

## Iran: Ahmadi-Nejad's Tumultuous Presidency

### I. OVERVIEW

Though much of the focus since Mahmoud Ahmadi-Nejad's June 2005 electoral victory has been on Iran's foreign policy, the fate of his presidency will ride at least as much on his domestic performance. Elected on a platform of economic justice and clean government, he will be judged chiefly on those grounds. So far, results have been decidedly mixed. High oil prices have enabled greater expenditure on social programs. But on the whole, the president has been unable to fulfil promises, and his still early tenure has been marked by repeated conflicts with other institutions and power centres. The drubbing experienced by the president and his allies in the December 2006 elections for municipal councils and the Assembly of Experts signalled serious problems, both within the conservative camp and with the wider public. It also suggested that domestic rather than foreign pressure remains the best and safest road to reform.

Ahmadi-Nejad came to power with bold populist ambitions but quickly ran into trouble. His plans were immediately tempered by a parliament (*majles*) whose members, although predominantly conservative, come from a different background and who, in unprecedented action, rejected some of his most important cabinet nominees. Many of the policies abruptly imposed by the new government have been opposed by more technocratic bodies such as the Central Bank and the Management and Planning Organisation, and some subsequently have been reversed. Ahmadi-Nejad's attacks against private "plunderers" and "corrupt officials" have rattled civil servant and domestic entrepreneurs without triggering concrete change in government openness or accountability. Instead, his appointment of close associates to positions for which they are unqualified, coupled with the award of billion dollar no-bid contracts to the Islamic Revolution Guard Corps (IRGC), have brought charges of cronyism and political favouritism.

Ahmadi-Nejad retains important political assets. Arguably most significant is the nationalist fervour born of Iran's nuclear program and the resulting international reaction. Pursuit of populist politics via a strategy of permanent campaigning and support for

forces such as the IRGC and its poorer sister, the *basij* militia, are likely to be calculated to fortify backing from core constituencies that brought him to power. They also are designed to strengthen the foundations of the Islamic Republic at a time of greater international pressure and potential U.S. or Israeli military action.

In the absence of policy shifts, however, the ride promises to get rougher. The December elections were more than a bump in the road. They confirmed widespread dissatisfaction with domestic policies and, more ominously for the president, revealed cracks in the conservative coalition that carried him into office. Even on the foreign policy front, and particularly regarding threats against Israel and Holocaust-denial, dissatisfaction is growing. While Khatami, his predecessor, was criticised for being overly passive and conciliatory, Ahmadi-Nejad is blamed for being too adventurous – a more serious and damaging charge. There is also greater scope for a challenge from reformists as they shift their focus from an unfair presidential electoral process in 2005 and monopoly conservative control over institutions to a critique of the president's policies.

Elections, as before, are likely to be the ultimate arbiter of Iran's political future. No one knows this better than Ahmadi-Nejad whose critique of government performance under the two previous presidents ushered him to power and who has spent most of the past year as if preparing for the next campaign. The outcome of the next presidential election in 2009 is far from decided. Much will depend on whether the president can fulfil the bulk of his promises and maintain his coalition. Ironically, Ahmadi-Nejad also may be banking on Washington's next move to help him restore unity among the political elite and regain the popularity he appears to be frittering away.

The U.S. administration points to mounting domestic criticism of the Iranian president as evidence its strategy is working. This is true, but only up to a point. Greater isolation from the world community almost certainly has emboldened Ahmadi-Nejad's opponents. But Washington would be mistaken to conclude that the solution lies in heightened pressure of the sort currently contemplated – a more aggressive posture in Iraq and a naval build-up in the Gulf – much less any more direct military intervention.

Ahmadi-Nejad's critics within the regime may have little difficulty invoking concern about Iran's isolation to sharpen their attacks against a political foe; they will have no hesitation at all closing ranks behind him if they believe the Islamic Republic or its vital interests are at stake. On basic foreign policy issues – from the right to domestic enrichment to aspirations for a greater regional role – there is broad consensus within the regime; what differences exist essentially concern style and tactics. A military escalation would postpone domestic change, strengthen more radical forces and possibly trigger Iranian retaliation that could spiral out of control. By signalling its openness to broad engagement with Iran without preconditions on the nuclear issue, Iraq and bilateral relations, the U.S. would be rendering a far greater and wiser service both to itself and to the region as a whole.

## II. THE PRESIDENT'S ROLE AND POWERS

### A. THE OFFICE OF THE PRESIDENT

Iran's presidents are sandwiched between two competing power centres. On one side is the Supreme Leader who, by virtue of Articles 110 and 113 of the constitution, is the nation's most powerful figure, possessing in particular final say on key appointments and policies, most notably in the foreign arena. On the other side, presidential prerogatives are constrained by the legislative powers granted to the parliament (*majles*), and the Guardian Council. The *majles* has veto power over the president's most important personnel decisions, such as cabinet members, can strongly influence the budgetary process and, under certain circumstances, can seek the president's dismissal.<sup>1</sup> The Guardian Council, as ultimate arbiter of legislation's constitutionality and Islamic character, also can block presidential initiatives, even if approved by parliament.

Presidential authority is further affected by the divided, fragmented nature of politics and the reality of a state-centred economy revolving around oil income. Social and political groupings – traditional trade-centred merchants located in the bazaars; a more modern,

service-oriented middle class; clerical institutions; those whose economic power derives from smuggling, development projects or the arms industry; members of various military institutions – all compete over state resources and patronage.<sup>2</sup> Rather than serve as an autonomous regulator and arbiter of such rivalry, the state is the principal arena in which the competition takes place. Rival claims over parts of the state and its resources are constantly played out, at times with considerable acrimony.

Elections typically play a significant part in highlighting these multiple claims and settling them, provisionally at least, through personnel rotation and policy changes. When Khatami became president in 1997, extensive personnel changes affected cabinet posts, lowly managerial positions and everything in between. The shifts were harshly criticised by conservative factions.<sup>3</sup> Likewise, Ahmadi-Nejad's election was accompanied by efforts to reshape the administration. However, even though unlike Khatami the new president is working with a parliament controlled by legislators belonging to the same broadly-defined camp, he has had a much harder time getting his people through.

All of Khatami's ministerial nominees were approved by the conservative *majles* in 1997, including close friends and controversial choices. By contrast, some 20 per cent of Ahmadi-Nejad's ministerial nominees were immediately rejected.<sup>4</sup> Indeed, the criticism and resistance faced by the new president regarding appointments and policies have become a defining feature of the political landscape. This has to do, in part, with Ahmadi-Nejad's governing style. But it also relates to the often-misunderstood character of Iranian politics and the tendency to view them through a

<sup>1</sup> According to Article 89 of the constitution, one third of the *majles* is needed to begin impeachment proceedings against the president and a two-thirds majority is required for it to formally recommend his dismissal to the Supreme Leader. Article 110 stipulates that the Supreme Leader will make his decision based on the "country's interests". The Supreme Leader also may dismiss the president if the Supreme Court finds him to be in breach of the law.

<sup>2</sup> For in-depth analysis of factional competition and politics see Mehdi Moslem, *Factional Politics in Post-Khomeini Iran* (Syracuse, 2002).

<sup>3</sup> Crisis Group interview, conservative member of municipal council, Tehran, 17 July 2006. Habibollah Askar-Owladi Mosalman, then secretary-general of the conservative Islamic Coalition Association (now the Islamic Coalition Party), claimed that the Khatami administration fired 16,000 government managers. The association's weekly press organ published the names of 800 who reportedly had been "eliminated", *Shoma*, 26 December 1998. See also the two-volume memoirs of Hojjatoleslam Ali Akbar Nateq Nouri, *Islamic Revolution Documents Centre*, Tehran, 2005. Nouri, who ran against Khatami, charges that forces allied with Khatami removed anyone from the administration who did not vote for the new president, vol. 2, p. 269. Assadollah Badamchian, deputy secretary-general of the Islamic Coalition Party, claims that changes under Khatami were more extensive than they have been under Ahmadi-Nejad, *Sharq*, 30 May 2006.

<sup>4</sup> The cabinet currently consists of 21 ministers.

simplistic reformist versus conservative prism.<sup>5</sup> Both the majority of *majles* members and Ahmadi-Nejad belong to what schematically is referred to as the “conservative” camp, but the term covers a wide variety of perspectives, not all of which are in line with the president’s statist approach to economic policy.

## B. ALL THE PRESIDENT’S MEN

The first sign of Ahmadi-Nejad’s troubles with the coalition that brought him to power was the fight over his cabinet. His initial slate included three from the ranks of their own institutions (foreign,<sup>6</sup> justice and agricultural crusade ministries); one with multiple ministerial experiences (housing); four of his own closest friends from days as governor of Ardebil province, mayor of Tehran and student and member of the faculty at Tehran’s Science and Technology University (petroleum, cooperatives, welfare and education ministries); three with little administrative background (science and higher education, transportation and health ministries); six with close ties to the IRGC and security apparatus (commerce, energy, industries, defence, interior and intelligence); a well-known hardliner, also with IRGC ties (culture and Islamic guidance); and a well-known moderate (economics and finance).<sup>7</sup>

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<sup>5</sup> Use of the term “reformist” is in keeping with Persian political terminology. The term is a literal translation of *eslahgara*, referring to the camp that has made political reform its priority since Khatami’s 1997 election. Use of the term conservative, hardline or fundamentalist to refer to Ahmadi-Nejad, however, does not follow current Persian political vernacular. Various terms historically have been employed – right, traditional right, hardline right, conservative or fundamentalist – by Iranian observers and analysts to refer to the array of factions that hold more hardline views on political and cultural issues. During the 2005 presidential election, the term *osoulgara* began to be used by these forces to describe themselves. Literally, the term – intended to refer to those who believe that the country should be managed according to the principles or essential thoughts of Islam – means “principle-oriented”. Like *eslahgara*, it covers a wide array of groups, ranging from the more traditional conservatives to hardliners; moreover, while all may be conservative in social and cultural affairs, there are divisions regarding economics. It remains unclear how divisions among conservatives that were manifest during the 2006 elections will affect the longer-term political unity of this heterogeneous grouping.

