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## **Impact of Oil Revenues on Creation of a Rentier State and Democracy in Post-revolution Iran (2005-2013)**

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### **Abstract:**

Oil is undoubtedly the most important, and at the same time, the most politico-economic commodity in today's world. As the most important source of economic and political power, oil has constantly played a significant role for Iranian governments both before and after the revolution [1979], and has served as a major fuel for their economic power. However, historical experience in our country shows that having exuberant oil resources and revenue has had no significant link to welfare facilities or to becoming a welfare state; and the governments have always deprived the country from having a democratic state by creating certain rent-seeking networks. This article studies the effects of oil revenue in the formation of a democratic state accountable to its subjects while tries to show how huge amount of oil revenue during 2005 to 2013 halted the process of democratization in the country.

**Keywords:** Oil Revenues, Rentier State, democracy, Post-revolution Iran, Process of democratization

### **Introduction**

Study of politico-social developments in Iran always brings us head-on to governments that have extraordinary power in social and economic policymaking. These governments have always considered themselves above all social classes, currents, parties and groups. Among the main reasons that has led to the independence of governments from the people and their self-reliance in terms of decision-making and policymaking has undoubtedly been their access to plentiful oil revenues. As a result, oil revenues have played a

significant role as an independent variable – rather than an economic factor – in Iran's political economy.

In his book entitled “Socio-economic origins of dictatorship and democracy”, Barrington Moore writes that he believes that by the introduction of oil revenues to state economic accounts, the increase in the size of the government and dependence of economic activities – and subsequently social activities – on a rentier system, people's economic and social activities will be confined, and this is

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in turn works against the creation of a civil society.<sup>1</sup>

Thomas Freedman in 2006 in a review of the concept of "Petropolitics" believes that there is a reverse relation between the increase in oil prices and revenues of oil-exporting countries and the speed of democratization of the said countries.<sup>2</sup> Furthermore, the historical experience shows that the increase in oil revenues in Iran has not led to the increase in economic growth and public welfare. It has rather led to the increase in military expenses and the improvement of the quality of arms used in such countries. This especially applies to Iran and other Persian Gulf littoral states. This article therefore intends to review the impact of oil revenues, rentier states and democracy on each other within the framework of the Iranian society.

The fundamental issue reviewed in this study is whether oil revenues have had a meaningful impact on the foundation of democracy and civil society. In other words, this study will review the changes incurred as a result of the interaction between a rentier state and the civil society in Iran during 1979 and 2008. The hypothesis of this article following the above-mentioned questions would be whether the civil society and public participation have weakened with the increase in the size of rentier states in Iran or not; and whether there is a direct relation between these two variables.

One of the most important ideals of world political societies today is to have a government that is close to the people and respects the rights of every individual in the society. The history of Western societies indicates that a great and relentless effort has been made in this respect. Understanding the basic pillars of democracy to achieve such a political result and reviewing its impediments may help us in this direction. By their independ-

ence from tax revenues and social financial contributions, rentier states can serve as one of the most important impediments to achieve such an ideal. Among the most important pillars of democracy is the accountability of the government to the people. When the people of a society contribute financially by paying taxes to their government, they would certainly question their officials over the performance of the government. But, a government that does not receive money from its people and does not rely on tax revenues sees no reason to be accountable. In such a system, people are dependent on the state. In fact, in dealing with the government, people regard themselves outsiders, as they are receiving money from the government. As a result, government's oil revenues serve as a critical hurdle to development based on civil society and democratic criteria. The importance of this study is in the fact that we are attempting to create a mutual and effective relationship between variables such as Iran's oil revenues and rentier state on the one hand and the politico-social participation of the people and the role of the civil society in our country on the other. The hypothesis raised in this study includes three major variables, i.e. the rentier state and democracy serve as dependent variables and oil revenue serves as an independent variable.

The review of political developments in Iran has always encountered researchers with governments that have extraordinary power in social, political and economic policymaking. These governments have always considered themselves above all social classes, currents, parties and groups. Among the main reasons that has led to the independence of governments from the people and their self-reliance in terms of decision-making and policymaking has undoubtedly been their access to and control over plentiful oil reve-

1. Moore, Barrington, *Socio-economic origins of dictatorship and democracy*, Boston University Press 1966

2. Kristopher, W. Ramsey, *The price of oil and democracy*, Department of Politics, Princeton University, Princeton publication

nues. Oil revenues in Iran are not just an economic asset, and they have a considerable impact on the formation of rentier states and the delay in the formation of the civil society. The independence of rentier states from tax and financial sources of the society remove one of the most important pillars required for the formation of democracy, i.e. accountability of the government to the people. A government that does not tax people, and is independent from tax and financial revenues of people's economic firms sees no need to be accountable to people. Under such circumstances, people become severely dependent on the government and regard themselves outsiders. This is because they receive money from the government in various forms of subsidies. Therefore, if the government is given access to oil revenues, this may lead to the growth of a rentier state and the reduction of democracy in the society. The objective of this study is to review the impacts of oil revenue on the growth of rentier states and democracy in Iran.

### **Significance of the problem**

So far, no comprehensive research has been conducted in connection to these three variables (oil, state and democracy), and the works carried out have mainly reviewed the pre-revolution era or have only had an economic approach to the subject. During this study, effort has been made to review articles published in foreign publications and to review their latest research achievements in the field, as well as study the works carried out by Iranian researchers with an economic perspective to the subject in a bid to study the effect of oil revenues on political formations.

