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## **Analyzing the Economic Development Policy of the Rentier State in the Province of Khuzestan: Case Study of the Ninth and Tenth States**

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### **Abstract:**

The geo-economic conditions and abundant oil and gas resources and many relative actual and potential advantages of Khuzestan province require this province to become one of the most developed regions of the country, but this has not been achieved so far. The present study aimed to find the roots of this problem. Though various components and factors can affect the underdevelopment of this region, this study hypothesizes that the continuation of forming a rentier state and incorrect policies made by the elites are among the important causes of underdevelopment in the province of Khuzestan. The rentier state is basically incapable of advancing the development goals, due to adopting an egalitarian approach, pursuing ambitious goals, implementing populist-type distribution policies, the discrepancy between goals and methods, and the inability to extract resources from the society and redistribute them. The present study aimed to analyze the outcomes of the economic development policy of the ninth and tenth rentier states in the province of Khuzestan. The results showed that, due to the policies of these states, more than fifty percent of the important industrial and production centers in Khuzestan province faced serious and fundamental challenges such as stagnation, closure, or forced cessation of production, leading to the decline of development indicators and, consequently, increased unemployment, poverty, deprivation, and social anomalies, as well as the loss of intergenerational capitals. The methodology used in this study was field study using bibliographical studies and descriptive-analytical method.

**Keywords:** Policy, Rentier State, Distribution Policy, Economic Development, Khuzestan Province

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## Introduction

Political elites, particularly policymakers, usually make policies, decisions, and plans based on the available resources and facilities. However, politics has different components whose observance or ignorance can have myriad effects or consequences for such societies. The way revenues are obtained and spent is one of the key components and parameters in the process of economic policymaking. Therefore, the type of state revenues plays a key role in the process of policymaking. In countries endowed with natural resources, the process of policymaking is subject to windfall wealth that is effortlessly and directly transferred to the state treasury. Such revenues can be a turning point for the states to achieve economic development. However, they are not used properly and systematically. Such countries have extremely fragile and vulnerable economies, particularly a country like the Islamic Republic of Iran, which has all the geo-economic, geopolitical, and geo-strategic conditions with the potential and actual resources, facilities, and capacities. It is noteworthy that this country has not experienced sustainable development so far and is still in the rank of underdeveloped nations. The state structure (the type of governance), type of elite rationality, the way revenues are spent, and the type of policymaking, decision-making, and planning are considered as influential components on the realization of development. Therefore, underdevelopment in such countries can be explained based on these parameters.

## Statement of the Problem

Oil and a state-dependent on oil revenues are the two main pillars of the Iranian economy. The state receives oil revenues on behalf of the nation. However, all rentier states are usually unable to allocate these revenues op-

timally because they do not consider the higher horizon beyond their authority. Therefore, national interests may not be adequately taken into account in the process of policymaking, decision-making, and planning to allocate oil revenues. Therefore, the effect of the state on all aspects of development, particularly the economy, through the acquisition of these rents is the main issue. The ninth and tenth states earned the largest revenues during the history of oil sales in Iran. In addition to the vast revenues from the sale of oil, the advantages, facilities, and abundant resources are regarded as the golden opportunities for these states. However, considering the boom in oil revenues and access to all optimum conditions, why did the ninth and tenth states fail to achieve the development goals for the Islamic Republic of Iran, and particularly for the province of Khuzestan, which is endowed with abundant natural wealth? Another question arises as to the main concern of this research in line with this question. Despite the unique resources and facilities available in Khuzestan province, why is this region still undeveloped? Khuzestan is still among the underdeveloped and deprived areas of the country despite its considerable resources, facilities, and advantages. This research aims to investigate and find the reasons for this problem. Accordingly, the rentier state approach has been adopted to address this issue from 2005 to 2013. The main research hypothesis considers the structure of the rentier state and its continuation in the post-Islamic period in Iran. Besides, the subjective, virtue-oriented, and idealistic policies along with ambitious goals of the state elites are considered as the main reasons for the underdevelopment of Iran, and particularly Khuzestan province. It is noteworthy that the underdevelopment of Khuzestan province is not the result of the policies of a particular

state; therefore, this problem cannot be merely the result of the actions of a particular state. In fact, each state has had its actions with different consequences. In addition to internal factors, several external factors, including the foreign policy of opposition and the imposition of sanctions by the West influence the underdevelopment of this region. These states have been selected because of a considerable amount of wealth and assets gained through the sale of oil and oil derivatives, the transfer of state-owned enterprises (privatization), and the sale of corporate bonds. Another reason is that different plans and programs could be adopted and implemented in the form of economic development policy (economic transformation plan) with proper allocation of time, money, resources, and facilities nationwide and particularly in Khuzestan province. Such plans were expected to change the face of the province, but evidence shows other realities as the region is still underdeveloped and suffers from deprivation.

### **Research Methodology**

The present research was carried out using a combination of descriptive-analytical and field study methods. The first step describes the theoretical foundations of research using library studies, and the second step involves field studies. In the field research, the researcher conducted interviews after designing, preparing, and distributing a structured questionnaire. The study population consisted of sixteen senior managers and six hundred employees working in six units of important industrial and manufacturing centers and enterprises in Khuzestan province, as follows: (I) Industrial Estates of Khuzestan Province; (II) Haft Tappeh Sugarcane Agro-Industry; (III) Karun Agro-industry; (IV) Pars Paper Industrial Group; (V) Shush- Dezful Sugar Factory; and (VI) Khuzestan Pegah Dairy

Company (Shush). After the collection of questionnaires, files, and interviews, the information and raw data were analyzed using AMOS software, the results of which were presented in the form of tables and graphs.

### **Theoretical Approach**

#### **Economic Rent and The Rentier State (Characteristics and Outcomes)**

The theory of rentier state is one of the most important approaches that emphasize the role of revenues from the sales of underground minerals in the economic development plans of the countries with rentier economies. One of the objectives of this theory is to explain the role and the direct as well as indirect impacts of the rent resulting from the sale of natural resources on a wide range of movements and behaviors of the politicians, elites, and people of such countries. However, the ultimate goal of this theory is to prove the claim that economic rent leads to the underdevelopment of the countries dependent on single-product economies and natural resources. The basic principles of this approach were first discussed in the works and opinions of earlier scientists such as Adam Smith and David Ricardo in the form of rent and its difference with profit and wages along with the ways to achieve it. It was later developed through the works of later scholars and thinkers such as Hossein Mahdavi, Hazem El Beblawi, Giacomo Luciani, David Ross, Michael Chatlus, Shireen Shekari, Terry Lynn Karl, Philip Rawkins, Kiren Chaudhry, Homayoun Katouzian, and others. Of course, several scholars disagree with some of the claims of this theory and make criticisms. They state that although the concept of rentier state is an innovative attempt to understand a particular kind of state and politics in some countries, the hypotheses of this theory suffer from problems regarding