<sup>6</sup> Manouchehr Mottaki was head of the parliamentary committee on foreign relations and national security at the time of his selection. However, he had served in the foreign ministry for years as deputy minister and ambassador.

<sup>7</sup> The list and background of Ahmadi-Nejad’s proposed ministers can be found in *Sharq* and *Hamshahri*, 15 August 2005.

Like Khatami, Ahmadi-Nejad had engaged in extensive negotiations over his appointees. But whereas Khatami’s negotiations were mostly limited to gaining the Supreme Leader’s approval for the foreign and intelligence ministers, Ahmadi-Nejad also had to take account of the views of powerful conservative *majles* members whose support was key in ensuring his second round victory against former President Ali Akbar Hashemi Rafsanjani.<sup>8</sup> For example, his choice for foreign minister, Manouchehr Mottaki, was spokesman for the conservative Coordination Council for Islamic Revolution Forces, the electoral coordination committee tasked with selecting a conservative presidential candidate with which Ahmadi-Nejad had refused to cooperate during the campaign. Ahmadi-Nejad also unsuccessfully sought to persuade several members of the Khatami and Rafsanjani cabinets to join his.<sup>9</sup> The president’s proposed team clearly reflected a compromise insofar as it consisted of men who, in tune with the economic liberalism of the two previous presidents, seemed at odds with his election platform.<sup>10</sup> Their appointments suggested that his populism ultimately might involve more rhetoric than concrete policy changes.

In light of these extensive negotiations, parliament’s rejection of the four nominees closest to the president came as a surprise.<sup>11</sup> Ali Saeedlou’s rejection as minister for petroleum was particularly significant, given Ahmadi-Nejad’s campaign emphasis on combating corruption within the ministry which Saeedlou – with a combination of technocratic skills and personal connections to the president – seemed well equipped to take on. Spearheaded by conservative members of the *majles*’s energy committee and ministry employees, opposition to his nomination suggested that without

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<sup>8</sup> For instance, the nominee for the ministry of sciences and higher education was a protégé of Mohammad Reza Bahonar, the powerful *majles* deputy speaker; the nominee for the ministry of industries was a deputy at the *majles* Research Centre headed by yet another powerful deputy, Ahmad Tavakoli. Although conservatives, neither Bahonar nor Tavakoli supported Ahmad-Nejad during the election; they worked for his conservative competitors – Ali Larijani in one case, Mohammad Baqer Qalibaf in the other.

<sup>9</sup> Crisis Group interview, Mohammad Sadeq Janan-Sefat, economic editor of *Kargozaraan*. Tehran, 1 July 2006.

<sup>10</sup> In a move that signalled economic continuity, Davood Danesh Jaffari, the new minister of economic affairs and finance, appointed Tahmasb Mazaheri, the former minister under Khatami and one of Iran’s chief advocates of liberalization, as his deputy.

<sup>11</sup> Three were close Ahmadi-Nejad associates when he was mayor of Tehran; the other headed his electoral campaign and was his colleague at the Science and Technology University of Tehran.

satisfying important constituencies, Ahmadi-Nejad would find reform difficult.

More setbacks followed. While his new candidates for three ministries were approved, he was forced to withdraw several other nominees for the petroleum portfolio<sup>12</sup> over the following three months.<sup>13</sup> In the end, the president had to settle on the acting minister, Seyyed Kazem Vaziri-Hamaneh, who was deputy minister under Khatami. Tellingly, during his confirmation hearings, Vaziri-Hamaneh denied any knowledge of an "oil mafia" or of possessing a list of 400 leading ministry employees slated for dismissal.<sup>14</sup> The petroleum industry's main problem, he insisted, was dearth of investment rather than corruption. He described his job not as bringing oil money into people's homes but as increasing production. The fight is not yet over. Rumours of impending changes at the ministry continue against the background of a tug of war between insiders and outsiders,<sup>15</sup> while the ministry's leadership has expressed worries about policies that result in a foreign investment squeeze. However, the provisional outcome is clear: more than a year after the presidential election, changes in the petroleum ministry (chiefly personnel rotations and promotions from the ranks) confirm the strength of the technocracy in Iran's most important industry.<sup>16</sup>

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<sup>12</sup> Like Saeedlou, all these nominees for the petroleum ministry were close friends of Ahmadi-Nejad. Two also had close ties to the IRGC.

<sup>13</sup> By law, the president has three months to complete his cabinet. This was the first time since the Revolution that a president was unable to meet the deadline. Ahmadi-Nejad formed his cabinet a month after the deadline.

<sup>14</sup> *Sharq*, 13 December 2005.

<sup>15</sup> According to a close observer of Iran's oil industry, the latest rumours pit Gholam-Hossein Nozari, the head of the National Iranian Oil Company and the ministry's current deputy minister, against Seyyed Parviz Fattah, the current minister of energy and former deputy head of Sepasad, an IRGC-affiliated construction company, as candidates to head the petroleum ministry. Crisis Group email exchange, 23 December 2006.

<sup>16</sup> According to an Iranian diplomat, similar dynamics have been at play at the foreign ministry where, despite initial reports of deep purges affecting up to 40 ambassadors and the sudden replacement of four key ambassadors (London, Paris, Berlin and Kuala Lumpur), changes have come slowly and mostly through rotations within the ministry. Replacements at high profile posts took months (in London, close to a year) and were ambassadors serving elsewhere. As seen, Foreign Minister Mottaki was a ministry insider who did not back Ahmadi-Nejad during the elections. His deputy, Mehdi Mostafavi, also has a long record in the ministry. That said, Ahmad-Nejad has placed some close advisers in the ministry, including Saeed Jalili, deputy for Europe and America, who

If limitations facing Ahmadi-Nejad's presidency were clearly suggested by his difficulties in changing Iran's most technocratic and lucrative ministry, they were highlighted in more subtle ways by his dealings with the most political ministry, that of the interior. Responsible for internal security and the conduct of elections as well as management and appointment of provincial-level officials, it is both the instrument through which the president can implement much of his platform and a rich source of patronage.<sup>17</sup> In the Khatami era, almost all governors general and governors as well as a large number of district managers were replaced.<sup>18</sup> Mostafa Tajzadeh, deputy interior minister for political affairs between 1997 and 2001, said: "We drew personnel mostly from the education ministry; Ahmadi-Nejad is bringing people with security and military backgrounds".<sup>19</sup>

The president initially faced resistance regarding this ministry as well. Conservative deputies worried about Hojatoleslam Mostafa Pour-Mohammadi's selection as minister. As deputy minister of intelligence between 1990 and 1999, Pour-Mohammadi was associated with violent repression and "chain killings" of opposition leaders and intellectuals both at home and abroad.<sup>20</sup> Leading conservative deputies voiced concern that citizens' rights would be curtailed and that an oppressive "security atmosphere" would be created.<sup>21</sup> Pour-Mohammadi was eventually confirmed, but by a surprisingly small margin.<sup>22</sup>

Since then, extensive personnel changes have affected virtually all 30 governors general (*ostandars*) and deputies, approximately 290 out of 340 governors (*farmandars*) and approximately a third of over 800 district managers (*bakhshdars*).<sup>23</sup> Pour-Mohammadi is unapologetic, saying such decisions are the prerogative of an elected government coming in with a new agenda and platform and dismissing criticism of some of his

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reportedly authored his letter to President Bush. Crisis Group interview, Iranian diplomat, Tehran, 22 July 2006.

<sup>17</sup> According to Mostafa Pour-Mohammadi, the ministry has some 3,000 managerial positions, *E'temad Melli*, 25 July 2006.

<sup>18</sup> Crisis Group interview, Mostafa Tajzadeh, deputy interior minister for political affairs between 1997 and 2001, Tehran, 29 July 2006.

<sup>19</sup> *Ibid.*

<sup>20</sup> "Iran: Top Ministers Implicated in Serious Abuses", Human Rights Watch., 2005, at <http://hrw.org/english/docs/2005/12/15/iran12245.htm>.

<sup>21</sup> See *Sharq*, 25 August 2005.

<sup>22</sup> Pour-Mohammadi received 153 votes from the 274 parliamentarians present, ISNA, 24 August 2005.

<sup>23</sup> Interview with Mostafa Pour-Mohammadi, Islamic Republic of Iran Broadcasting, Channel 2 program *Sandali-ye Dagh* (Hot Seat), 25 August 2006.

choices for governor general and governor as the routine business of provincial politics.<sup>24</sup> He also denies that his appointments reflect a security-military outlook – six governors general are tied to the IRGC and two to the organisation which runs most prisons – arguing they were based on merit and that their background ought not be a disqualification.<sup>25</sup>

Even the minister's congruence of views with Ahmadi-Nejad has not produced a tension-free dynamic between the two men. The problem, here as in other situations, lies in Ahmadi-Nejad's reluctance to delegate and a corresponding tendency to micro-manage the government.<sup>26</sup> The problem most visibly affects personnel decisions at the deputy minister and director general levels.<sup>27</sup> At the interior ministry, it has translated into pressure on Pour-Mohammadi to replace his deputy for political affairs – a key position on electoral matters – with Ahmadi-Nejad's close friend and adviser Mojtaba Samareh Hashemi. Disagreement over personnel choices also led to the

resignation of the minister of welfare and social security.<sup>28</sup>

More generally, Ahmadi-Nejad has sought to circumvent resistance to his appointments from the *majles* and the ministries by both transferring the locus of decision-making to the office of the president and his small coterie of advisers (some of whom, like Ali Saeedlou and Sadeq Mahsouli, are rejected ministerial candidates) and adding loyal deputies or directors general to the ministries, at times giving them more policy influence than their superiors.