### **Theoretical bases of the study**

In scientific texts, "rent" is defined as the extra revenue above the minimum amount

needed to attract a hire a worker for a particular job or the involvement of a firm in a particular activity (Khezri, Rani, 2004: 50). In economics, rent has been defined as revenue above the lost opportunity costs. Another definition of rent is the extra revenue gained from the use of a factor of production in the condition of full competition (Heydari, 1995: 44). In general, rent refers to the revenues that a government earns from particular foreign resources or the sale of underground resources, as well as the receipt of foreign aid. As a result, any revenue which is not the result of productive work and effort may be called rent. Some economists define rent as a payment to a factor the supply of which is equal to the payment needed for its use without making any effort (Sheklavi, 1990: 31). We may therefore say that rent is revenue or, in fact, a prize gained for owning natural resources. This revenue is gained without making any efforts, and it stands against concepts such as wages and profit. Any government that receives a major part of its revenue from foreign resources in the form of rent is called a "rentier state". The distinguishing feature of a rentier state is that its oil revenues do not have much to do with the process of production in its domestic economy. In other words, domestic labour force, capital and technology do not play a significant role in the government's oil revenues (Mirtorabi, 2005: 113-114). It seems that there is a significant relation between rentier states and their non-democratic nature. Some theoreticians believe that while there might be no direct relation between collecting taxes and democracy, whenever a government strongly relies on tax revenues, there is an inevitable demand for democracy in the society. It therefore seems that as long as rentier states are able to respond to social needs without relying on domestic resources, democracy does not seem

to them to be an important issue (Shekari, 1990: 33). According to the definitions, democracy means the accountability of the government to people. As a result, the government is formed based on equality of human beings and by referring to public vote. A state in which citizens' rights and the security of the society is given priority is regarded democratic. A democratic system is a method of collective life in which individuals have rights, and by taking advantage of equal opportunities they can freely participate in social (including political) activities (Hashemi, 2003: 30)

Various studies have shown that democratic systems enjoy a more certain growth rate in the long run, greater short-term stability and better control over managing foreign shocks. Altogether, democratic systems have a better and fairer distribution of wealth (institutional impediments to economic development, 2004: 80). It seems that in a democratic system there are less uncertainties and unforeseen possibilities in economic life, and the society enjoys a greater economic growth and welfare. Some believe that democracy and democratic methods in today's world have turned into a world ideal, and various regimes and political schools of thought usually attempt to attribute it to themselves. Today, the common concept of civil society which is commonly referred to is a basis of democracy, and it is equivalent to a mediator between the government and the people. Civil society deals with people, groups and various walks of life and schools of thought, i.e. it creates a sound foundation for people to freely enter such institutions and enjoy equal rights on the one hand, and it leads to the establishment of a government on the other. Hence, civil society has turned into the most important facility for creating democracy. Civil society in the contemporary era defines

social relations as the spread of public participation at the governing level and decision-making without the intervention of the governing political power. Civil society consists of a number of institutions, associations, institutes, and intellectual, philosophical, cultural and political groups (Hashemi, 2003: 38). The development of the civil society paves the way for the progress and development of every society. However, because the Iranian society is an oil rentier state, it does not have a sound foundation for the formation of a civil society. This is because the government controls the oil rent-seeking economy. Contrary to the majority of states which have to collect tax from their society and industries, a rentier state for enjoying rent-based revenues does not feel much dependence on the taxes and, consequently, the civil society. As a result, the capability of a fair distribution of wealth and power is gradually lost in the society, and the government loses interest and even becomes indifferent to exploiting other capabilities in the society preventing the society from reaching optimal development.

Rentier states in which the economy is in the government's hands prevent the formation of civil societies. Any measure that is to be adopted is somehow controlled by such rents which are in the government's hands, and therefore even popular associations will somehow become government-based as they rely on government financial support. Because in a rentier state, the government does not depend on domestic production, government officials in their decisions may not consider the interests and demands of the civil society, and may even succeed in achieving their interests even if they are in contradiction with the interests of other social groups (Eyvazi, 2008: 54).

### **The relation between oil and democracy**

It seems that there is a greater possibility for an authoritarian state form in countries where the financial coffers are filled from oil revenues and have bigger budgets. Governments whose main financial resources are tax and their budgets are smaller than the first group have greater possibility of enjoying a democracy. Renowned Economist Robert Barro (1999) in an article entitled “determining elements in democracy” introduces a virtual variable for those governments who earn two-third of their export revenues from oil and have control over one-third of their oil exports. He explains that revenues based on natural resources such as oil will exert less pressure on the government to observe democracy as compared to revenues that are the result of the accumulation of human and physical capital. How would oil weaken democracy? How would this process take place? In order to explain this mechanism, the two concepts of “rentier effect” and “suppression effect” have been presented and proved.

By studying many oil exporting countries, Thomas Freedman in an article published in 2006 indicates that there is a connection between oil revenues and democracy and calls it the first law of petro-politics. He writes that there is a meaningful relation between political freedom in oil exporting countries and their oil revenues. In connection to countries such as Iran, Russia, Nigeria and Venezuela, he believes that the increase in their oil revenues significantly reduces political freedom, and there is in fact a reverse relation between oil revenues and political freedom in these countries. He calls this the first law of petro-politics. (Freedman, 2006)

In 1998, John F Clark in a case study on Congo concluded that the discovery of new oil resources in the country in 1969 followed by an oil shock and the start of oil bloom era

in the 1970s had a great effect on the formation of a non-democratic government in Congo. (Clark, 1998, p.65) Similar studies conducted on countries such as Venezuela, Gabon and Cameroon have led to similar results strengthening the first law of Freedman’s petro-politics. (Wendy Wall 1994, Karl 1997, Gardenir 2000)