methodology, reductionism, and ignorance of some issues, despite its proper explanatory power (Shariati, 2003, p. 106). In the first step, it is necessary to provide a brief definition of rent before addressing the concept of the rentier state. In his dictionary, David Piress refers to the concepts of rent and fixed rent as the payment for the use of land, house, etc. (Piress, 1978). However, in political economy, it means debt collection, distribution, allocation, and exploitation of revenues obtained without physical or mental effort (Mirtorabi, 2008, p. 110). In other words, rent refers to the revenues each state earns through the sale and export of minerals, underground resources, and natural endowments. These revenues are not related to the production operations of the domestic economy (Mahdavi, 1970, p. 475). Direct foreign assistance to some countries in the form of loans or grants is also considered the rent revenue (Haji Yousefi, 2009, pp. 52-53). Revenues from the sales of oil, gas, uranium, iron, copper, etc. are the most obvious instances of rents. Besides, incomes such as the right to cross canals and waterways under territorial ownership of certain countries can be considered the rent revenue, an example of which is the income that Egypt earns from ships crossing the Suez Canal (Shekari, 2000, p. 123). Considering the concept of rent, the rentier state can be defined as a state that accumulates most of its revenue from external sources in the form of rent. In other words, the rentier state directly earns income by selling goods and services at prices much higher than the cost of their production, for certain reasons (Haji Yousefi, 2009, p. 53). In his book, *The Rentier State*, Hazem Beblawi mentions that a state receives significant amounts of foreign rents regularly. He describes the characteristics of the rentier state as follows:

- i. Although all economies have some rent characteristics, the rentier state derives more than 42% of its income from rents. In other words, he believes that any country with 42% or more of its total revenue from foreign rents has a rentier state.
- ii. These rents must be paid by foreign individuals, concerns or governments; in other words, they are not associated with production processes in the domestic economy.
- iii. In a rentier state, only a very small percentage of the labor force is involved in rent generation, while the majority of the community receives or distributes the rent.
- iv. The rentier state is the main recipient of foreign rents and plays a key role in spending the accumulated revenue.
- v. The rentier state has independence and exclusive authority over the rent revenues and their spending (H. Beblawi and G. Luciani, 1987, pp. 11-12).

According to the above characteristics, most oil-producing and exporting economies (such as Middle East countries) can be called rentier states (Mirtorabi, 2008, p. 114) because foreign rents enter their treasury directly, and there is no considerable connection with the domestic economic operations. Rents have several consequences for the states, the relationship between the state and society, and also the domestic economy (Haji Yousefi, 2009, p. 54). Rents have destructive effects that are evident in the politics, economy, and societies of rentier states. The first effect of rents on politics is to change the way elites govern the target community. The

rentier state dominates the rent resources and controls them to attract cooperation and control the members of the society while ensuring political stability (Shekari, 2010, p. 43). Besides, the control of the rents by the state leads to relative independence from society. Accordingly, elites will have the exclusive power to decide on how to spend the rent revenues (Haji Yousefi, 2009, p. 65). As the state becomes more independent from society, it gains monopoly power and does not consider the interests of society in the adoption and implementation of its policies (Tabibian, 2010, p. 44). In fact, the aim is to attract the cooperation of other groups and elites in society. The debt collecting state seeks the support of elites and rival groups through the rents to maintain its monopoly power (Fahimi, 2007, p. 124). As the state independence from society increases, the interests of other groups are overlooked (Haji Yousefi, 2009, p. 56), and national interests are even of secondary importance or totally forgotten. Therefore, maintaining power will be preferred over ensuring national interests (Nasri, 2002, p. 305). When the major sources of power are owned by the state, and social groups are practically incapable of challenging the state, the mechanism of social oversight by the community and accountability by the state is disrupted. In such an atmosphere, it will not be possible to establish democratic institutions and procedures in the field of governance (Mirtorabi, 2008, p. 117). When the state has financial independence from internal resources, it acquires a kind of monopoly power and does not need to involve different groups and classes in state affairs (Imam Jome Zadeh, 2010, p. 36). Other effects of rent on politics and state include the destruction of civil society and the weakening of democracy (Imam Jome Zadeh, 2010, p. 38). The rentier state does not allow rival parties,

unions, or organizations to be formed because the monopoly power of the elites is challenged and jeopardized with the emergence of such organizations. Absolutism is more stable in countries with abundant resources (Ross, 2004, p. 332). Some scholars believe that oil wealth has prevented the formation of social capital and, consequently, the transition to democracy in Middle Eastern rentier states (Ross, 2004, p. 334). Others argue that higher levels of rent revenues are directly used to support politicians at the top of power, making the transition to democracy more difficult (Jensen & Wantchekon, 2004, p. 231). Democracy is formal and there are more sham elections in states that are dependent on oil revenues (Bashiriyeh, 2003, p. 216) due to poor turnover of elites in the absence of efficient parties, along with the weakness of civil society. In the rentier state, the parties are more affiliated and do not have the functions and operations of real parties. In such countries, the parties may have power struggles, but they do not usually seek to support democracy or gain power through civil society (Shekari, 2000, p. 32). Distributional and highly expansionary policies are prominent features of the rentier state. In fact, an implicit agreement is established between the state and society, according to which the state provides the welfare of the society, and instead, society is silent on the behaviors and actions of the state. In other words, the state is not accountable for its actions and operations. The slogan of no representation without taxation becomes an essential component of rentierism. Thus, such an agreement strengthens the foundations of power and domination of the state over society (Haji Yousefi, 2009, p. 59). The growth of the bureaucracy and the administrative structure of the rentier state is another consequence of rent, which affects the state-society re-

lationship (Haji Yousefi, 2009, p. 58). The growth of democracy and administrative organizations leads to higher inefficiency, along with political and economic corruption. Political and economic corruption is a serious obstacle to political and economic development. The economic impact of rents is reflected in the rentier state's desire to expand domestic production and thus reduce its dependence on foreign rents. Accordingly, inefficient industries, which are unable to compete at the global level, are established (Haji Yousefi, 2009, p. 60). Assembly industries lead to the introduction of worn-out technologies, the loss of domestic resources, and the increase of economic dependence. Also, the imports and related assembly industries handicap domestic industries that employ a part of society, an obvious example of which is the reduction of agricultural production. In fact, the availability of large amounts of foreign rents has made the import of foods more convenient and cost-effective compared to domestic products. Also, attractive opportunities that arise in urban contexts attract agricultural labor to cities (Haji Yousefi, 2009, p. 61). The state dependence on resource rents leads to lack of foresight, haste, and misology (Momeni, 2008, p. 43). These complications are serious obstacles to policymaking, planning, and decision-making in the development process. Distributional policies and rent distribution in the society will weaken the spirit of work and effort among the people while increasing the rentier spirit among the community members. In such societies, innovation, creativity, and production are overlooked because income is earned through rents. Accordingly, people look for positions in the bureaucratic structure to accumulate more revenues because their efforts do not generate income, while chance or individual position can increase or decrease the