### C. THE CRONYISM CHARGE

Accusations of cronyism in Iranian politics are nothing new. Hashemi Rafsanjani repeatedly faced charges of favouring family members, while opponents claimed Khatami appointed only highly partisan supporters. Although some fault Ahmadi-Nejad for familial nepotism,<sup>29</sup> the more serious accusation is of exclusive reliance on a tight circle of often unqualified friends and associates he has known since his childhood in Tehran's Narmak neighbourhood, his days as governor in Maku and Khoy, as governor general of Ardebil or as student and teacher in Tehran.<sup>30</sup> This, they assert, makes him the first post-revolutionary president to act in a wholly factional (*jenahi*) manner while significantly contracting the pool of potential appointees.<sup>31</sup>

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<sup>24</sup> "Some provinces have ten, fifteen, twenty or even more deputies. Can I get favourable opinions from all of them? Regarding Tehran province I didn't even talk to the deputies because there are many and we saw that they are mostly active at the national level and are generally less involved in provincial matters. Their numbers also make coordination difficult", interview with *Hamshahri*, 30 August 2006. That said, the governor general appointment in at least one province, Sistan and Baluchistan, deviated from the norm. This border province in south-eastern Iran has a large Sunni population and a history of tensions between the largely Shi'ite Sistanis and majority Sunni Baluchis. The tradition had been for the governor not to be a native. In this instance, the government appointed a Sistani and committed Shi'ite, a former head of the University of Zabol and colleague of Ahmadi-Nejad at the Science and Technology University. The decision triggered a public uproar among Sistan and Baluchistan deputies, who temporarily resigned as a sign of protest. Since then, the governor-general reportedly has been unable to quell concerns; attempts are under way to persuade the government to appoint a non-native. Crisis Group interviews, Sistan and Baluchistan analysts, Tehran, 6 and 10 August 2006.

<sup>25</sup> Interview with *Hamshahri*, 30 August 2006.

<sup>26</sup> A related criticism is that he takes decisions without consultation. A former adviser and current *majles* member, Mohammad Khosh Chehreh, said: "He is taking strategic decisions on the basis of personal whim. When he decided to launch the Mehr Reza fund [offering young couples low interest rates] he did not take account of parliamentary opposition. The fund is using the oil money and provoking inflation. After the end of Ramadan, he announced four days off, without even consulting his own government". Crisis Group interview, Tehran, 22 January 2007.

<sup>27</sup> This proclivity was mentioned in several Crisis Group interviews with the commerce, foreign and interior ministries, Tehran, June/August 2006.

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<sup>28</sup> The head of the Management and Planning Organisation, which prepares the country's annual budget and longer term development plans, together with a number of key deputies, resigned over attempts to interfere with the budgetary process and devolve the organisation's powers to provincial administrations controlled by the interior ministry. As a result, the organisation is directionless at a crucial budgetary period.

<sup>29</sup> Ahmadi-Nejad appointed his older brother, Davood, as head of the president's Inspectors Office, which investigates government corruption. In early July 2006, the Tehran municipality's inspectors office accused Davood Ahmadi-Nejad of benefiting from contracts handed out while his brother was city mayor. Crisis Group interview, conservative member of Tehran's municipal council, Tehran, 17 July 2006.

<sup>30</sup> Crisis Group interview, Hamidreza Jalaeipour, Tehran University Sociology professor and reformist journalist, Tehran 24 June 2006.

<sup>31</sup> Once the *majles* rejected his appointees, and given that the appointment of close associates from Tehran's municipal council was foreclosed for political reasons, the president was left with a shallow pool of trusted friends from which to draw. Tehran's municipal council has fifteen members, all conservatives who were instrumental in appointing Ahmadi-Nejad as mayor. At the outset of his tenure, however, the council split. Instead of choosing one of Ahmadi-Nejad's

In response, the president insists his administration is hard-working and staffed with religiously committed personnel. But the trial and error approach of revolutionary novices was something the Islamic Republic had been seeking to put behind it, not experience anew. According to Saeed Laylaz, an economist and former chief executive officer of a state-owned enterprise, "the Islamic Republic is a factory that can turn super *basijis* into technocrats and this is something that will probably happen to Ahmadi-Nejad's appointments. But the country is a bit weary of yet another round of starting all over again".<sup>32</sup>

Reliance on a tightly-knit circle of friends has also fostered a group mentality in which outsiders – even within the bureaucracy – are viewed as hostile and suspect:

They see themselves as the only ones who are righteous and not corrupt. Everyone else in the private sector and government is a plunderer. We have reverted to the early days of the revolution with one caveat: then, we used to say that the Shah's regime was corrupt so that individuals working for the system generally could be spared, except for the very top ones. These guys think that there is really nothing wrong with the system; instead the individuals are at the root of corruption. Hence their disdain for many of us who have served the country since the revolution.<sup>33</sup>

In echo, a political economist working at the research centre affiliated with the Management and Planning Organisation comments:

At the outset, the revolutionary enterprise as a whole had some sort of legitimacy. The technocratic body was sceptical but still considered that the new revolutionaries were backed by the people and therefore we needed to talk to them and, more importantly, teach them how things work. The new revolutionaries, in turn, saw the system as corrupt but generally speaking did not see individual civil servants as corrupt. Today, the system as a whole is considered

close associates, it voted eight to seven to select Mohammad Baqer Qalibaf as the new mayor. Were Ahmadi-Nejad to choose a council member for an executive branch position, Qalibaf would be legally required to resign, paving the way for the person who had received the next largest number of votes during the 2002 municipal elections, Mostafa Tajzadeh, a well-known reformist.

<sup>32</sup> Crisis Group interview, Tehran, 24 July 2006.

<sup>33</sup> Crisis Group interview, former manager of one of Iran's largest steel factories, Tehran, 9 July 2006.

healthy while individual technocrats are seen as corrupt. In official meetings technocrats are essentially quiet because they don't know what to say about the illogical and uneconomical arguments made or about the disrespectful way in which they are treated.<sup>34</sup>

Widespread accusations of corruption have created economic uncertainty, further discouraging investment. As a prominent businessman put it, "better to act than to make noise. Commotion harms investment security".<sup>35</sup>

Ultimately, and not unlike his predecessor, Ahmad-Nejad has found it hard to deliver on his promises, in part because of political conflicts with an array of players and institutions of the Islamic Republic. But while Khatami struggled with unelected bodies that fashioned themselves guardians of the republic (office of the Supreme Leader, Guardian Council and judiciary), Ahmadi-Nejad is at war with those in charge of day-to-day management.

### III. EXPECTATIONS AND PERFORMANCE

#### A. A CAMPAIGN OF PROMISES

In seeking the presidency following the two terms of a reformist, Mahmoud Ahmadi-Nejad focused almost exclusively on domestic matters.<sup>36</sup> His campaign rested on three basic pillars: the Islamist government must effectively serve the people and protect its simple, Islamic way of life; it must promote social justice; and it must fight corruption. In so doing, he drew on deep dissatisfaction, especially among poorer Iranians, with the economic policies of the past two administrations, which (rhetorically at least) had emphasised less interventionist albeit not necessarily

<sup>34</sup> Crisis Group interview, political economist working at the research centre affiliated with the Management and Planning Organisation Tehran, 12 July 2006.

<sup>35</sup> Asadollah Askarowadi, Iran's premier exporter of dry fruits, as reported in *Sharq*, 28 June 2006. Askarowadi in all likelihood is worried about the campaign that is expected to target the approximately 400 *nouveaux riches* (*sarmayedaraneh no pa*) and "plunderers" (*gharat-garan*) who reportedly amassed fortunes during Hashemi Rafsanjani's and Khatami's presidencies. There are persistent claims and rumours that their names will be made public if and when the next anti-corruption campaign unfolds.

<sup>36</sup> See Crisis Group Middle East Briefing N°18, *Iran: What Does Ahmadi-Nejad's Victory Mean?*, 4 August 2005.

smaller government, private sector development and economic liberalisation.

This emphasis on honest government was a skilful electoral platform. Running as an anti-corruption, pro-justice and anti-elite candidate allowed Ahmadi-Nejad both to keep faith with the Islamic revolution and blame its inadequacies on individual malfeasance. Criticism of the past was relentless but focused exclusively on the last sixteen years, thereby insulating the overall political order from responsibility for economic injustice and corruption.<sup>37</sup> This approach also corresponds to Ahmadi-Nejad's deeply held beliefs. Nasser Hadian-Jazy, a political science professor at the University of Tehran and one of the president's childhood friends, remarks:

Ahmadi-Nejad truly believes that the bureaucracy has become paralysed and is in need of deep change. He truly believes in extensive change at the middle and higher levels of bureaucracy in order to bring about efficiency and combat corruption. And he truly believes that a real Muslim is a successful manager and leader and that there is no contradiction between the two.<sup>38</sup>

Trust in the power of individual will, hard work and honesty to overcome economic or institutional constraints is a corollary:

Ahmadi-Nejad makes decisions quickly and retracts them quickly. He is not afraid of making decisions and sees himself as a revolutionary decision-maker. This is yet another feature that distinguishes him from Khatami who was more deliberate and, in the eye of his critics, had a hard time making bold decisions.<sup>39</sup>

This outlook also accounts for the president's implicit faith in action-oriented, government-military institutions such as the former Construction Crusade<sup>40</sup> or current IRGC and *basij* militia.