The study of the relation between oil revenues and democracy has occupied the minds of political and economic theoreticians for years, especially those who study the Middle East. Michael Ross in 2001 and Leonard Wantchekon in 2004 concentrating on the functioning and characteristics of rentier states attempted to achieve a more general analysis on the relation of oil revenues and open political atmosphere in oil exporting countries by reviewing relevant case studies. The result of their studies clearly confirms the hypothesis that there is a strong reverse relation between oil revenues and democracy. By using statistical and economic data of 113 countries from 1971 to 1997 they concluded that oil revenues, which comprise part of the GNP of these countries, has a considerable negative effect on the formation of civil institutions in these countries. In 2004, Wantchekon presented a theory that the high level of rigidity and subdual in the political structures of the third world countries is due to their financial dependence on natural resources and oil. (Wantchekon, 2004, p.2) Wantchekon and Nathan Johnson in 2004 studied African countries and arrived at similar results. Accordingly, they announced that if governments or executive branches of countries that are dependent on the revenues of natural resources have the right to use the revenue in the manner they like to or to distribute them, this will strongly affect the type of the political regime of the said countries. (Johnson, Wantchekon, 2004)

Following their case and extensive studies, all these theoreticians state that if oil revenues in oil exporting countries increase, and these revenues are in the hands of governments, democracy will be badly undermined. The core of such a hypothesis should be sought in the concept of rentier state. While various and diverse definitions of a rentier state have been given, what we can conclude as a common definition is that the governments that earn a considerable amount of their revenue through the export of underground resources are regarded rentier states. Hazem Beblawi (1987) believes that rentier states earn income by selling their natural resources to foreign countries, and this income directly goes to the governments and leaders of these countries, and all social classes get involved in the manner such revenues are distributed and try to gain a greater share in whatever way possible. As a result the leaders of rentier states separate themselves from the social and political body that they rule over and hold a relative independence from them.

This question is still applicable that why and how the change in the level of oil revenues affects political systems. Researchers believe that two elements lead to such change, and they call them the rentier effect and the suppression effect.

As the initiator of the discussion, Schumpeter - whose studies were then followed by Tilly in 1992 and Ross in 2003 – believes that the political elite's severe need to income to rule the country served as the main engine for institutional and organizational changes in Western countries, which finally led to the formation of elected governments (Douglass North and Barry Weingast 1989). The rentier state governments are free from such concerns to a large extent. These leaders either control most rent-based revenues or because

of their control over such revenues practically enjoy the right of using them in whatever way they wish. As a result, instead of designing a mechanism to make some revenues through people and asset holders, they think of how to distribute their money, and naturally the individuals and social classes that support them are given a bigger share of the money.

### 1. Rentier effect

Based on this view, researchers define "rentier effect" as the government's use of its ample resources to reduce social pressures in order to prevent public demand for further accountability. There are at least three complementary effects on how this phenomenon takes place. 1. "Taxation effect"; this means that when the government makes sufficient income out of the sale of oil, it reduces taxes or even does not ask for taxes. Instead, the possibility of public demand for the accountability of the government and their representative will diminish. (Luciani, 1986: 87) The logic of this reasoning goes back to the review of democratic institutions in Europe. During the 17<sup>th</sup> and 18<sup>th</sup> centuries when the kings asked for higher taxes from the people, public demand for the accountability of the government on the one hand, and the strengthening of representation of the government in the power structure on the other increased. But, rentier states for having access to hefty revenue resources instead of forming mechanisms to collect taxes concentrate on creating money distribution systems.

Byte and Lyne (1995), Samuel Huntington (1991) and Ross (2003) stress on the key role played by the taxation system in democratic societies. They said that rentier states by destroying the taxation system in their societies remove a productive pillar of democratic systems. Therefore, governments that do not

tax people, or do not need to collect taxes to rule the country, transform. They would not pay attention to people's demand and would not be accountable to them, and instead the people will depend on them. (Aspirit, 1996) This issue especially becomes evident during election times. Leaders of non-rentier states have to be accountable to voters and have to convince them to remain in power. While the rentier state leaders implement their money distribution policies among the people and their supporters, and they try to distribute more money among the people. (Bueno, Mesquita, Smith, Siverson and Morrow 2003)

For example, during the tenth presidential elections in Iran, which may be regarded as a rentier state, Mahmud Ahmadinezhad's government implemented this strategy. Just three weeks left to the election date (11 June 2009), teachers and other civil servants received pay-slips in which their salary was 100,000 to 300,000 tumans (about 100 to 300 dollars) more than their previous month's salary.

Tehran teachers' payslips which was distributed a week before that date did not show any increase in salaries. By the direct order of Ahmadinezhad's planning deputy (Ali Saeedlu) the payslips were recalled and the salaries of the Ministry of Education's employees was paid with a few days delay so that the new payslips showing increase in salaries for the past two months could be prepared and distributed.

As a result, the teachers and other civil servants joined the lines of students, villagers, pastoral nomads, Relief Committee [state-financed charity organization] and welfare benefit list and other groups of people who received money illegally distributed by the government to buy their votes during the final days leading to the elections.

An official of the Ministry of Education in an interview with the Central News Unit of

the Islamic Republic of Iran announced that male teachers' salaries had increased between 70,000 to 150,000 tumans and the female teachers' salaries had increased between 50,000 to 100,000 tumans. The official also had said that the difference in the salaries of Farvardin [starting 21 March] and Ordibehesht [starting 21 April] - the two months leading to the tenth presidential elections - will be incorporated in teachers' pay slip and paid in their account.

The government's website had also sent a report to the media indicating that the minimum salary of those at work and pensioners had increased to 290,000 tumans, and the salary coefficient of those at work and pensioners had respectively increased by 20 and nine per cent.

The cabinet approved the change and the first vice-president issued the notification on the subject. This was while the government had acted against the state service management law approved by the Islamic Consultative Assembly as it had not endorsed any of the salary and bonus-related tables of the government employees. Following the elections, the cabinet approval was reversed by the parliament and the Administrative Court of Justice and all the salary decrees were regarded as illegal, and the 100,000 to 300,000 tumans extra payment was taken back from government employees.