income and profit (Imam Jome Zadeh, 2010, p. 36). This rent-seeking spirit automatically leads to what Chatlus calls a "circular economy" versus the term "production economy" (Haji Yousefi, 2009, p. 68). In a productive economy, all the efforts of individuals in society and public as well as private sectors are directed to the production of goods and services, which ultimately leads to the production and accumulation of wealth. However, the efforts focus on rent-seeking and its regeneration in a circular economy. Thus, it not only overlooks the production of wealth and public welfare but also provides the means for the spread of poverty and corruption. Another economic consequence of rent-seeking is that the state becomes the rent distributor. The state largely controls the distribution of wealth, jobs, or products, mostly in the form of assemblies. Theorists use the term "allocation states" as opposed to "production states" based on this distributional feature of the state (Imam Jome Zadeh, 2010, p. 36). Higher state expenses and the expansion of public services make the state the main investor. The state monopoly on investment affects the private sector and hinders its growth. In the meantime, the active state takes absolute power and its extensive monopolies obscure the economy. On the other hand, providing services to the people increases state-owned institutions and expands the bureaucracy, which leads to the dependence of economic sectors on the state (Imam Jome Zadeh, 2010, p. 37). Economic inefficiency is another result of rents, because of which economic productivity decreases significantly (Haji Yousefi, 1999, p. 43). The incidence of Dutch disease, inefficiency, and the phenomenon of the resource curse is the consequences of rents. Rents also reduce indicators of economic development, increase inflation, stagnation, and unemployment, pull

down domestic industries, lead to economic dependence, and prevent wealth creation. From the perspective of political sociology, the emergence of new groups and classes is one of the negative consequences of the rentier state. The emergence of these groups is the result of the efforts made by the community members to reach the resources and centers of power that own the rent and distribute it. They seek to get the most out of the rent. The prevalence of subservience is a coercive result of this effort. Other consequences of the rentier structure of the state include credentials and educational inflation, according to which degrees are obtained to get governmental positions. Inexperienced and unskilled people usually try to occupy governmental positions by obtaining credentials. The emergence of a new type of patrimonialism is the result of efforts made to gain governmental positions. The emergence of problems such as the extreme power of banks, kleptocracy, lobbying, and political and economic corruption is other consequences of the state rentier structure (Sattari, 2015). The prevalence of luxury and consumerism are other negative effects of the rents. The state uses huge rent resources to import considerable volumes of consumer and luxury goods and gain legitimacy by meeting the material needs of society (Haji Yousefi, 2009, p. 76). The prevalence of consumerism encourages corruption in society. One of the reasons for the increasing inefficiency of the domestic economy is the prevalence of consumerism. The emergence of Familyism and putting the priority on the employment of family members and relatives along with the spread of the so-called “thousand-family rule” are among the salient features of the rentier state. This feature pulls down talents and prevents their growth. Accordingly, individuals are attracted to the government based on the type

of family relationship, solidarity, and the degree of their loyalty and devotion, not based on their talents (Leftwich, 2008, p. 65). Increased migration, capital loss, and brain drain are other negative consequences of the rentier state (World Economy, 2017).

### **1. Formation of Rentier State in Iran**

From the time of the discovery of oil until Dr. Mohammad Mossadegh came to power, the share of oil in state revenues was less important compared to the later years. After Mossadegh state was overthrown in 1953, the US \$ 145 million-aid to Iran was the first source of rent that saved the government from bankruptcy (Abrahamian, 1998, p. 515). The formation of the oil consortium and the end of the Iran-Britain dispute was the second and most fundamental step that led Iran to rentierism. Oil revenues, which were \$ 34 million in 1953, reached \$ 437 million in 1962 and reached about \$ 20 billion in 1976 - after the world oil price quadrupled (Abrahamian, 1998, p. 517). Thus, state revenues from the sale of natural raw material reached more than 42% and exceeded 55% during the 70s (see Hendi, 2002; in Mirtorabi, 2017). Some scholars, such as Skocpol, Katouzian, Mahdavi, Abrahamian, etc. consider the period of 1960-2015 as a turning point in the history of the Iranian government and economy, during which the rentier state was formed in Iran (Haji Yousefi, 2009, pp. 136-137).

### **2. Continuation of The Rentier State in the Islamic Republic of Iran**

Post-Islamic Revolution states did not achieve significant success, despite their slogans and programs (Mirtorabi, 2017, p. 206), while some experts have even spoken about the increasing growth of state rentierism during this period (see Azghandi, 2006, p. 45;

Ehteshami, 2010 in Mirtorabi, 2017). The special conditions for the formation of state institutions and coalition building in the first post-Islamic Revolution years led to the formation of a special model of state-building based on oil revenues (rentier state) under the influence of the tendency to expand state intervention in the economy, distributional pressures by various social forces, and the imposition of war costs (Mirtorabi, 2017, pp. 206-207). The budgeting system of the post-Islamic Revolution states could never be established without the allocation of oil revenues (Khezri, 2008, p. 214). Adoption of highly distributional policies, seeking to meet the needs of the holy defense period, restoration of the damage caused by the imposed war, and meeting the demands of the supporting masses are among the main reasons for the continuation of rent-seeking in the post-Islamic Revolution period (Mirtorabi, 2017, pp. 217-229).

### 3. The Ninth and Tenth States at a Rentier State

**Table1.**  
*Comparison of oil and gas revenues in the states after the Islamic Revolution*

The Third State (1982-1989)	102.72 Billion Dollars
The Fifth and Sixth States (1989-1997)	123.60 Billion Dollars
The Seventh and eighth States (1997-2005)	206.27 Billion Dollars
The Ninth and Tenth States (2005-2013)	578 Billion Dollars

Source: Report of the Central Bank, OPEC, International Monetary Fund

According to Table 1, the states of the Islamic Republic have sold more oil than the previous states (excluding petrochemical products). Accordingly, the highest oil sales (\$ 578 billion) belonged to the ninth and

tenth states. Experts from the United Nations Development Fund and the International Monetary Fund believe that this figure has been more than \$ 720 billion (World Economy, 2019). Meantime, the total oil sales of the previous regime were about \$ 112 billion during 1973-1978. According to the calculations of Dr. Javad Salehi Esfahani, the ninth and tenth states sold more oil than the entire mentioned period, in addition to the previous states (from 1973 to 2005) (Sarzaim, 2017, pp. 127-128). Therefore, the ninth and tenth states are known as completely rentier states.