It accounts, too, for Ahmadi-Nejad's essentially populist economic creed. Government, in his eyes, is "the authoritative body in the economic arena which should guide people towards justice, happiness and prosperity",<sup>41</sup> a far cry from his predecessor's conception of a robust civil society influencing a mostly supervisory or administrative government.<sup>42</sup> Ahmadi-Nejad's solution to the country's economic and social ills appears to be neither liberalisation – as advocated by so-called "God-worshipping liberals" – nor widespread nationalisations – defended by "God-worshipping socialists" – but rather deepening the government's role in all areas as facilitator, guide and advocate for small business and the underprivileged.<sup>43</sup>

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Ministry of Agricultural Crusade. Crisis Group interview, former member of Construction Crusade, Tabriz, 20 July 2006.

<sup>41</sup> Crisis Group interview, Janan-Sefat, op. cit.

<sup>42</sup> This distinction between an "administrative" and "guiding" government was best explained by Mohammad Qouchani, editor of the now-banned *Sharq*. In an editorial published immediately after Ahmadi-Nejad's cabinet was announced, Qouchani argued that the distinction was best illustrated by the selection of ministers to head the Ministry of Culture and Islamic Guidance. Khatami's minister, Ataollah Mohajerani, insisted on calling it the Ministry of Culture and was constantly attacked by other branches of the government, particularly the judiciary, as well as by conservatives, for altering the ministry's role and ending its practice of defending the system's ideological foundations. The new minister, Mohammad Hossein Saffar Harandi, former editor of the hardline *Kayhan*, is a well-known advocate of government's regulatory and guiding role in the cultural arena. See *Sharq*, 15 August 2005.

<sup>43</sup> A conservative member of the *majles*'s energy committee used these terms to describe parliamentary divisions over economic issues, Crisis Group interview, Tehran, 27 June 2006. The distinctiveness of Ahmadi-Nejad's economic model was underscored by a government spokesman, Gholam-Hossein Elham: "The economic model of the Ninth [Ahmadi-Nejad] administration not only is not in line with the two models under consideration in our country, it also does not follow models [offered] by the World Bank and capitalism. In other words, our economic model is...neither the capitalist model nor the state-controlled economy. Rather the government is for justice and popular participation.... The government never wants or can be in favour of placing the private sector in the hands of the few who, as a result of their money and power, can control the private sector. Rather we seriously believe that the opportunity for participation should be extended to all people. We consider monopoly of any kind to be bad, whether of the government or private sector kind.... We believe that instead of people or government having very large factories.... let us turn them into tens of small factories, corporations, economic units. Through this approach not only will there be employment [but] we also can define the balance of capital intervention in political power in a just manner and

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<sup>37</sup> Crisis Group interview, Mohammad Sadeq Janan-Sefat, economic editor of the reformist newspaper *Kargozaraan* affiliated with the pro-Rafsanjani Servants of Construction Party, Tehran, 1 July 2006.

<sup>38</sup> Crisis Group interview, Nasser Hadian-Jazy, Tehran, 21 June 2006.

<sup>39</sup> Crisis Group interview, Mohammad Sadeq Janan-Sefat, op. cit.

<sup>40</sup> By the close of the Iran-Iraq war, the former ministry of construction crusade and its affiliate companies had become heavily involved in the maintenance, operation, development, renovation and repair of various infrastructural projects at the village level. These activities continued after the decision in 2000 to merge that ministry and that of agriculture into the

## B. THE LIMITS OF ECONOMIC POPULISM

Ahmadi-Nejad sought to deliver on his electoral promises with a rash of proposals such as a national school renovation project, a minimum wage increase, loans to newlyweds and lower interest rates. This was a stark reversal of years of purported economic liberalisation set out in the nation's major economic documents.<sup>44</sup> In part because they threatened vested interests, the proposals angered many among the elite, including within the conservative camp. Uncertainty rattled almost as much as the sudden U-turn. According to Janan-Sefat:

There also was considerable uncertainty during the transition from Hashemi Rafsanjani to Khatami, and there also was mistrust of Khatami's new economic team, many of whom were considered novices. But the continued tenure of old hands such as Mohsen Nourbaksh at the helm of Iran's Central Bank calmed these worries, as did the fact that Khatami's economic program actually represented continuation of Rafsanjani's with some important adjustments. In this case, there is no such calming effect.<sup>45</sup>

Campaign rhetoric left scars. Ahmadi-Nejad had denounced Tehran's stock exchange, equating it with gambling. Although his position quickly changed once he took office, the market nonetheless took a serious hit.<sup>46</sup> More than that, the new government's over-reliance on oil revenues for its operating costs

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in some ways eliminate the shadow of capital over political power", *Kayhan*, 31 August 2006. In contrast, the country's recent overall economic direction had been to reverse (albeit with only partial success) the heavy interventionist approach adopted during the 1980-1988 Iran-Iraq war, the subsequent introduction of a complex, distortionary pricing system and tariffs, multiple foreign exchange rates, trade restrictions and widespread, non-transparent activities of large quasi-public foundations.

<sup>44</sup> The Fourth Five-Year Plan (2005-2009), which followed the trend set by its predecessor, emphasises high growth rates, reducing the size of government, lessening government economic interference, reducing subsidies, regulating trade through tariffs and creating the institutional and legal context for an expansion of private sector activities. Details can be found at <http://www.mporg.ir/english/bar-4.pdf>.

<sup>45</sup> Crisis Group interview, Janan-Sefat, op. cit.

<sup>46</sup> According to the "Survey of the Iranian Economy in 1384 [21 March 2005 to March 21 2006]" by Karafarin Bank, Tehran's Stock Exchange reached its lowest point nine months into Ahmadi-Nejad's presidency. The index registered a 26 per cent decrease compared to its peak at the end of the first month of the year. The drop affected financial stocks (44 per cent) more than industrial ones (20 per cent).

and development projects – especially at a time of possible heightened UN sanctions – is of great concern. In January 2006, the government unveiled its 2006-2007 budget which, contrary to the Fourth Five-Year Plan's dictates, called for huge increases in public expenditures and in the operating budget, to be financed essentially through oil export revenues. Khatami's 2005-2006 budget allocated \$14.2 billion in oil revenues to the government and, according to the Fourth Plan, this would have reached \$15.4 billion in 2006-2007. In contrast, Ahmadi-Nejad's government sought an extraordinary \$40 billion. After some resistance, the conservative-dominated *majles* agreed.<sup>47</sup>

These policies undoubtedly have been aided by the rise in oil prices. For Saeed Laylaz, former manager of a government-owned enterprise, "Ahmadi-Nejad was the outcome rather than the maker of the conditions that allowed such an increase in spending. Oil money had increased, social conditions were fragile and thus there was a need for someone to spend the money or at least give the appearance of spending the money on the people".<sup>48</sup> But for many policy-makers and analysts, the risks nonetheless are severe. In a June 2006 open letter, 50 prominent Iranian economists accused the president of unsettling the investment climate, pursuing inflationary policies, opening the floodgate to imports and implementing misguided interventionist policies based on the faulty premise that there will be no end to oil money.<sup>49</sup> A leading government critic, Abbas Abdi, warned of an inevitable "inflationary shock" caused by the massive infusion of oil money.<sup>50</sup> The *majles* itself has shown increased signs of resistance to higher spending, in particular to

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<sup>47</sup>The *majles* sought to reduce the amount by \$10 billion but, according to Mohammad Khosh-Chehreh, a conservative member of its economics committee: "the government made a lot of noise and ultimately got its \$10 billion. Now they are back with a supplementary budget, and they want even more. If the *majles* does not give the money, it will be accused of not cooperating with the government. But the Iranian economy does not have the capacity to absorb that amount of money. The economy is like an ill patient that is suffering from low blood levels. The physician prescribes the injection of one unit of blood and the patient, because he has heard blood is good, wants to get three sacks of blood. Injecting too much resources, the same way the injection of blood is lethal for the patient, is very harmful for the economy", interview with ISNA, 12 September 2006.

<sup>48</sup> Crisis Group interview, Saeed Laylaz, Tehran, 24 July 2006.

<sup>49</sup> The letter is reproduced in *E'temad Melli*, 15 June 2006.

<sup>50</sup> Crisis Group interview, Abbas Abdi, Tehran, 30 July 2006.

government requests to dip into the Oil Stabilisation Fund.<sup>51</sup>

In reality, the issue of using oil money for current expenses and social programs has long been contentious. Over the years the country has had to take into account several competing factors: the finite nature of energy resources; the need for continued investment in the oil and gas sectors; risks to the foreign exchange reserves posed by excessive, subsidised gasoline consumption; and the inflationary implications of uncontrolled injection of oil money into the economy. The creation of the Oil Stabilisation Fund during Khatami's administration was designed to control money infusion during periods of high oil prices, cushion the economy during periods of low oil prices and, most importantly, direct oil-generated resources toward investment in the energy sector rather than consumption. Ahmadi-Nejad's policies were all the more controversial because they deviated from this approach.