Two years prior to the tenth presidential elections, the Ahmadinezhad's first vice-president tried to take back the state services management bill which was prepared during Khatamei's government, but not yet approved. According to the said bill the salaries of civil servants, teachers and other government employees was to increase to a certain degree. The parliament however due to extensive objections by civil servants, and especially widespread rallies by teachers outside the parliament, approved the bill.

However, up to 15 Azar 1387 [November 2008], i.e. a year after the approval of the bill, which was the final deadline for the government to approve executive rules of procedure of the state services management bill, the government had not even approved one rule of procedure from among the 60 needed to implement the law. This led to objections by MPs, and the teachers associations threatened that if the law would not be implemented they would resume their protests.

One day before the deadline of teachers - as mentioned in their statement - was to come to an end, Ahmadinezhad's in a live TV programme promised that the law would be implemented as of Farvardin 1388 [Month starting 21 March 2009]. This was while the government had not envisaged the increase in salaries in its 2009 budget.

Nevertheless, protests were postponed until end of Farvardin. Finally, after civil servants received their Farvardin payslip with no avail and there was no sign of an increase in their salaries and the implementation of the state services management law, the teachers association threatened that it would call on teachers to stage widespread protests; and it started the first stage of protests within three days.

There was still no news on the implementation of the law. Some 40 days before the elections, it was suddenly announced that all the required rules of procedure for the implementation of the law had been approved and after notification, the law could be implemented by Khordad [June]. This was while such increase in salaries was not envisaged in the budget. Ahmadinezhad's government was however able to distribute the amount among the people by controlling oil revenue amounts. This was proved to all when the vice-president for planning without any reference to the required rules of proce-

dures and the approvals in a general directive asked the cabinet to increase the salaries of all civil servants. In the directive no reference was made to civil servants' grades and how the salaries should increase accordingly - which was the most important change in the state services management law as compared to its past status.

It is noteworthy that the ninth government statesmen did not stop there. In a bid to win people's votes through cash and credit payments, they also promised to pay the delayed end-of-service bonus of the teachers, increase the salary of the members of the faculty and university employees and grant coupons to university instructors and students.

The 1385 [2006] budget audit report published in 1387 [2008] by the Audit Court showed that 1bn dollars of foreign currency revenues had not been deposited in the treasury by the government.<sup>1</sup>

Ahmadinezhad's government was not able to give a convincing response to the report presented by the Audit Court. It later became clear that an equal amount was allocated for payments to deprived walks of life a few weeks before the elections.

Some 600bn tumans of the 1,000bn tumans was given to the Social Services Organization as cash flow so that the organization could increase the poor and pensioners' benefits before the elections. The remaining 400bn tumans was distributed among more than 5m villagers as the justice shares dividend.

These were not the only election payments made by the ninth government. A 170bn-tuman loan was given to the Social Services Organization to compensate the current deficits of the organization and 250m tumans was distributed among dormitory students of Tehran University. All these cases were in line with the prediction of experts

1. [http://www.bbc.co.uk/Persian/mobile/iran/2010/05/100509\\_101\\_court\\_lostbillion.shtml?page=all](http://www.bbc.co.uk/Persian/mobile/iran/2010/05/100509_101_court_lostbillion.shtml?page=all)



that Ahmadinezhad's government intended to pay all the government's dues to civil servants before the elections, or at least to promise to pay them, and to even distribute all his other financial resources under various excuses among people so that he would have put the oil money on the table of all Iranian voters. The issue became so hot that Mirhosein Mousavi in one of his election speeches in Hamedan said: "Even if you [Ahmadinezhad's] distribute money throughout the country, you could not still buy people's vote. The government should address the problems of the needy rather than distributed money on the eve of elections."

## 2. Cost effect

According to "cost effect" wealth may increase the cost of the government in attracting supporters, and instead reduce potential pressures for democratization. (Waterbury, 1994: 29)

Studies indicate how the Saudi government used its oil wealth in implementing projects and plans that would decrease pressures calling for democratization. The logic of cost effect is a bit different from tax collection effect. The tax collection effect assumes that in the absence of taxation, people do not have an inherent tendency to have an accountable government. The cost effect says that citizens have a hidden tendency to create democracy, but this desire will be repressed through government rewards.

For example, in the Islamic Republic of Iran, a considerable amount of government's oil revenues is being spent on creating networks for attracting supporters. The Basij Organization which is also known as the Basij Resistance Force was formed on 5 Azar 1358 [1979] by the order of Roohollah Khomeini, and officially started its work in Dey 1359 [1980] after the approval of the

Islamic Consultative Assembly as an affiliated institute to the Islamic Revolution Guards Corps. During Iran-Iraq war, the basijis were sent to battlefronts in an organized manner as volunteers. However the nature of Basij changed after the war and it was mainly used as a tool to control opponents, attract supporters and form new social classes.

Basij has got 11m volunteer forces throughout the country. According to a study by the "Centre of International Strategic Studies" in Washington, Basij has 900,000 active and 300,000 reserve forces. The members of the Basij who study at the junior high school are called Puyandegan [juniors] and the members at senior high school are called Pishgaman [seniors]. In the years after the war, Basij's role has mainly been to maintain domestic security. Following certain unrests in the early 1990s in some cities and the role played by the Basij in suppressing them, a number of commanders of the IRGC, including Mohammad Ali Ja'fari, the present commander of the IRGC who was the commander of the IRGC Ground Forces at the time, were assigned to form the especial battalions of Ashura and Al-Zahra by the members of the Basij. The number of these battalions in the past decade has reached 2,500. Hassan Taeb, the commander of the Basij, has said that there are 36,000 Basij bases in the country and the number of Basijis considering all age groups is 13m.<sup>1</sup>

Following the implementation of supporter-creating policies in 1383 [2004] by the government, the parliament approved a motion according to which 350m dollars was allocated from the Oil Reserve Fund to "quickly address the medical treatment and rehabilitation problems of war disabled and veterans and to provide the required equipment and facilities for Ashura and Al-Zahra battalions. Furthermore, according to the law

1. HoseinTaeb, Friday prayer pre-sermon speech, <https://Hamshahri.net/News/?id=73014>

of the Fourth Development Programme, 400bn tumans is to be allocated every year to the Basij. According to the commander of the Basij and the "Sobh-e Sadeq" publication - the bulletin of the IRGC political office - the budget of the institution increased by 200 per cent in 1387 [2008]. Some 50bn tumans of the budget will also be used to help the unemployed basijis.<sup>1</sup> According to Barnameh [plan] - publication of the President's Department for Strategic Planning and Supervision - in 1388 [2009] the budget of the Basij increased by 45,238m tumans. Furthermore, in order to attract a larger number of people from various walks of life to the Basij, the members of the Basij enjoy special advantages over others.