### 4. Resources, Facilities, and Advantages of Khuzestan Province

Khuzestan province is located in the southwest of Iran and has an area of more than 64000 km and a population of 4700000, making it the fifth most populous province in the country (Strategic Document, 2016). The largest oil and gas fields, resources, and reservoirs of the country are located in this province. The largest oil field with a thickness of 8 meters is expanded from Dasht-e Bostan to the city of Omidiyeh (Borna News Agency, 2019). Darkhoein gas field is also one of the largest gas fields in the country with four hundred trillion cubic feet of gas. Extensive agricultural lands together with large and small rivers are other advantages of Khuzestan province (Khuzestan Problem Studies, 2017). The area under horticultural and agricultural lands is 770024 hectares, irrigated by 20 large and small dams. There are 5 big rivers in this province, which are also the largest in the country. Besides, there are 17 petrochemical plants, 7 rolling mill and steel production factories, 8 sugar production mills, 34 oil exploitation factories, and 12 gas and liquefied gas establishments in this region. Other advantages of the province are tourist attractions such as historical-religious monuments and natural landscapes, such as wet-



lands, lakes, and wildlife sanctuaries (Khuzestan Problem Studies, 2017). Also, 71 industrial units and towns are distributed throughout the province. Large sugar and by-products industries, paper and by-products factories, large palm groves, large companies producing dairy, petrochemical, cement, gypsum, and other products are among the resources and advantages of this province. Proximity to the Persian Gulf and Arab countries, the ability to transit, export, and import, the relatively young educated population, and cheap labor are some other potentials of Khuzestan province. These advantages have made Khuzestan province an economic pole of the country (Website of Khuzestan Government Office, 2011-2020). Besides, the province has a special geographical position because of its interactions with the region and the world and connection with international open waters as the southern terminal of the north-south communication corridor of the country in the west axis. Suitable port facilities with high capacity are also provided, particularly in Imam Khomeini port, which has the shortest distance to the population centers of the country compared to other southern ports of Iran. Also, numerous railways and airports together with the necessary and appropriate infrastructures, special economic zones such as Bandar Imam Petrochemical Co., Arvand Free Zone (Abadan-Khorramshahr), and border

markets with full capacities and capabilities have provided a suitable platform for the growth and development of the province in foreign trade and international transportation.

## 5. The Rentier State and The Lost Opportunities

As noted in the rentier state approach, many valuable opportunities resulting from the sale of minerals are easily neglected and lost in such states. The advantages, facilities, and resources available in Iran, particularly in the Khuzestan province, are known as unique opportunities that could be used for sustainable development. However, the rentier state ignored them and failed to adopt and implement the necessary strategies for their exploitation. In addition to these advantages, the rentier state missed three unique and unprecedented golden opportunities.

### 5.1. The First Opportunity

The increase in world oil prices was the biggest and most important opportunity for the mentioned state. It is noteworthy that although there was a gradual increase in oil production in the eighth state, no state accumulated oil revenues as much as the ninth and tenth states. The table below shows the increasing trend of oil production and the state revenue earned during 2005-2012.

**Table 2. Revenue of rentier states from oil sales**

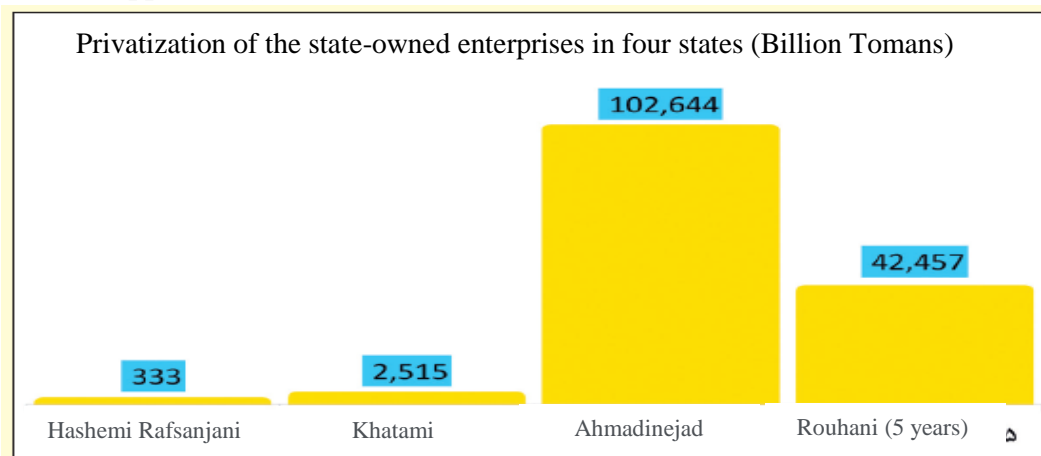
Year	Revenue of Oil Exports	
	Iranian oil price (barrel / dollar)	Revenue from crude oil exports (billion dollars)
2005	51.94	53.82
2006	58.57	62.01
2007	76.48	81.6
2008	79.82	81.9
2009	69.01	62
2010	83.33	74
2011	107	113
2012	107	50
	Total	578.33

Source: Central Bank/Ministry of Oil

According to the figures in Table 2 and based on the official statistics of the Central Bank and the Ministry of Oil, the revenues from oil sales amounted to \$ 578.33 billion in the ninth and tenth rentier states. Such revenue is unique in the history of oil states before and after the Islamic Revolution and is almost equivalent to the total oil revenues from 1973 to 2011 (Sarzaïm, 2017, p. 127).

## 5.2. The Second Opportunity

The second opportunity in the rentier state was the proceeds from the transfer of companies, enterprises, and state institutions, announced by the Supreme Leader under Article 44 of the Constitution. Accordingly, many state-owned companies were transferred to the private sector. The chart below shows the share of the ninth and tenth states in the privatization process. As the chart shows, the largest volume of privatizations and transfers has taken place in these states.



Source: Privatization Organization/Ministry of Finance

Table 3 also shows the revenues from privatization (Privatization Organization, 2017).

**Table 3.**  
*Revenues of the rentier state from privatization*

Revenue from the privatization of state-owned enterprises			
Year	Average price of dollars (Tomans)	Value of shares sold (billion Tomans)	Value (\$)
2005	904.2	76.4	0.08
2006	922.6	2539	2.8
2007	935.8	24994	26.7
2008	966.7	21494	22.2
2009	997.9	17902	17.9
2010	1044.2	14550	13.9
2011	1360	23265	17.1
2012	2590	18105	7.0
Total		122925.4	107.8

Source: Privatization Organization/the Central Bank

During this period, privatization and transfer of the state-owned enterprises took

place through debt payment, equity shares, and the stock market. According to many

experts and economists, real privatization did not occur because many state-owned companies were transferred to semi-state-owned institutions. This led to numerous problems for the employers, employees, and workers of the transferred companies. Severe reduction in the quality and quantity of production, dismissal of workers in the form of lay-offs, embezzlement, corruption, and financial chaos, closure, stagnation, bankruptcy, and

etc. are among the results and consequences of these transfers (World Economy, 2014).