Seemingly unmoved, the president refuses to answer his critics directly, arguing instead that "some want to create instability in the economic atmosphere but our market and stock exchange are active, and there is no unusual condition in our economy. Some expect this government... [to] make decisions and...implement the same theories that they implemented in the past few years. But we say that if that was going to be case, what was the need for the people to choose this government?"<sup>52</sup> For the president and his supporters, the alternative was tried by his two predecessors and failed. Ahmad Tavakoli, a powerful conservative deputy from Tehran, said: "Politically, that path led to a painful separation between rulers and people. There was a kind of romance about prosperity that...was not very suitable to our Shiite culture. People want prosperity but they do not like to see their rulers enjoy too much prosperity when they don't".<sup>53</sup>

For all the rhetoric, the end result appears to be a policy unable to deal with either the rate of unemployment or the rate of inflation, both of which

reportedly hover in the low to mid teens (some 11 per cent for the former and 12 per cent for the latter),<sup>54</sup> and both of which disproportionately harm the poor and middle classes.<sup>55</sup> The president has given the impression he wishes to move simultaneously on both fronts. To boost employment, and at his request, the *majles* appropriated vast amounts of money for development projects; to curb inflation, the government has imposed price controls and allowed in large amounts of imported goods. But the outcome has been pursuit of often contradictory and therefore unattainable objectives:

The administration...wants a fast economic growth rate and no changes in prices. This is not right. We cannot deny the existence of inflation while making claims concerning development, infrastructural activities and an increase in the economic growth rate.<sup>56</sup>

Moreover, some of Ahmadi-Nejad's decisions intended to help the poor – such as the minimum wage increase – have provoked adverse market reactions, forcing policy reversals.<sup>57</sup> In the view of several analysts, Ahmadi-Nejad's populist policies are bumping up against the fact that his government, much like the previous one, places a higher premium on controlling inflation than on reducing unemployment.

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<sup>51</sup> Given repeated raiding of the fund (by both *majles* and government), it is not entirely clear how much money remains. According to Ahmad Tavakoli, an economist and conservative deputy, it was \$4 billion in the red by April 2006, quoted in *Sharq*, 2 July 2006. Signs of *majles* resistance include its January 2007 refusal to allow the government to withdraw \$3.5 billion from the fund to cover current and development expenses. As a result, the government has had to slash previously-appropriated development funds to cover shortfalls in its current expense account.

<sup>52</sup> *Mehr news*, 22 June 2006.

<sup>53</sup> *Sharq*, 24 June 2006.

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<sup>54</sup> These figures for the fiscal year ending 20 March 2006 were reported by Iran's Central Bank. See [www.cbi.ir](http://www.cbi.ir). According to the Central Bank, prices rose by 14.7 percent between October 2005 and October 2006, BBC Persian service, 15 January 2007.

<sup>55</sup> A study by the *majles* Research Centre mentions unemployment as the "Islamic government's" top problem, while acknowledging that inflation is considered most urgent by the "system" (*nezam*). The other problems it identified were, in order: economically disadvantaged provinces, corruption, Iran's international position and 'beautifying' the cultural face of Iran", "Duties of Government Officials", *majles* Report 2712.

<sup>56</sup> Conservative deputy Mohammad Khosh-Chehreh, quoted in *Sharq*, 1 July 2006.

<sup>57</sup> Traditionally, the setting of a minimum wage does not require legislative action and has been reached through negotiations between employer representatives and various government-controlled labour organisations. Under Ahmadi-Nejad, the labour ministry bypassed the employers and mandated an increase. According to labour ministry figures, this led to the layoff of some 50,000 temporary workers in just a few months; others argue that 200,000 is more accurate. Ultimately, the government reversed course by keeping the wage increase on the books while allowing individual employers sufficient flexibility to set the minimum wage within the confines of their own factories. See *E'temad-e Melli*, 28 June 2006.

This preference is reflected in the combined policy of both allowing cheap imports and heavily intervening to control prices of such items as cements, metals, dairy products and even airfare. Expansionist slogans unfortunately are still uttered but the reality is that in the past year Ahmadi-Nejad's administration has yet to do anything significant in relation to fiscal and monetary policies. As was the case with the previous administration, policies remain focused on economic contraction because the priority of the political system as a whole is to control inflation, even if that means achieving a lower growth rate. There is a lot of noise about unlimited loans to the poor, providing them with housing, creating employment and so on. But in real terms, the amount of these loans has not increased.<sup>58</sup>

Yet, for all that, the government cannot point to an achievement even in the battle against price increases. The inflationary pressures of an expansionary budget have begun to be felt, causing uproar in the conservative *majles* and discontent on the streets. A report issued by the *majles* Research Centre directly tied higher inflation to the increase in money supply caused by the government's budget;<sup>59</sup> the *majles* summoned the housing minister to explain sharp increases in housing costs; and some 50 *majles* members reportedly signed a letter demanding that the president come before parliament to defend his economic policies.<sup>60</sup> There are also attempts to impeach several ministers accused of incompetence.<sup>61</sup> In response, the government has alternatively claimed that allegations of price increase

are fabrications and that any inflation is provoked by the "corrupt hidden hands" that run the economy.<sup>62</sup>

Intensified criticism of Ahmadi-Nejad's economic policies may well be a prelude to the expected showdown between *majles* and the president over the 2007-2008 budget, sent to parliament on 21 January 2007. On that day, a group of parliamentarians formerly allied with the president announced the creation of a new political faction, *Osoulgarayan Khalaag* ("Creative Conservatives") to mark their disagreement with his policies. Among them is Mohammad Koch Shehreh, deputy chair of the *majles* economic commission and an Ahmadi-Nejad adviser during the campaign, who told Crisis Group: "Ahmadi-Nejad made a lot of promises. But he has not been able to deliver".<sup>63</sup> As criticism mounted, Ahmadi-Nejad has slightly shifted his approach, adopting more fiscally responsible language and basing the new budget on a far lower oil price forecast.<sup>64</sup>

Until now, Ahmadi-Nejad's can hardly claim success on any major economic front. To be sure, the *majles* is far from blameless. The balance sheet is a result of policies the *majles* itself approved – albeit grudgingly – a year earlier; more broadly, the *majles* shares responsibility for fiscal indiscipline. It has raided the Oil Stabilisation Fund at will to pay expensive government subsidies and, despite publicly criticising the president, has been a partner in his choices, less out of conviction than out of fear of advocating difficult and painful economic decisions.

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<sup>58</sup> Crisis Group interview, Laylaz, op. cit.

<sup>59</sup> [www.majlis.ir/mhtml/article675.html](http://www.majlis.ir/mhtml/article675.html).

<sup>60</sup> According to Article 88 of the constitution, the signature of one-fourth of the 290 *majles* members are needed to force the president or any of his ministers to come to the body to respond to a parliamentary question.

<sup>61</sup> Talk of ministerial impeachment is relatively common, and such proceedings are not unprecedented. Since the establishment of the Islamic Republic, the *majles* has called for impeachment and subsequent vote-of-confidence nine times. The first such vote occurred in 1982 against the minister of housing and urban development. Only two ministers have lost no-confidence motions. During Khatami's presidency, two ministers faced votes of no confidence and one, Interior Minister Abdollah Nouri, did not survive. There is yet to be an impeachment proceeding during Ahmadi-Nejad's presidency. A two-volume collection of parliamentary discussions of all no-confidence motions throughout the history of the Islamic Republic has been published under the title *Impeachment in the Political System of Iran [Estizah dar nezam-e siyasi-ye iran]* (Tehran, 1380/2001).

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<sup>62</sup> ISNA, 12 January 2007.

<sup>63</sup> Crisis Group interview, Mohammad Koch Shehreh, Tehran, 22 January 2007.

<sup>64</sup> On the face of it, the new budget is leaner than its predecessor; this is essentially because the government based its estimates on diminished oil revenues. The 2006-2007 budget estimated the price of oil at \$44 per barrel; this enabled increased budgetary appropriation when oil prices rose throughout the year. For the 2007-2008 budget, the government reduced the projected price to approximately \$33 per barrel. In introducing his budget to the *majles*, Ahmadi-Nejad stated: "This is a signal to our enemies that we are prepared; that is, our planning is such that even if you bring oil prices down, we will do what we have to do, the country will be managed well and we will also have suitable economic growth", ISNA, 21 January 2007. Whether the *majles* will accept this estimate or push the government for an even lower one as a means of encouraging greater fiscal discipline is yet to be seen, as is whether Ahmadi-Nejad's administration will seek to pass supplementary budgets later in the year. It also is not clear if the estimate used by Ahmadi-Nejad is consistent with his proposed budget figures. Critics have suggested that in reality his budget is based on a price of \$45 per barrel, <http://www.alef.ir/content/view/4610/>.

The *majles's* complicity with Ahmadi-Nejad's policies is best illustrated by the vexing question of gasoline subsidies. Limited refining capacity, increased consumption and higher world-wide gasoline prices have compelled Iran to import more gasoline at higher prices and yet continue to sell it at a low, subsidised one.<sup>65</sup> Khatami's government wrestled with the issue, adopting a plan that would have gradually increased prices and reduced subsidies. However, the newly elected conservative *majles*, asserting the plan was inflationary, abandoned it and froze the gasoline price at approximately \$.09 a litre, the lowest in the Middle East after Libya.<sup>66</sup> For Ahmadi-Nejad and the *majles*, the issue poses an acute dilemma: on the one hand, maintaining untargeted subsidies provides financial support to the relatively affluent who do not need it while underwriting wasteful consumption patterns for all Iranians; on the other hand, forsaking them would contribute to inflation and result in hardship for the poor and middle class. Throughout 2006, members of the *majles* and the new administration discussed the issue. So far, neither has been prepared to raise gasoline prices; instead, the government once more asked the *majles* for permission to raid the Oil Stabilisation Fund and, once more, the conservative parliament agreed after putting up some resistance.<sup>67</sup>

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<sup>65</sup> According to the ministry of petroleum, daily gasoline consumption is approximately 72 million litres. The figure is inflated, including as it does amounts that are smuggled out of Iran. Strikingly, the per capita consumption in border provinces – from where gasoline can be smuggled – is ten to 60 times higher than elsewhere. See *Kargozaraan*, 7 June 2006.

