ahmadinejad allocated a large portion of oil revenues to imports. This was done both directly, by providing more foreign currency to government agencies, and indirectly, by supporting the exchange rate that made imports profitable for businesses and affordable for consumers. The rationale for this policy was twofold: first, to reduce inflationary pressures by increasing the volume of cheap imports, and second, to improve the living standard of ordinary people and fulfill the President's 2005 campaign promise to bring oil money to people's dinner tables. The resulting large inflow of imported consumer goods benefited low-income households, but many domestic industries that were producing similar goods, were unable to compete and faced severe financial hardship. The result can also be seen in the private sector – a haven for the middle class – which is being hit by the government's policy.

While the government was trying to create a new middle class, including people from poor areas, the high inflation rate result of the policy, pushed some urban middle-class families into poverty. The urban middle class was gradually marginalized on a streamlined scale, compressing their spending and thus reducing their welfare. Their quality of life has dropped significantly, and they have encountered more and more difficulties. Around the same time, liberalisation resulted in a new upper class in Iran.

Record oil profits have brought in billions of dollars but as mentioned above it has only benefited a new upper class which was already a supporter of the state. The result was the widening of the gap between the rich and poor. This gap has never seemed wider. According to some reports, Iran's new wealthy class has succeeded in 'tapping' the opportunities provided by a vast domestic market, sometimes aided by corruption and erratic government policies. It includes the children of people with close connections to some of Iran's rulers, as well as families of factory owners and those who managed to get huge loans from state banks at low interest rates. The oil windfall – nearly \$500 billion over the past five years – has also played a central role in establishing this small group that is visibly enjoying its profits.⁵²

⁴⁹ Ibid., p. 7.

⁵⁰ Ibidem.

⁵¹ N. Habibi, 'The Economic Legacy of Mahmoud Ahmadinejad', *Middle East Brief*, Brandies University, No. 74, June 2013.

⁵² Erdbrink, 'Iran's Middle Class...'.

However, the ruling class mingled with the urban modern middle class. As a result, the middle class tried to justify its presence by supporting Mir Hossein Moussavi, a candidate of the reformist groups. On June 23, 2009, a spontaneous mass demonstration erupted in Iran against the officially declared victory of Mahmoud Ahmadinejad, in perhaps the most publicly contested presidential election in the history of the Islamic Republic. The following day, the victorious Ahmadinejad staged an official demonstration in support of the declared victory.

On June 25, Iran witnessed a huge mass rally against the status quo which eventually emerged as the defining moment of an uprising that its supporters have called the “Green Movement”. While it was an attempt for reformation, the government reaction however was excessively harsh. The nominal leaders of the uprising were systematically arrested, subjected to ‘kangaroo courts’ and jailed. Thus, it can be seen that once more an attempt by the middle class to instill democracy in Iran has failed.