### 5.3. The Third Opportunity

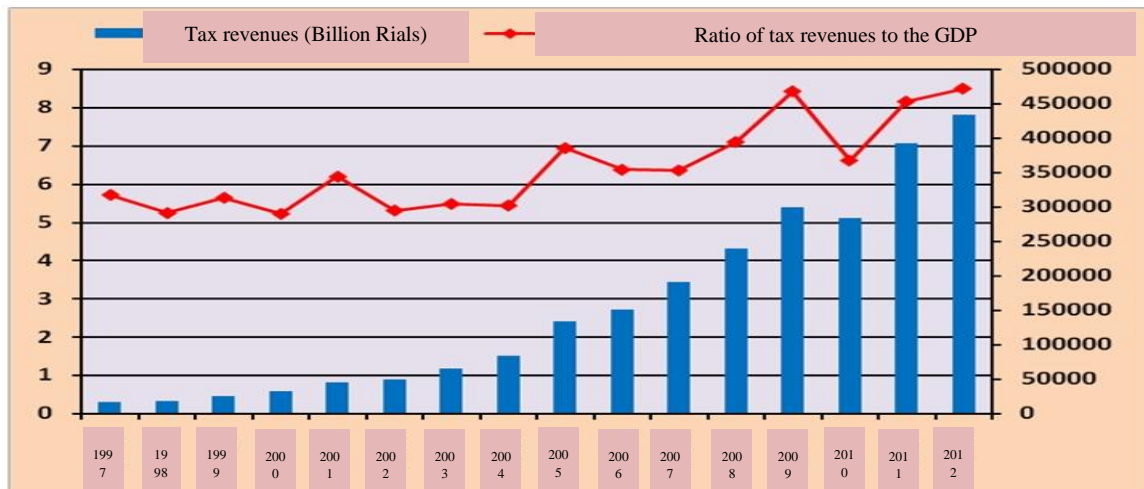
The third opportunity is the revenues from the taxes imposed by the ninth and tenth states after 21 years. Accordingly, tax revenues had an unprecedented growth between 2005 and 2013, increasing by 2.6 times. Table 4 shows the tax revenues of the rentier state.

**Table 4.**  
*Tax revenues of the rentier state*

Tax Revenues			
Year	Average Price of Dollar (Tomans)	State Tax Performance (Billion Tomans)	Value (\$)
2005	904.2	13457	14.9
2006	922.6	15162	16.4
2007	935.8	19182	20.5
2008	966.7	23974	24.8
2009	997.9	30004	30.1
2010	1044.2	21000	20.1
2011	1360	30600	22.5
2012	2590	35185	13.6
Total		188564	149.3

Source: Tax Administration Organization/the Central Bank

chart1.



Source: Tax Administration Organization/the Central Bank

According to Table 4 and chart, the ninth and tenth states earned 188.5 thousand billion Tomans through taxes. However, with the implementation of the law on targeted subsidies, the value of the national currency against foreign currencies decreased sharply due to the supply and increase of liquidity. Although the tax revenues increased during this period, it was not possible to increase the share of taxes in the governmental budget because of the state financial chaos and indiscipline. Considering the inability of the rentier state to extract resources from the society how could the ninth and tenth states take taxes? In fact, the taxes collected were not real because the government can become a real tax collector when it can collect taxes from all enterprises, institutions, and economic entities. The value-added taxes in the mentioned period did not cover all sections of society and were imposed only on the citizens (Central Bank Report, 2011). A little reflection on the revenues of the rentier state shows the depth of its strategic mistake. Total revenues of this state amounted to \$ 835.34 billion. Such a huge income could be spent on restructuring industries, purchasing new industries and technologies, changing production methods, investing in infrastructures, increasing capital goods, improving and increasing productivity, etc., all of which could improve the quality and quantity of production in domestic industries. However, the state wasted these golden and unique oppor-

tunities by the adoption of highly distributional policies with a populist approach, ambitious goals, and a lack of foresight. These opportunities could bring comprehensive and sustainable development to the country, but the state failed to realize them.

### Research Findings

The research findings are divided into two parts. The first part includes explanatory-descriptive findings extracted from the analysis of face-to-face interviews with senior managers of enterprises and industrial-production centers of Khuzestan province. The second part includes the findings and results of the analysis of the questionnaires distributed among the employees and workers of the mentioned companies and centers, using AMOS software.

#### Part 1:

All the studied industrial companies were established in the pre-Islamic Revolution period, except the Industrial Towns Company. Therefore, no action was taken to restructure or replace the worn-out and old technologies with new ones during the ninth and tenth states. The actions taken were so small that they did not affect the quantity or quality of production and productivity. It is noteworthy that in addition to the mentioned units, huge companies such as steel, rolling, and pipe mills and tens of others were established in the pre-Islamic Revolution period.

**Table 9.**  
*Date of establishment of the studied companies*

Name	Haft Tappeh Sugarcane Agro-Industry	Karun Sugarcane Agro-industry	Shush-Dezful Sugar Factory	Industrial Estates of Khuzestan Province	Khuzestan Pegah Dairy Company	Pars Paper Industrial Group
Year	1958	1973	1977	1977-1991	1977	1967

Source: Research Findings

The total number of company personnel had a steady trend with an occasional slight increase or a very small decrease before 2005. Accordingly, there was no disruption in the production process during these years. However, after 2005 which coincided with the ninth rentier state, the number of person-

nel began to reduce and reached less than half by the end of the tenth state. This indicates the closure of part or parts of the production process or its forced cessation during the mentioned period, which made a lot of personnel, stop working.