<sup>66</sup> Until recently Iraq's was the lowest but the price was raised to \$0.18 per litre. Gasoline subsidies, along with subsidies for items such as wheat, flour and cement, have long been the bane of the Iranian economy. The exact scope of these subsidies is unclear. According to Hassan Zia Kashani, director of the National Iranian Oil Derivatives Distribution Company, the government subsidises gasoline consumption to the tune of some \$15 billion a year, *Kargozaraan*, 15 July 2006. Former President Khatami put forward a figure of \$10 billion, *Sharq*, 4 July 2006. The total spent on all subsidised goods, according to these sources, is said to range between 25 and 28 per cent of the government's budget.

<sup>67</sup> With rising fiscal pressures and lower oil prices, observers believe the *majles* and government will eventually agree on a proposal to cut gasoline imports while instituting a rationing system for domestically-produced gasoline based on current gasoline prices. It would last approximately until 2011, at which time enhanced refining capacity should in principle allow domestic production to match current consumption needs, *Kargozaraan*, 20 January 2007. Such a rationing scheme, while diminishing the use of foreign exchange for imports, would undoubtedly encourage a black market given the high amounts of rationed gasoline that would be allocated

Iran's economic woes have been further compounded by the effects of Ahmadi-Nejad's rhetoric in the international arena. Though appealing to nationalist sentiment and viewed by some as a useful tool in the confrontation with the U.S., the president's inflammatory remarks – and ensuing tightening of the international financial squeeze – conflict with the interests of many elite members who, since the end of the Iran-Iraq war, have heavily invested in greater openness and economic engagement with the world, particularly in the oil and gas sectors.<sup>68</sup> According to *Le Monde*, a report by the *majles's* foreign policy and defence commission detailed what could be the highly negative consequences of a more robust sanctions regime that included a ban on international exports of refined oil products, an embargo on oil import and/or banking restrictions and urged that “everything be done to avoid sanctions, without sacrificing the country's interests or national honour”.<sup>69</sup>

Ahmadi-Nejad has yet to make a dent on his signature issue – the fight against government corruption and favouritism. Debate over the gasoline subsidy brought to light a vast smuggling network. According to some estimates, 3.5 to 4.5 million litres of gasoline and some two million litres of diesel fuel are smuggled daily, mainly to Afghanistan, Pakistan, Turkey and even Iraqi Kurdistan, all of which have more expensive energy.<sup>70</sup> While this can be explained in

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to the government-owned car fleet – reportedly approximately one tenth of the total automobiles in Iran. Ibid.

<sup>68</sup> An editorial in *Kargozaraan*, a daily close to Rafsanjani, commented: “That the United States sees itself in conflict with the Islamic Republic is an undeniable reality, and Tehran cannot change its behavior to please Washington. It is for this reason that the contradiction between the United States and Iran has continued for the past 26 years no matter which administration has been in charge. However, within the context of this ever-present contradiction, whenever there was a will to reduce tensions, the language became softer towards each other for a while. In the past few years, the main reason for increased tensions between Iran and America has been George Bush's extremism... But along with Bush's bullying approach, certain non-judicious behaviours in Iran have offered a context for this bullying”, *Kargozaraan*, 17 January 2007.

<sup>69</sup> *Le Monde*, 20 January 2006.

<sup>70</sup> The diesel fuel numbers are reported by Mohammad Aqaei, former deputy oil minister, in *Sharq*, 5 August 2006. According to Fereidun Fesharaki, the Honolulu-based chairman of FACTS Global Energy Group and a close observer of Iran's oil industry who cites the 3.5 million to 4.5 million litres of gasoline as the daily smuggled amount, this is the equivalent of some three quarters of a billion dollars annually. He estimates a similar value of smuggled diesel. If correct, this would mean that gasoline and diesel fuel smuggling amounts to approximately \$1.5 billion a year. Crisis Group email exchange, 12 September 2006. The dollar

part by individual smuggling in poor border provinces such as Sistan and Baluchistan, widespread suspicion centres on organised activity involving elements of the ministry of petroleum and/or the IRGC. If true, this suggests not only that Ahmadi-Nejad's government (and the *majles*) are continuing to subsidise many who are not in need (and the energy requirements of neighbouring countries) through an extensive program of untargeted gasoline subsidies, but also that they are enriching a non-transparent and extensive smuggling network closely tied to elements within the government.

Other instances of favouritism are reflected in Ahmadi-Nejad's first budget. Unelected institutions such as the Guardian Council and the Council of Experts enjoyed large increases. The government also sought to significantly augment the budget of various clerical organisations in Qom, while the 74 per cent increase in the development budget was designed to help the *basij* win contracts for various government projects.<sup>71</sup> Having failed to assume direct control of the oil ministry through the imposition of its preferred ministerial candidates, the government is apparently seeking to do so indirectly, massively increasing oil-related government expenditures and then re-directing them towards favoured constituencies.

### C. THE IRGC QUESTION

The most controversial aspect of all is arguably the IRGC's heightened economic role. In 2006, the government awarded a \$2.09 billion no-bid contract to *Khatam-ol-Anbia* Headquarters (known in English as Ghorb Khatam), the IRGC's engineering arm, to develop phases fifteen and sixteen of the South Pars natural gas field.<sup>72</sup> Coming in the wake of the \$1.2 billion contract to build line seven of the Tehran metro<sup>73</sup> and the \$1.3 billion contract to build a

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amounts publicly discussed in Iran are higher. See, e.g., *Kargozaaran*, 7 June 2006, quoting an "informed source in the ministry of petroleum" as reporting the total value of exported/smuggled gasoline to be \$4 billion to \$4.5 billion annually.

<sup>71</sup> Crisis Group interview, Behzad Nabavi, former minister of industry and reformist deputy speaker in the Sixth *majles*, Tehran, 1 August 2006.

<sup>72</sup> South Pars gas field is supposed to be developed in 25 phases. Phases fifteen and sixteen will produce two billion cubic feet of natural gas daily for domestic consumption in addition to one million tons of liquefied petroleum gas (LPG) annually for export.

<sup>73</sup> Not all these contracts were awarded by Ahmadi-Nejad's administration. The client for this particular metro project was Tehran Urban & Suburban Railway Company, whose chief

multiple destination pipeline between Assalouyeh and Iranshahr (with an eye to linking Iran to Pakistan and India), this was the third in a recent series of large contracts awarded to Ghorb. The project's size, coupled with Ghorb's limited hydrocarbons experience, fed speculation that the contract was payback for the support provided by military forces to Ahmadi-Nejad's election. For Arash Hassan-Nia, a columnist at the reformist daily *E'temad Melli*, "the winner of the ninth presidential election was Ghorb and the military implementers of development projects".<sup>74</sup> Other newspapers accused the government of manipulating accusations of corruption in the oil industry to arrest the heads of a private company, Oriental Kish, and facilitate its takeover by Ghorb.<sup>75</sup>

Responding to the criticism, Brigadier-General Abdolreza Abed, deputy commander of IRGC and head of Ghorb, argued in a rare public interview that the military is constitutionally authorised to play a peacetime economic role. He added that the IRGC rather than the military had taken on that role because the former is more diverse: "people from different walks of life joined the *basij* and IRGC during the defence of the country".<sup>76</sup> He also pointed out that approximately 30 per cent of the IRGC's capability is in the area of industrial and economic projects;

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operating officer is Hashemi Rafsanjani's son, Mohsen Hashemi, and which operates independently of the national government. The contract was awarded to Sepasad Engineering Company, which is affiliated to Ghorb.

<sup>74</sup> *E'temad Melli*, 1 July 2006.

<sup>75</sup> *Sedaye Adalat*, 3 July 2006. Oriental Kish was established in 2002, as a company whose shares were privately owned, to develop oil and gas fields that are shared with other countries. It quickly developed projects concerning land and water fields shared by Iran on the one hand and Iraq, Saudi Arabia and Qatar on the other. More importantly, it received permission to negotiate with Haliburton, a U.S. company. *Sedaye Adalat* contends that in 2005 the company was pressured to include specified individuals on its board. After Oriental Kish managers ignored these warning, the newspaper claims, revelations against it surfaced. Oriental Kish was forced to break its contract with Haliburton, and an arrest warrant was issued against Cyrus Nasser, deputy chairman of the board and one of Iran's nuclear negotiators. According to *Sedaye Adalat*, this set the stage for Ghorb's takeover of Oriental Kish for \$90 million.

<sup>76</sup> *Sharq*, 26 June 2006. Abed gave his interview one day before several reformists criticised the contract in a written document that was read in the *majles*. According to Article 147 of the constitution, "the government must, in times of peace, utilise the military's technical personnel and equipment for relief, educational, production and construction crusade work in full observance of the principles of Islamic justice and to the extent that it does not harm the military's combat readiness".