1. Advantage of legal and judicial support

Such as legal counselling, measures to speed up dealing with their judicial cases and identifying war veteran and basiji prisoners.

#### **Scientific and educational services and advantages for the basijis:**

1. Basijis enjoy quota for entering universities throughout the country according to Article 201.
2. Introducing basijis to State Technical and Vocational Organization in order to upgrade their knowledge and skills.
3. Providing book coupons and other educational services to basiji students.

#### **Services and consumption advantages for basijis:**

1. Distribution of subsidized goods (rice, cooking oil, sugar, sugar cubes) through Basij chain stores.
2. Discount in the sale of special goods for basijis in chain stores.

#### **Medical Treatment Services for basijis:**

1. Medical insurance for active basijis according to Article 201.
2. Social services for basijis.

#### **Financial and credit services and advantages for basijis:**

1. Granting interest-free loans to basijis.
2. Granting Islamic contract loans to basijis.

The government in 1385 [2006] budget recognized the Basij as an eligible contractor for governmental development projects, and allocated a considerable part of the 18,000bn tuman development budget of the country to it under the title of allocated budgets to the Basij. The other measure adopted by the seventh Majlis in 1386 [2007] was that it officially approved the Economic Basij Organization as the economic branch of the Basij and one of the main executors of the government's development projects.

It is noteworthy that all these activities have become possible for the government's access to hefty oil revenues, and the government is attempting to expand the class that supports it.

**3."Class formation effect"** which means that when the government has access to sufficient funds because of oil revenues, the government by handing out the money attempts to prevent the formation of independent social groups. These groups, if formed, may demand their political rights from the government. (More, 1966) researchers who have studied Algeria, Libya, Tunisia, Iran and Congo have all understood that oil-rich governments prevent the formation of independent social groups. As a result a rentier state prevents at least one precondition for democracy. In 1994, Chaudhry argued that in 1970s

1. [http://www.radiofarda.com/content/f3\\_basij\\_budget/457002.html](http://www.radiofarda.com/content/f3_basij_budget/457002.html)

Middle East governments used oil revenues to expand programmes which were explicitly designed to depoliticize the society. In all cases, the governments intentionally took measures to destroy independent civil institutions. At the same time, they attempted to create other institutions to make it easier to pursue the government's political goals. During recent years, the role of social capital and civil institutions which serve as intermediary between families and the government has been stressed in achieving economic development. The governments which enjoy rich natural resources are free to spend the money gained by selling them to prevent social capital. (Chaudhry, 1994)

Apart from the example of the Basij Organization in Iran, the role of the government in injecting money to form government-supporting groups and affiliated institutions through government financial resources can be seen in the religious associations formed under the Islamic Propagation Organization. In this connection, the government in its annual budget allocates hefty figures to the organization in the form of cultural budget. This organization has over 400 branches throughout the country and its approved budget in 1389 [2010] was 150bn tumans.<sup>1</sup> Religious Associations Office is one of the bodies affiliated to this organization. The goal pursued by this office is to spread and expand religious gatherings throughout the country. Religious gatherings have always been voluntary and people-based institutions in Iran, and were funded by people through their endowment and charitable gifts. But this organization by giving financial assistance to religious gatherings, which received permit from the Islamic Propagation Organization, has tried to make these religious institutions dependent on the government. As a result, this office in the Islamic Propagation Organi-

zation issues permits to practically control them. This is an unprecedented issue. The religious gatherings which have permit and a national code receive financial assistance from the Islamic Propagation Organization's cultural budget. Those gathering that receive permit should enjoy certain criteria that show that they are dependent on the government. The director of a religious gathering should have the following specifications:

- Practical obligation to Vali-e Faqih [supreme leader]
- Being a national of the Islamic Republic
- Muslim and a lover of the household of Prophet Mohammad
- No affiliation to deviant groups.
- Physical and mental health
- Minimum high school diploma.

The Islamic Propagation Organization has defined such gatherings as popular religious associations aiming at promoting the culture of the Koran and the traditions of the prophet and his household by holding mourning ceremonies. These gatherings have a popular structure and they usually hold gatherings on weekly, monthly, quarterly and annual basis.

After completing their documents, the religious associations hand them over to the Islamic Propagation Organization for review. If the documents are confirmed, the associations receive their permit. The associations that receive permits are duty bound to set up a close link with the Islamic Propagation Organization and to present their cultural and religious programmes. They should also present a monthly report of their activities. If

religious gatherings change their function in any form and move away from religious, cultural and ideological activities, their permit will be cancelled after an early inspection. The budget of these activities may also

1. Official website of the Islamic Propagation Organization, <http://www.ido.ir/a.aspz?a=1389020102>

be covered by the theological seminaries' cultural budgets. Theological seminaries receive money from the government in different forms and shapes. A striking figure has been allocated to such activities in 1389 [2010].

The Theological Seminary Propagation Organization 37bn tumans,

The Theological Seminary Propagation Office 47bn tumans,

The Theological Seminary High Council 191bn tumans,

The Theological Seminary Service Centre 114bn tumans.