**Table 10.**

*The rate of change in the number of personnel of the studied companies between 2005 and 2013*

Name	Karun Co.	Haft Tap-peh Co.	Pars Paper Co.	Khuzestan Pegah Dairy Co.	Shush-Dezful Sugar Co.	Industrial Estates Co.
Personnel before 2005	8805	12500	2315	400	400	62840 based on establishment permit
Personnel after 2013	4439	3645	235	230	200	37811 based on establishment permit

*Source: Research Findings*

- Despite the importance of the stock market in introducing and promoting manufacturing companies in the country, and especially in attracting domestic capital, these companies did not take any action to transfer their shares in the stock market in the mentioned period.
- Before 2005, companies had almost constant production with negligible seasonal fluctuations, which did not disrupt production. However, the production process decreased sharply after 2005 due to excessive import of similar products from abroad by the rentier state. Given the volume and size of companies in terms of the number of personnel and the costs, a sharp decline in production increased their debt and the inability to afford the costs imposed. The decrease in production led to many problems for companies and placed a heavy burden on the state. Most of these companies suffered from debt, bankruptcy, chronic stagnation,

inflation, and so on. Given the above issues, all large and important manufacturing companies in Khuzestan province faced different problems, such as financial crises and difficulties, debt, lack of liquidity, inflation, stagnation in product sales, unemployment of a large number of employees, and in some cases closure or bankruptcy. According to the research, the production and sales of the products were not sufficient to meet the costs and expenses of the businesses. It is noteworthy that the state took no action to help these companies overcome the crisis, because of its import policies. The import of similar products led to the closure of more than fifty percent of the production units, companies, and enterprises in the industrial towns of Khuzestan province.

- The public sector owned most of the economic enterprises in Khuzestan province, except for the subsidiaries of Industrial Towns; however, the rentier

- state privatized and transferred them to the private or semi-state sectors.
- During this period, most companies were under the supervision of the Industrial Development and Renovation Organization. Most transfers (privatization under Article 44) were made in the form of debt payments and the sale of shares.
  - Based on the findings, evaluations of the new management were carried out very badly because of a lack of knowledge on the structures, along with the lack of expertise regarding macro-management in various fields related to enterprises. Mismanagement continued in the subsequent states and led to strikes and protests by corporate personnel in Khuzestan. The problems of Haft Tappeh Sugarcane Agro-Industry, Steel Industries, Mah Shahr Petrochemical, etc. are some examples. Accordingly, production declined dramatically, with subsequent stagnation, inflation, closure, and a sharp rise in unemployment.
  - The state decision to eliminate subsidies in 2008 and the increase in the price of energy carriers with subsequent increase in the hidden costs had a very destructive and negative impact on the production and sales of the products of the companies under study. These negative effects were to the extent that there was no balance between their expenses and income.
  - The senior managers were asked whether the companies under their management had competitors or challenges in or outside Khuzestan province. Based on their answers, other companies could not be considered competitors because the domestic production was less than the demand. Although many similar companies produce similar goods in other parts of the country, the main problem lies elsewhere, which is nothing but excessive imports and possibly inappropriate tariffs imposed by the government on manufactured products? This has disrupted production and even exports. According to senior managers, there is no need to compete. Efforts should be made to increase productivity in production and improve quality by renovating old and worn-out technologies. Also, efforts should be made to increase production and productivity according to the high power and capacity of companies in the country, particularly at the level of manufacturing enterprises in Khuzestan province. Although after 2013, and particularly in 2016, the new management in most companies took steps to diversify and increase the quantity and quality of products, the private (semi-state) sector has pursued its programs in the form of non-creative activities. Therefore, there is a long way to achieve the final and acceptable results at the level of conventional standards.
  - Nearly a decade after the end of the ninth and tenth states, problems and unrest remain at the level of production enterprises. However, the eleventh and twelfth states have been successful in the establishment of a new system based on identifying centers for the creation and collection of value-added taxes. Yet, the state structure remains rentier. Severe sanctions were imposed on Iran in the previous state due to the opposite approach in the field of international relations. In addition to hinder-

- ing the restructuring of production enterprises, the sanctions prevented access to the global markets and competition in the international economy.
- When transferring companies to the private sector, the rentier state should have consulted with experienced experts and asked for the participation of local and indigenous managers. It should have prevented many of the problems and crises through extensive research with careful monitoring and control.
  - In most developing countries, governments build industrial towns in the form of knowledge-based companies and early-return enterprises or support small industries to create employment, supply and produce raw materials, goods, and complementary products of domestic industries, especially large domestic enterprises, and boost the production cycle. Accordingly, they prevent the outflow of currency from the country while achieving self-sufficiency in the production of raw materials for the use of domestic industries. Although the idea of constructing industrial towns dates back to the pre-revolutionary period in Iran, the process started extensively and basically through the establishment of cooperatives after the Islamic Revolution. Equipping and supporting the public and cooperative sectors weakened and, in some cases, marginalized the private sector. However, the private sector continued its activities and entered the cycle of investment and production in industrial towns and other industrial areas of the country. Nevertheless, this sector still lacks the power to compete with the public sector.
  - After the cessation of the activities of the industrial towns of Khuzestan province due to the imposed war, they started their operations again in 1992 with the establishment of the Industrial Town Company of Khuzestan province. The initial and main goals of the company are the construction of towns, the establishment of large and small industries, attracting local and non-local investments by granting some special privileges, facilitating the business process, creating a suitable environment for the growth and development of technology, and conducting research to increase productivity in the use of products of parent industries, such as sugar, steel, iron, petrochemical, etc. in Khuzestan province. At present, there are 71 towns and industrial areas throughout Khuzestan province. Each town contains an average of 50 to 60 companies and production enterprises. Most companies belong to the cooperative sector. The products of subsidiaries are mostly metal, chemical, food, and other complementary goods, some of which compete with the products of other companies across the country. The mentioned products can meet part of the needs of the country in addition to satisfying the domestic requirements of the province if supported by the government. In some cases, they can even compete with similar foreign products. However, some of the products produced in such towns have not yet succeeded in obtaining foreign brands despite their high quality. The reason lies in the failure to market domestic products in global markets, which is because of the inability to interact with the new economic system

intelligently and constructively, and failure to enter the system and produce participatory goods in the global economy. It is also necessary to mention that the products of these companies are under the control of the Goods Quality Control Organization, which indicates their high quality. However, given the number and size of the towns and subsidiaries in the province, as well as the existing facilities, capacities, and opportunities, only 5 to 10 percent of them have been able to produce under the license of popular global brands.

- By the end of 2005, 1700 contracts were concluded for the construction of companies and about more than 1300 companies were operating. However, after 2005 and until the end of 2013, only about 428 units were able to continue their activities. This indicates a sharp decline in the activity of companies in the province and also a dramatic reduction in production. However, accurate statistics on the allocation of facilities in the form of cash subsidies, pre-purchase of products, long-term loans for the purchase of new technology or long-term, short-term and low-interest loans, and support packages by the state are not available from 2005 through 2013. However, evidence shows that the state did not provide this support, or the support and facilities provided were very small. As a result, these companies experienced a sharp drop in production or a significant and forced cessation of production. Therefore, more than 50% of the mentioned companies were closed, and production was practically stopped between 2005 and 2013, which is one of the main rea-

sons for the increase in unemployment in Khuzestan province during this period.