Ghorb, he claimed, had already completed over 1,200 projects and had close to 250 others in hand.<sup>77</sup>

As Abed suggests, the IRGC's economic involvement is neither new nor illegal. Its roots can be traced to the end of the Iran-Iraq war, when the country's political elite, led by President Rafsanjani, feared political activism by a large pool of committed, ideologically-motivated and disaffected men who had played a crucial role in defending the country. Better, it was thought, to steer them in a different direction. According to a former general manager of one of Iran's largest steel factories:

The question was simple: what to do with those who were coming back from the war in light of potential problems such as poverty, unemployment and prostitution. Hashemi Rafsanjani's decision was to change the atmosphere and direct these forces' energy towards economic activities. IRGC equipment was shifted to economic and construction activities. Satellite companies connected to IRGC, the Construction Crusade or the intelligence ministry began to mushroom, allowing those with access to equipment and resources to bid for contracts. And those of us who worked for the government or even the private sector at the time gave jobs to the IRGC. This approach solved a problem. It prevented a military coup and also filled up stomachs. But it created another problem: selflessness and the idea of sacrificing oneself for the country were martyred.<sup>78</sup>

The increased role played by the IRGC's engineering arm and the *basij* thus can be seen as a logical extension of policies put in place years ago, the trickling down of economic privileges that initially benefited the Revolutionary Guards' higher ranks. "It was time to extend privileges to the lower and poorer ranks of the IRGC, particularly those in the *basij*. These people had been somewhat marginalised in the post-war reconstruction period".<sup>79</sup> Ahmadi-Nejad's militant view of politics and the fact that he largely

owed his election to *basij* support naturally accelerated this trend.<sup>80</sup>

Ahmadi-Nejad was not the IRGC's original candidate. Had Mohsen Rezaei won, IRGC would have won. Had [Mohammad Baqer] Qalibaf won, parts of the IRGC would have won. Ahmadi-Nejad's supporters chiefly come from the less well-off *basij*. Today, the IRGC is riding on the wave of a mutually beneficial and reinforcing relationship.<sup>81</sup>

As seen, the development is not without its critics. For Behzad Nabavi:

[The president's supporters] are not making the argument that the energy field needs committed revolutionary forces in order to develop. Rather, Ghorb is presenting itself as a competent general contractor that will sub-contract to civilians. If this is the case, it is not clear why the oil company should not do it, given that there is at least some degree of accountability. Where will Ghorb's revenue go? Who will do their financing? Where is their governing board?<sup>82</sup>

For now, however, Ghorb and affiliated companies such as Sepasad have become major economic actors set to occupy a central position in local contracting for the foreseeable future, particularly in the energy sector, with or without Ahmadi-Nejad.<sup>83</sup> Reversing this trend will require de-regulation coupled with external funding of competitors. An unintended consequence of heightened Western reluctance to deal with Iran has precisely been to make this more difficult. Certainly, Ghorb's success can be explained by its political/military connections and by official distrust of foreign and private sector companies. But

<sup>77</sup> According to Abed's numbers, the total value of Ghorb's current projects is approximately \$2.3 billion; total investment for the more than 1,200 projects completed would fall between \$3 billion and 3.5 billion. If these numbers are accurate, the value of Ghorb's three new projects exceeds the value of all past ones combined.

<sup>78</sup> Crisis Group interview, Tehran, 9 July 2006. The decision to assign some of IRGC's engineering corps to construction projects was confirmed by a decree issued by Ayatollah Khamanei in his capacity as commander in chief of the armed forces.

<sup>79</sup> Crisis Group interview, former general manager of one of Iran's largest steel factories, op. cit.

<sup>80</sup> This somewhat reversed Khatami's attempts to diminish economic participation by military and security forces, as evidenced by the former president's disbanding of the intelligence ministry's satellite economic companies. Crisis Group interview, member of the IRGC during Iran-Iraq war, Tehran, 12 July 2006, who also claimed that many revolutionary guards harbour "fears about such extension of economic activities tainting the IRGC as an institution".

<sup>81</sup> Crisis Group interview, former senior diplomat, Tehran, 6 August 2006.

<sup>82</sup> Crisis Group interview, Nabavi, Tehran, op. cit.

<sup>83</sup> There is also no reason to think that the role of many companies that developed with the help of the IRGC and now operate as "private" companies with stockholders will diminish. A good example is Ehya Sepahan, a holding company based in Isfahan comprising over 30 enterprises in a variety of industrial sectors (mining, steel, food). Its general manager is Mostafa Safavi, the brother of the IRGC's current head, Rahim Safavi.

it is also at least partially attributable to an economic environment and restrictions on international financing that have made competition between state-run and private companies an increasingly uneven battle.

#### D. A SOCIAL AND CULTURAL CLAMP-DOWN?

Domestic fears generated by Ahmadi-Nejad's victory had less to do with the economy than with what it would mean for the social and cultural landscape. Observers and political actors anticipated wholesale shut-down of remaining independent publications or publications affiliated with various political parties and organisations; clamp-down on books, music, movies and theatres; imprisonment of political activists; social repression; and more rigorous imposition of an Islamic way of life (e.g., dress code; use of satellite dishes). Iran undeniably is experiencing a more repressive, intolerant rule but the evolution is more complex and nuanced than is often suggested.

This relates, in part, to the country's complex institutional set-up. The executive branch, which the president runs, regularly lodges complaints against the print media but it is the judiciary that orders closures; likewise, while the intelligence ministry and security forces under its control can and do detain people without charge or access to proper representation, so too can parallel institutions affiliated with the IRGC and the judiciary. In other words, repression predated Ahmadi-Nejad's presidency, and its persistence is not all his doing.

It also would be excessive to evoke a widespread, blanket wave of political arrests or media closures. Prominent arrests have occurred – most notably of Ramin Jahanbegloo, a professor of philosophy; former parliamentarian Ali Akbar Mussavi Khoeini; and leaders of the bus drivers union. Release has followed long, at times extremely arduous detention and been accompanied by exorbitant bail to ensure quiet. Prominent women leaders, such as 2003 Nobel Peace Prize Laureate Shirin Ebadi, have been subjected to political harassment. Local and foreign journalists are also subject to greater harassment, including being summoned by the intelligence services. Universities face tighter restrictions, and both professors and students suspected of political activism have been forced out.<sup>84</sup> Pressures increased after the U.S.

announced a funding increase for democracy-promoting activities, a decision the government invoked to claim its opponents served the interests of foreign powers.<sup>85</sup>

Likewise, a number of newspapers and magazines have been shut, including one the most important reform-oriented journals, *Sharq*.<sup>86</sup> The Ministry of Culture and Islamic Guidance – responsible for issuing permits for all media production, including newspapers, books, music and movies – has hardened its stance. Under Khatami, it adopted a relatively hands-off attitude, causing tense relations with the judiciary: several ministry directors general had to defend themselves in court for issuing publication permits.<sup>87</sup> Under Hossein Saffar Harandi's leadership, the ministry – calling it the “year of assessment” – in effect suspended publication of new books and the

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with students. According to a student leader: “We criticized Khatami a lot, but during his presidency the university atmosphere was much better; at least, we could advance step by step. We do not want a second revolution. All we want is to be able to study in peace. If we are mobilising, it is solely because of Ahmadi-Nejad's unjust and discriminatory policies [against student activists]. Our demands are simple: to live peacefully, pursue our studies and enjoy some freedom. When a female student is reprimanded because her coat does not go below her knee, it violates our freedom”. Crisis Group interview, Babak Zamanian, spokesperson of the students' Islamic association at Amir Kabir University, Tehran, 1 January 2007.

<sup>85</sup> Jahanbegloo was accused of being manipulated by external forces “attempting to foment a velvet revolution”. He was released after four months of solitary confinement and a forced “confession”.

<sup>86</sup> *Sharq* was closed in September 2006 by the Press Supervisory Board, purportedly as a result of intervention by the president's office, Crisis Group email correspondence with Emadeddin Baghi, human rights activist, 15 September 2006. Its publisher has challenged the closure, arguing that the Board – which consists of representatives from all government branches – does not have legal authority to ban publications. The case is on appeal in the Court for Government Servants which, during Khatami's presidency, was notorious for closing newspapers.

<sup>87</sup> Crisis Group interview, Farhad Behbahany, former political prisoner, Tehran, 28 June 2006. In a book about his prison experience written in the late 1980s, Behbahany said he had been tortured. The book was banned by the judiciary after it had been published and was about to go into its second printing when he was charged with spreading lies and summoned to court. Since publication had been approved by the Ministry of Culture and Islamic Guidance, he could not be accused of the more severe charges of propagating against the system or treason. As a result, the director general of the ministry, who had approved publication, also was charged. The case is pending, although the office of the prosecutor no longer seems interested in pursuing it and did not appear in court at the assigned trial date.

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<sup>84</sup> Student dissatisfaction with Ahmadi-Nejad was clearly manifested during his visit to Amir Kabir University on the eve of municipal council and Assembly of Experts elections. Repeatedly heckled, he engaged in heated verbal exchanges

granting of newspaper permits, as well as production of new musical creations during the first year of Ahmadi-Nejad's presidency.<sup>88</sup>

Reformist political parties and organizations such as the Islamic Iran's Participation Front and the Mojahedin of the Islamic Revolution were refused newspaper permits, even though most publications that survived the clamp-down in the Khatami era on reformist dailies and magazines already had considerably toned down their criticism.<sup>89</sup> Publication suspension went so far as to extend to economic books authored by commerce ministry employees.<sup>90</sup> While the so-called year of assessment is now over and some permits are being granted, there is little doubt that the ministry has reverted to its pre-Khatami role as watchful eye of the regime, entrusted with media "cleansing".<sup>91</sup>

The Supreme Cultural Revolution Council also has adopted a more rigid posture.<sup>92</sup> In October 2005, it issued a decree banning the production or showing of films with a "secular, liberal, nihilist and feminist" content, as well as scenes depicting violence or use of drugs and alcohol, in movie theatres, television or widely available legal and illegal videos. Because of its breadth, arbitrariness and implementation difficulties, it has been likened to "using a whip on water".<sup>93</sup> Nonetheless, the decree is symptomatic of a general hardening of cultural life.