One could clearly see that by having access to oil revenues the government is attempting to create government-affiliated popular institutions in order to increase the network of its supporters and to supervise them and make them more dependent on itself by issuing permits and granting financial assistance to them. According to the director-general of Islamic Propagation Organization for religious associations more than 52,000 religious gatherings hold permits in Iran.<sup>1</sup>

**B. Suppression effect:** Through the use of this method, the oil wealth, dictatorship and despotism become interconnected through suppression. The desire of the citizens of oil-rich countries for democracy is no less than the citizens of other countries, but their oil wealth prompts their government to heavily invest on suppression instruments. There are many case studies on the suppression effect. Scachil (1982) says that most of the oil revenues in the years before and after the Islamic Revolution were spent on military costs. Oil-rich countries have been weak in investing in the fields of social and political development; and at best they have only pursued better quality military equipment. Oil revenues have had a direct effect on general and strategic policies of these countries especially in terms of increasing their military

costs. There are at least three major reasons why oil wealth leads to higher military costs.

A. Rentier states use oil revenues to equip themselves against popular pressures.

B. Oil-rich governments increase their military costs to defend their wealth against others. Both these reasons may explain why dictatorial and repressing governments last longer in oil-rich countries.

C. Military costs increase because there are greater ethnic and regional conflicts. This is because oil wealth is usually concentrated in a particular part of the country or it is shared in a joint field with a neighbouring country increasing the possibility of civil and regional wars.

The total revealed budgets of military institutions in the Islamic Republic of Iran has increased from 11,250bn tumans in 1388 [2009] to 14,753bn tumans in 1389 [2010]. Military and security institutions usually have a secret budget too. The proposed budget for the Islamic Republic Guards Corps has increased by 20 per cent, i.e. 975bn tumans, from 4,850bn tumans in 1388 to 5,825bn tumans in 1389. The Ministry of Defence will be receiving a higher budget next year too. Among military institutions, the Ministry of Defence and Logistics of the Armed Forces will be receiving the highest budget increase. The budget of the ministry has increased by 50 per cent from 4,600bn tumans in 1388 to 6,725bn tumans in 1389. The budget of the Military (regular army) of the Islamic Republic of Iran has also increased from 1800bn tumans to 2,213bn tumans. The Atomic Energy Organization, which is basically under the control of military and security institutions, has received a bigger budget in 1389. The share of this organization has been about 377bn tumans, which is about 40 per cent of the budget of the Ministry of Industries and Mines.

1. Qods daily, 11 Bahman 1386 [31 January 2008]

In a new work to determine the effects of the revenues of oil and other natural resources on the government system (democracy and dictatorship) entitled “Does the wealth of resources lead to dictatorship?” the following results have been achieved:

Oil and natural resources work strongly against democracy; more accurately an increase in “the share of oil to GDP” will lead to 0.72 units reduction in democracy index. (The democracy index is between zero—which is complete dictatorship - and 10)

Econometrics predicts that for example, governments that have a very high dependence on oil exports - such as Nigeria, Kuwait and Angola whose share of oil export to their GDP is about 45 per cent –lose about 2.3 units of their democracy index. The rate of reduction of democracy for Iran is about 1.5 units, i.e. if Iran did not own oil reserves, the democracy index in Iran would have increased from its present 3 units to 4.5 units.

As a conclusion, oil revenues enables rentier states to keep taxes low, keep financial sources for attracting supporters, preventing the formation of independent social and political groups and by investment in suppression instruments to offset democracy and freedom-seeking pressures. In the case of Iran, it would be appropriate to mention that Iran’s capability to continue its war against Iraq was largely due to its oil revenues. It is true that at the first glance it seems that large foreign currency revenues through the export of oil is a God-given blessing to achieve development and industrialization (capital), but the experience of the past 30 years of oil-rich countries or other natural resource-rich countries has proved that the Dutch disease in its economic form (less growth) and political format (less democracy comes down on these countries like a ton of bricks. Ricky Lam and Leonard Wantchekon (1989) in an article

entitled “Dictatorship as a Political Dutch Disease” have shown that abundance of natural resources will lead to the formation of dictatorial regimes which under the influence of the Dutch disease worsen economic inefficiencies. Economic boom leaves its negative impact on democratic regimes through the distribution (rent-seeking) influence of the elite. The calculations of the writers indicate that one per cent increase in the size of natural resources (such as oil) decreases the survival probability of democratic governments by half a per cent. (The benevolent, 1380) Mineral resources, especially oil, which can only be used as an instrument to prevent the society from social participation in building its government, stops the government from reaching a higher level of democratic progress and leads to a more autocratic government. In order for such a government to release itself from the burden of the security of the society, it spreads traditional values which have no conformity with a modern democratic government. (Asadian, 2004)

### **Relationship between Rentier State and Civil Society**

The role of the civil society and the political participation of the people as a benchmark of democracy are extremely important. It seems those oil-rich countries which depend on a single good and its revenues by using the oil rent have to a certain extent distanced themselves from important and prevalent issues in the world, as well as the process of democratization of the government and civil society. Since 30 per cent of Iran’s income is gained through the export of a crude material called oil, the Iranian government is on the list of rentier states. In view of this definition and the economic literature of rentier states, development models in these countries are not usually democratic based and the government

distances itself from the civil society. The reason is that 30 per cent of the GDP of an oil-rich country such as Iran is related to oil revenues – and the ratio is increasing with the increase in oil prices – and oil revenues are directly in the hands of the government. As a result, two very important factors are in the hands of the government. A considerable part of the budget income comes from oil revenues, and in view of the increase in oil prices, governments are not interested in having this part of revenues deposited in the oil reserve fund. Therefore, they spent all of it and the government would then not need other sources of income.