- Given that the products of Industrial Town Companies depended on imported raw materials, their reaction was negative following the stagnation caused by excessive imports and the subsequent imposition of extensive sanctions against Iran. These companies suffered huge losses due to the shortage of raw materials so that about 50% of them were closed or went bankrupt.

## Research Findings

### Part 2:

After the collection of the questionnaires, data were analyzed and interpreted by AMOS software to explain the performance of the rentier state regarding the economic development of Khuzestan province. Accordingly, the hypotheses were tested based on the research model, after which they were rejected or confirmed to obtain the final results.

### Model and Hypothesis Testing

The models were tested based on research hypotheses and using Amos Software. The validity of the indices was determined using factor loading indices, t value, and average variance extracted. The reliability was examined using composite reliability and Cronbach's alpha. Factor loadings are determined by calculating the correlation value of the indices of a structure with that structure. If the value of the factor loading is  $\geq 0.40$ , it shows that the variance between the structure and its indices is more than the variance of the measurement error of that structure. Therefore, the reliability of that measurement model is acceptable. If the researcher obtains values less than 0.40 after calculating the fac-



tor loading between the structure and its indices, the indices should be modified or removed from the research model (Davari and RezaZadeh, 2013, 80). In this study, the minimum value of factor loading was considered to be at least 0.40.

Figures 4.1 and 4.2 indicate the model for

the first and second hypotheses, and Figure 4.3 represents the model for the third to fifth hypotheses. Table 4.1 shows the values of correlation or factor loading, significance level, and the reliability and validity indices of the average extracted variance, composite reliability, and Cronbach's alpha.

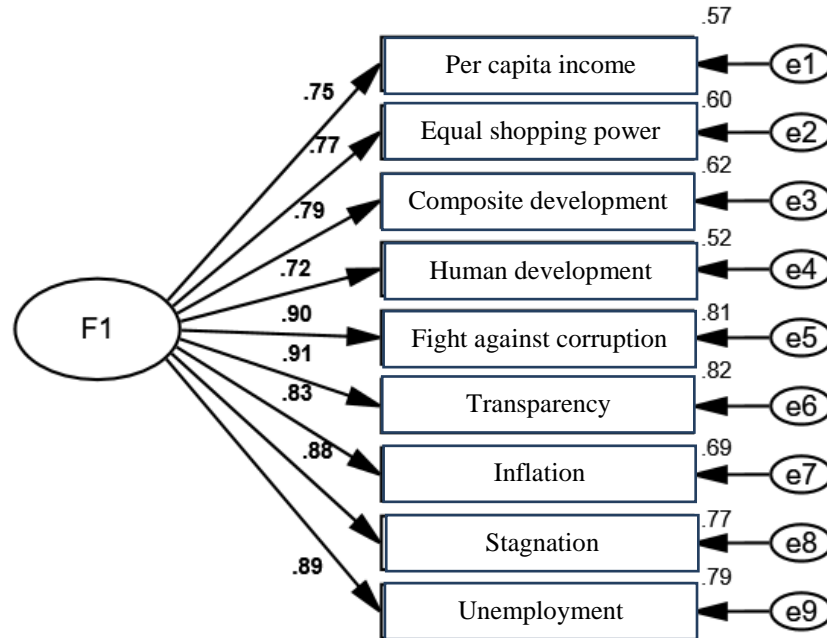


Figure 1.4. Structural model of the first hypothesis in the case of standard coefficients

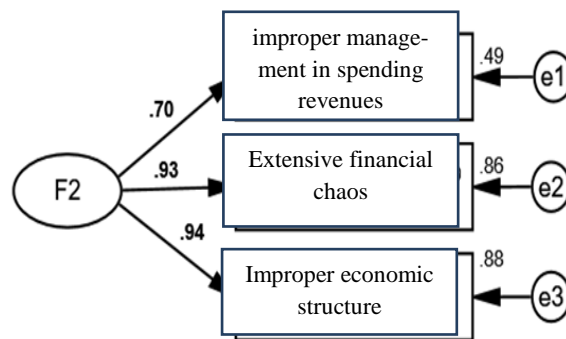


Figure 4.2. Structural model of the second hypothesis in the case of standard coefficients

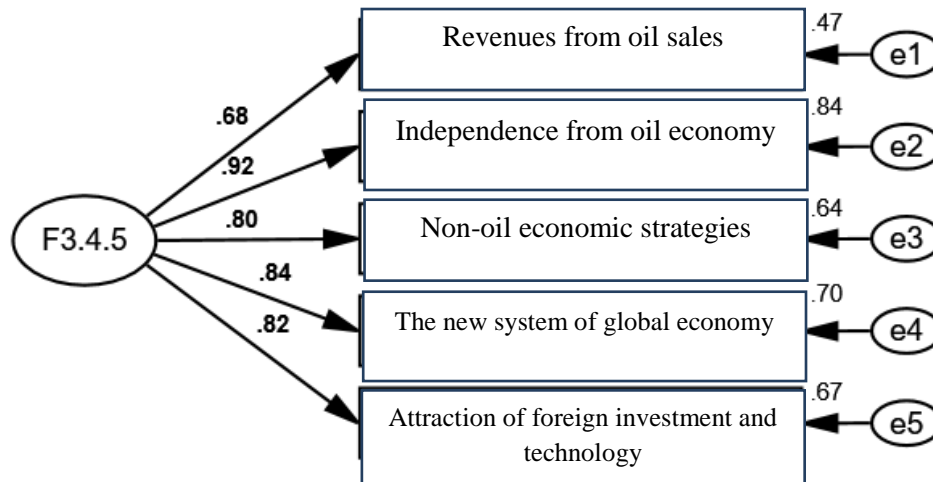


Figure 4.2. Structural model of the second hypothesis in the case of standard coefficients

Figure 4.3. Structural model of the third to fifth hypotheses in the case of standard coefficients

Figures 4.1 to 4.3 indicate the model in the case of standard coefficients or the effect

size. Coefficients are 0-1, and coefficients greater than 0.40 indicate a greater and more appropriate correlation of the indicators. Table 4.1 shows the test results of the models.