In Iran, the setting up of the Oil Reserve Fund was approved by the parliament according to Article 60 of the Third Five-Year Economic, Social and Cultural Development Programme of the country in 1379 [2000], and its rules of procedure were later on approved in the month of Aban [October] of the same year by the cabinet. The Oil Reserve Fund with a substantive deposit was received by Ahmadinejad's government from Khatami. At the same time, an unprecedented increase in oil prices took place. The support by the Seventh Majlis for Ahmadinejad's government paved the way for him to make greater use of the fund. By dissolving the Management and Planning Organization, Ahmadinejad minimized supervision over the government's withdrawals from the fund and the manner the money was spent. (Asgarian, 2003)

Some MPs announced that Ahmadinejad had made extensive withdrawals from the fund without the authorization of the Majlis in order to pay the money to those people who had written letters to him during his provincial visits, so much that the Oil Reserve Fund turned into a charity fund. Ahmadinejad also asked for the allocation of 30 per cent of the deposit of the fund to be

allocated to Mehr-e Reza Fund (a fund set up to grant loans to facilitate marriage of the youth). Experts had warned the government over the inflationary effects of such a move. The MPs also summoned the minister of commerce over withdrawing money from the Oil Reserve Fund to import fruits on the eve of Iranian New Year. The government also used the deposit of the fund to help countries such as Nicaragua.

Inordinate withdrawals from the Oil Reserve Fund by Ahmadinejad led to high increase in inflation and the loss of a fundamental opportunity for the country in making progress. Experts harshly criticized the government for the move. The government had a great desire to withdraw extensively from the fund (which led to friction with the pro-government Seventh Majlis). This was while there was no plan and a great confusion over how astronomical oil revenues should be used. While experts called for a change in the Board of Trustees of the Oil Reserve Fund to reduce the government's authority over withdrawal from the fund, Mahmud Ahmadinejad revoked the Board of Trustees and handed over its authority to the Government's Economic Commission (which is chaired by him and members appointed by him). This measure by Ahmadinejad was described as a measure to facilitate withdrawal from the Oil Reserve Fund. While the ninth government has had 300bn dollars of oil revenues in the past six years, the deposit of the fund by end of 1387 [March 2009] was 8.076bn dollars.

On the other hand more than 80 per cent of foreign currency income is in the government's hands. As a result, the foreign currency exchange rates are not determined in a natural process of supply and demand; and the government through its monopolistic position determines the price as it wishes. Furthermore, because the government has its

hands on oil revenues, it does not need to make any new revenue from taxation. Therefore, the tax revenue in our country is just six per cent of the GDP. GDP on the one hand is the sum of the value added and on the other the sum of incomes. When we say that the share of tax is six per cent, this means that we can tax six per cent of the country's income. This is while in other countries, the government taxes 35 per cent of the incomes. The low share of tax on the one hand is because of tax evasion and tax exemptions for some parts of the economy, and oil revenues on the other. Therefore, in view of the low share of tax to the GDP, the government does not rely on it. When the government does not rely on people for its income, it loses its financial dependence on the society. This leads into a unilateral relationship between the government and the society. All democratic governments receive the majority of their income from people in the form of tax and other incomes. Governments should be accountable to people on how they spend their money. In our country, there is a reverse relationship. The government is rich and it distributes the oil money. The people are in need and ask for money. Under such conditions it is quite natural not to have an accountability mechanism on how the income is spent. As a result, the government has established a one-sided relationship with people; and the principles of democracy, including connection with the civil society, have not been formed. Consequently, the development process, i.e. a comprehensive growth trend, does not happen.

In the process, the society becomes dependent on the government, rather than the other way round. Governments have greater power and determination in controlling resources and spending incomes. This leads to certain consequences in other economic sectors. One of the main reasons for the rift is

that an all-out growth has not been formed in other economic sectors, especially industries. For example, the country's industries for relying on foreign currency rates which are not determined based on the supply and demand law enjoy significant rents (both directly and indirectly). Since the government grants the rent to industries, it allows itself to control the prices of products. When both the input and the output are managed by the government, no competition is formed. As a result no appropriate growth or effort to reduce costs takes place. Exports and presence in international markets becomes impractical. When we study the same pattern in non-rentier states, we realize that their industries flourish in the competitive markets. Since the industries need to fight to survive, they try to maximize their profit. As a result, they keep up with the latest technologies. They keep their finished costs low and improve the quality of their goods. Therefore, because of the erroneous mechanism of the rentier states, societies incur excessive damages. Along with the rentier economy, the government creates a rentier society. This is because the society, similar to the industries, have got used to this rent. As a result, a rentier society is being shaped. The society then only sees the rent and forgets the damages that this system incurs.

This rent started since the First Economic Development Programme of the country set up before the revolution. Even at that time, the government could not see this money being spent on investment. During the second and third development programmes the rent continued. This rent was being increasingly injected into current expenditures creating a bigger government. As a result, almost all the power is in the government's hands. The government exerts its power by interfering in all aspects of people's lives. The government

even decides for people's deposits in banks. (Yaghubi, 2007) We should admit that as long as the society cannot think independently from the government and cannot select its own path and methods, democracy will not grow in a logical, evolutionary and sustainable manner. (Sariolghalam, 2008: 2)

### **Effect of increase in rentier incomes on government-society relationship**

Financial independence of the government due to oil revenues has increased the separation of the government from the society. The mutual relationship between the government and social institutions has been weakened. Oil rents allow governments to reduce the level of impact of social classes and walks of life on government policies and to proceed with their own plans.