**Table 4.1**

*The results of structural model test: Correlation, validity, and reliability*

Models	Factor	Correlation (Factor Loading)	Sig.	AVE	Composite Reliability	Cronbach's alpha
The First Model	Per capita income	0.75	<0.001	0.69	0.87	0.83
	Equal shopping power	0.77	<0.001			
	Composite development	0.79	<0.001			
	Human development	0.72	<0.001			
	Fight against corruption	0.90	<0.001			
	Transparency	0.91	<0.001			
	Inflation	0.83	<0.001			
	Stagnation	0.88	<0.001			
	Unemployment	0.89	<0.001			
The Second Model	Improper management in spending revenues	0.70	<0.001	0.75	0.79	0.72
	Extensive financial chaos	0.93	<0.001			
	Improper economic structure	0.94	<0.001			
The Third Model	Revenues from oil sales	0.68	<0.001	0.67	0.83	0.82
	Independence from oil economy	0.92	<0.001			
	Non-oil economic strategies	0.80	<0.001			
	The new system of global economy	0.84	<0.001			
	Attraction of foreign investment and technology	0.82	<0.001			

The structural validity of all factors is confirmed according to the factor loadings obtained for all factors, indicating values more than 0.40 at a significance level of  $p < 0.05$  ( $t > 1.96$ ). All factors or indices had factor loadings greater than 0.40, which was significant ( $p < 0.05$ ) and confirmed their validity. Composite reliability values were greater than 0.70, confirming the reliability of the scales with values of 0.87, 0.79, and 0.83 for the first to the third models, respectively. Also, Cronbach's alpha values were higher than 0.70 in all three models and showed that the reliability of Cronbach's alpha method also confirmed the reliability of the models.

The average variance extracted (AVE) that measures the convergent validity of the variables was equal to 0.69, 0.75, and 0.67 for the first to the third model. The values obtained were acceptable and appropriate. Accordingly, the convergent validity was confirmed because it was above 0.50. Overall, the results confirmed the validity and reliability of all three models.

Research hypotheses are tested at this stage, based on the results obtained from the research models. Then, the relationships obtained from the structural model are examined and tested.

**H1.** Equal shopping power, composite development, human development, inflation, unemployment, per capita income, fight against corruption, and transparency indicators

The results of the structural equation modeling showed that all 9 indices presented in H1 had a significant effect, confirming their role ( $p < 0.05$ ). The level of significance related to the correlation of the indicators with the overall structure was less than 0.05, and the correlation coefficient in all cases was higher than 0.60, indicating a strong

relationship between the indicators and the main structure. According to the examination of correlation coefficients, which shows the intensity of the relationship between variables, the strongest correlation, and the highest impact was related the transparency with an impact factor of 0.91, followed by the fight against corruption, unemployment, and stagnation with coefficients of 0.90, 0.89, and 0.88, respectively. Also, the lowest correlation was related to human development and per capita income with coefficients of 0.72 and 0.75, respectively. Finally, the structural equation modeling test showed that all 9 indicators were effective, and the highest effects were related to transparency, fight against corruption, and unemployment.

**H2.** Improper management in spending revenues, lack of proper economic structure, and extensive financial chaos

The results of the structural equation modeling test confirmed the effect of all three factors presented in H2 statistically ( $p < 0.05$ ). Significance levels obtained in all cases were less than the assumed value, which confirms the effect of all three factors ( $p < 0.05$ ). According to the examination of the relationship intensity and the effect of these three factors, the greatest effect was related to the improper economic structure with a coefficient of 0.94, followed by extensive financial chaos with a coefficient of 0.93. Also, the lowest effect was related to improper management in spending revenues with a coefficient of 0.70.

**H3.** Failure to adopt goals in line with independence from oil economy, spending revenues from the sale of oil.

**H4.** Adoption of non-oil economic scenarios and strategies

**H5.** Smart and active interaction with the new system of global economy, attraction of foreign investment and technology

Hypotheses 3 to 5 were examined in the form of one test. Given that the modeling test requires at least 3 indicators, the indicators related to H3-H5 were examined in this section. Examination of the relevant model confirmed the role of all five indices ( $p < 0.05$ ). Investigations showed that the effect of all indicators was appropriate and acceptable. According to comparisons, the greatest effect was related to independence from the oil economy, with an impact factor of 0.92. The new system of the global economy, the attraction of foreign investment and technology, and non-oil economic strategies were in the next ranks with coefficients of 0.84, 0.82, and 0.80, respectively. The lowest effect was related to the revenue from oil sales with a value of 0.68.

### Conclusion

In rentier states, the policymaking structure is idealistic and virtue-based, while the primitive mentality takes precedence over material realities. Accordingly, macro-policies and decisions are irrational and inconsistent with the realities of the day. In line with the theoretical approach of research, the models of rational policymaking, which are mainly fact-based, are replaced by satisficing models. Therefore, the state structure has remained rentier in the Islamic Republic of Iran, and distributional and expansionary policies have continued. Elites and policymakers are unable to make the best economic decisions in rentier states. Within the framework of such policies, the extraction of resources from the society is not taken into account and the focus is on the sale of underground resources (oil). The state under

study achieved higher revenues than the previous states, in addition to the oil revenues. However, it wasted opportunities, resources, and facilities due to the adoption of subjective policies, the pursuit of ambitious goals with a justice-based approach, the adoption of distributional-expansionary policies, and widespread financial chaos. The source of all these failures and inefficiencies was nothing but irrational, irresponsible, and hasty policies of the elites of the justice-oriented state. Khuzestan province is one of the richest regions and the economic pole of the country. This fertile region has many actual and potential advantages; however, it has always suffered from underdevelopment, poverty, and deprivation, despite all these advantages. During the Iraq-Iran imposed war, the province was under enemy fire for eight years, during which many manufacturing-industrial facilities were destroyed. During the presidency of Akbar Hashemi Rafsanjani and Sayyid Mohammad Khatami, several development projects were implemented in the Khuzestan province. However, these states neglected the restoration of the provincial infrastructures. This practice continued in the ninth and tenth states, which handed over the implementation of Article 44 (privatization) to inefficient private sectors. The unskilled private sector closed many of these centers. Also, the excessive increase of imports, hasty plans, and irrational policies led to more destruction and closure of many industries and manufacturing enterprises in the province. Accordingly, the unemployment rate in Khuzestan province increased, resulting in problems such as lack of medical centers, lack of educational and recreational spaces, the severe stagnation of industries, the dramatic decline in investment, outflow of investors, increased

migration, density of incomplete development projects, environmental degradation, lack of productivity, decrease in production, increase in population, decrease in social capital, illiteracy, and so on. The above problems lead to an increase in unemployment, a sharp increase in social anomalies such as addiction, crime, divorce rates, and so on. Undoubtedly, a large part of these problems is the results and consequences of the rentier state. Increase in imports, decrease in exports, increase in liquidity, a sharp increase in inflation and stagnation, lack of solutions and effective actions in the production of raw materials required by industries in the country, lack of necessary infrastructure, lack of state support for domestic industries, increase in energy carriers, transfer of parent industries to the private and semi-state sector, increase in production costs, and other problems led to the destruction and closure of enterprises in Khuzestan province. During this period, the vulnerability of the country's production and industrial enterprises was revealed, particularly in Khuzestan province. However, the role of internal factors should not be overlooked. Achieving development in Khuzestan province will be impossible and far from expected as far as the mentioned problems continue and the state is not willing to solve them.

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