The government sector has always played a key role in the implementation of programmes and policy making at the macro level. The government sector has been the major tool of the government in creating jobs, distributing subsidies and granting economic concessions to its supporters. Oil rent has provided for the necessary budget for this mechanism. (Khezri, 1387 [2008]) This issue has had a reverse result for those governments that have acted independently from rent incomes. In such governments, an individual can be assured that he or she can participate in its public and political life without any fear of his or her future. Freedom of speech (press), freedom of political parties, etc. can be truly realized when the first condition of freedom, i.e. individual freedom (rights of economic ownership and independence) is observed. Political freedoms can be realized and continue when they are backed with reliable financial and economic support. A publication which depends on government subsidies for its survival (rent incomes) can-

not by mere hope in the benevolence of rulers, claim for freedom of speech. This is because; rulers may change their intention at any time.

A political party or any trade union or social association which somehow enjoys government funding in the form of oil rent or other forms cannot truly act as a party or association. Such an institution cannot truly carry out its duties. An individual who receives direct subsidies or rent from the government, and is dependent on the government to make ends meet, cannot freely and openly participate in his or her political life, and to uphold democracy in the true sense of the word in the country. We cannot therefore expect a sound and open-to-criticism relationship between the government and the nation. This is where we should only bear an illusion of democracy in mind. As long as the total dominance of rentier states over the economy and the society has not ended, the civil and democratic society, and consequently political development will not take place. (Kheyrkhahan, 2001)

Apart from the fact that oil revenues adversely affect democracy, one may say that human dignity and respect in following non-personal laws will be achieved in the light of the rule of law; and the more the dominance of the government and its rents affect the social institutions and economic life of people, specific will of rulers and ever-changing decisions of executives (bureaucrats) will replace the rule of law and the dignity and respect of human beings will be trampled to the same extent. (Ghaninejad, 1998: 28) This will in turn destroy the relationship between the government and the civil society. In brief, we may say that rent incomes can affect the relationship between the government and the society in two ways: 1. Rentier state is independent and does not need domestic re-



sources to meet its financial needs. This will block any political demand by people according to the principle of "No representation without taxation". 2. Rentier state enjoys a fixed income turning it into the biggest capitalist and investor in the society. Social groups cannot work independently from the government, and they cannot challenge it. (Shekari, 1998)

The critics of the theory of the "destruction of the relation among government, civil society and democracy by rent incomes" believe that there are always certain exceptions such as the European countries of Norway and Britain, USA, etc. These countries despite their oil revenues (rent) have democratic societies. It is noteworthy that these countries gained access to their oil resources when they had already completed their democratization process. Dr Ghaninejad believes: We should differentiate Norway, Britain and North America from other oil-rich countries. When Norway gained access to oil revenues, it was already an advanced and democratic country. Norway's oil revenues did not have anything to do directly with the survival of its government. The important economic specification of Norway is that its oil revenues do not enter its budget, and they are directly invested outside the country. The North America's oil is also treated as a private resource paying tax to the government. The US government does not have access to oil resources, and at most taxes them. (Aref, 2006)

### Conclusion

The history of oil in our country is linked to politics and economy, and the fate of the country for the coming ten years is tied to it. Studies by economic and political researchers especially in recent years show that oil-rich developing countries lack strong legal institutions, and have opposing groups which are

not ready to compromise or cooperate with each other. This structure has led to "underdevelopment" in economic sector and "autocracy" in the political field. In other words, increase in the share of oil in the economy of a country will lead to decrease in the democracy index. If we consider democracy index a figure between zero and 10, if Iran did not have oil resources, the democracy index would have increased from the present 3 to 4.5. As a result, as long as legal and political institutions (the rule of law, freedom of press, transparency, etc.) have not been institutionalized, increase in oil revenues will have a reverse impact. The black gold will turn everywhere it touches into ash; so much that half-baked democratic institutions will be destroyed.

In other words, when political freedom which is the main force to control the government's behaviour is absent, and the government enjoys oil revenues, it spends the money the way it wishes. With or without thought, planned or unplanned, institutions, organizations, individuals and families who are closer to officials receive a bigger bite of oil revenues. When there is no political and social force to control the government, in the long run a systematic class divide based on seeking rent takes place. As a result, it seems that a form of relationship and correlation exists between oil revenues and democratic environment. In other words, whenever the rulers' income increases their tendency to avoid civil society and supervision increases. (Aref, 2006) It seems that from the very beginning, democracy and oil in Iran have tried to offset each other. Each finds the other a nuisance and tries to stop it from functioning. Each has tried to use the other at its service. But in practice they have stopped everything from moving forward.

The participation of the private sector requires reduction in the economic power of the government and its retreat from social arenas as much as possible. In fact, the social forces should gain power, and this means that a new era of dialogue and understanding should start. This is because the government will have to seek assistance from the private sector to make and implement its decisions. The government will have to allow people to participate in social policies and listen to them. As a result, by leaving economic activities to the people, the government will pave the way for the development of civil society. Political freedom, true democracy, civil society and finally development in Iran are only possible through "true naturalization of oil". Otherwise, all efforts and promises to grant people their share from the God-given resources of this land will have the same fate as the promises made by the ninth government about bringing the oil money to the tables of the people. The truth is that to achieve democratic goals by the use of oil revenues two things can be done:

1. Create a true oil reserve fund, and reduce the government's share of oil revenues,
2. Direct the oil industry to act as a company in the true economic sense. (Aref, 2006)

From another perspective, in order to implement a sound mutual relationship between the government and the society and strengthen democracy, one should first develop humans. In the medium term, the press should be allowed to grow. This is because freedom of the press is one of the main indices of democracy. In the short run, the government should be put under pressure to gradually start liberalization. Therefore, to get rid of economic backwardness and its historic complications marked by despotism, the present Iranian society should do one of the following two things and should

insist on it: "To bring oil out of the government's hands or to gain freedom". In other words, by a legal and continuing civil struggle, it should either take out the ownership and management of oil from the government and to control it by a chosen board of trustees appointed by the people - without any affiliation to the government; or to stage a civil and political struggle in order to achieve a guaranteed stable and standard level of political and social freedom, and to set up strong institutions to safeguard its freedom. (Ranani, 2009)

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