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<sup>88</sup> Crisis Group interview, prominent musical composer, Tehran, 27 June 2006.

<sup>89</sup> "Any mention of a garrison party, authoritarianism, or unified sovereignty is cleaned up by the editors. After the election, many reformers lowered the flame". Nabavi acknowledged that self-censorship pre-dated Ahmadi-Nejad's election as the result of large-scale closure of newspapers and magazines by the judiciary during the Khatami era but added it got worse after that. Crisis Group interview, Nabavi, op. cit

<sup>90</sup> Crisis Group interview, commerce ministry employee, Tehran, 16 July 2006.

<sup>91</sup> Mohammad Hossein Saffar Harandi, speaking at Friday Prayers, ISNA, 10 August 2006. Harandi's hand was strengthened by a September 2006 *majles* report criticising the ministry's conduct under Khatami, accusing it of lax supervision and permitting the publication of books based on "immoral and unethical" precepts, *Sharq*, 10 September 2006.

<sup>92</sup> The Supreme Cultural Revolution Council is an independent body established by Ayatollah Khomeini. Its decisions have the force of law and do not require approval by another body such as the Guardian Council or the *majles*. Under Presidents Rafsanjani and Khatami, paradoxically, its independent powers were used to steer the country towards more liberal and laissez-faire cultural policies. Khatami chose to head the council himself, a practice that Ahmadi-Nejad followed.

<sup>93</sup> Mohammad Qouchani, the editor of *Sharq*, further suggested that the decree was written to "heal the hearts of

Still, newspapers affiliated with political parties and organisations opposed to Ahmadi-Nejad and which received publication permits under Khatami (such as *E'temad Melli* and *Kargozaraan*) continue to publish highly critical articles. More independent publications with a focus and critical outlook on economic issues – such as *Donyaye Eqtesad*, *Sarmayeh* and *Sedaye Edalat* – also continue to operate. In the broader cultural arena, there has not been a dramatic crackdown on "improper" or "un-Islamic" social gatherings or mores. Attempts to dismantle widely-used satellite dishes for the most part have been erratic and inconsistent – the police focused on rooftops, steering clear of private homes. Ahmadi-Nejad announced that Western music should be banned – but the national radio still broadcasts Celine Dion, Elton John and others. In the streets of Tehran, women's garb appears more relaxed than under Khatami, with short and tight coats and colourful scarves. New Western-style stores recently have opened their doors: Benetton near Vanak square; Puma on Tajrish square.

Ahmadi-Nejad's election clearly made a difference. But although repression has intensified, it also has become more targeted. As described by Ahmad Zeidabadi, a prominent journalist, the regime's preferred strategy is to stay out of the way of the majority of the population, buy it off with government handouts and control the political and civic activities of a limited number of more threatening political and civic activists – non-governmental organisations, dissidents and dissident clerics, intellectuals, students and journalists.<sup>94</sup>

The president's policy toward civil society organisations is revealing of this dual approach – greater government control coupled with efforts not to trigger unnecessary popular discontent. Under Khatami, the mission of the Centre for Women's Participation –

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some of the pious and enliven the enemies who always enjoy such lack of wisdom... Even the most religious and loyal officials of the Islamic Republic would be unable to implement such a lawless law", *Sharq*, 22 October 2005. The Supervisory Committee of the Press cited the editorial among the 70 violations that led to *Sharq's* suspension on 11 September 2006.

<sup>94</sup> According to Zeidabadi, "the government must deal with activist supporters, unhappy non-activists and active opponents. The group in the middle is the largest, and the government must carefully control opponents without antagonising the middle ground". Crisis Group interview, Tehran, 17 July 2006. For Saeed Laylaz, "this may be called the Iranian version of the China Model. The difference is that in China economic prosperity is under-written by economic productivity. In Iran the middle group is bought off with oil money", Crisis Group interview, Tehran, 24 July 2006.

a government organisation focused on the promotion of women's activities – was to extend female participation in all walks of life.<sup>95</sup> The centre continues to exist but has been renamed the Centre for Women and Family Affairs and has redirected its grants to more family-oriented activities and research. More generally, according to Mashallah Shamsolvaezin, spokesman for the journalist guild:

No more than 10 per cent of approximately 8,300 officially registered civil society groups can stand on their own feet. They are simply unable to survive financially. The government's model has changed. Khatami supported civil and more modern institutions. Ahmadi-Nejad's approach is *hey'ati*,<sup>96</sup> with government support pouring into traditional institutions both at the political and societal levels. To Ahmadi-Nejad the mosques are the only necessary civil society institutions.<sup>97</sup>

Ahmadi-Nejad faces a dilemma. On the one hand, his government wants to avoid direct and risky confrontation with large elements of society who have a more modern outlook and a different conception of civil society's role. On the other hand, it must be responsive to the president's far more socially conservative base. As a result, very real restrictions on the print media and cultural productions have not been accompanied by a crackdown on cultural practices of the population as a whole. As some see it, Ahmadi-Nejad – a non-cleric dependent on support from religiously conservative circles – is masking government inaction towards “un-Islamic” social and cultural practices with essentially rhetorical backing for “archaic, even superstitious” religious symbols

and practices.<sup>98</sup> Whether the rhetoric reflects Ahmadi-Nejad's deep beliefs or merely is a nod to an impatient social base is difficult to assess. What is significant is the wide gap between government claims that it is promoting Islamic mores and a social reality that is moving in a quite different direction.

## E. TOWARD POLITICAL HEGEMONY?

Since the early 1990s, many political activists have openly worried about the prospect of “unified governance”, that is, control of all elective and non-elective institutions by the conservative camp. By exercising such control, conservative forces in principle would be in a position to curtail political and cultural space and, de facto, eliminate effective opposition. Ahmadi-Nejad's election, coupled with the *majles*'s make-up and the conservatives' dominance of non-elected bodies, seemed to turn this fear into reality.<sup>99</sup>

Of primary concern was potential closure of the political space. The first round of the 2005 presidential elections demonstrated the existence and strength of an organized, patronage-based network capable of being mobilised on short notice to benefit a particular candidate.<sup>100</sup> Ahmadi-Nejad was catapulted into the second round largely thanks to well organised and coordinated support by some 12 per cent of the electorate, many with apparent ties to the *basij* and sections of the IRGC which may have tampered with the elections.<sup>101</sup> In light of the disorganised and

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<sup>95</sup> Crisis Group interview, Shahla Sherkat, chief editor of *Zanan* magazine, Tehran, 30 July 2006.

<sup>96</sup> *Hey'at* is a religious meeting for men. It also involves information exchange regarding the community and neighbourhood in which the *hey'at* operates and seeks to strengthen personal ties and resolve problems of individual members.

<sup>97</sup> Crisis Group interview, Mashallah Shamsolvaezin Tehran, 12 August 2006. The threat of regime change, perceived as emanating from the U.S., has further hampered NGOs. Fearful of being accused of espionage or other offences, NGO leaders limit their activities and contacts. They must seek permission to contact individuals abroad, including to attend seminars or workshops, invite colleagues to visit or seek funding. Recently, for example, a group of women journalists was barred from travelling, and three were temporarily arrested, while a number of people who have attended meetings and workshops abroad have been detained and questioned on return.

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<sup>98</sup> Crisis Group interview, Hojjatolislam Seyyed Mohammad Ali Abtahi, *majles* vice president for legal affairs under Khatami, Tehran, 13 August 2006.

<sup>99</sup> Some like Mohammad Atrianfar, a member of the reformist Executives of Construction Party (*Kargozaran-e Sazandegi*) and senior political adviser to former President Rafsanjani, argue that the conservative takeover was patiently and carefully planned throughout the 1990s with the gradual “control and re-direction of radio and television, appointment of conservative Friday Prayer leaders and elevation of lower and more conservative officers within the IRGC and *basij* militia”, Crisis Group interview, Tehran, 4 July 2006. Constitutionally, these institutions all fall under Ayatollah Ali Khamenei's direct supervision. Atrianfar sees the reformist victories of the late 1990s and early 2000 merely as road bumps and delays in this process.

<sup>100</sup> See Crisis Group Briefing, *What Does Ahmadi-Nejad's Victory Mean?*, op. cit.

<sup>101</sup> In an open letter to Ayatollah Khamenei, Mehdi Karroubi, former *majles* speaker and 2005 presidential candidate, accused the IRGC and *basij* forces of electoral manipulation. He also claimed that Khamenei's son was directly involved. The letter was published in four Iranian newspapers but Tehran's General Prosecutor prevented their distribution and ultimately banned one of them. The Persian text can be found

fragmented nature of Iranian politics, such ability to organise a committed group can make a critical difference. Along with others, Ibrahim Yazdi, the general secretary of the reformist Freedom Movement of Iran, evoked the existence of a "garrison party" (*hezb-e padegani*) that, he feared, would render future elections meaningless, at least in the short run.<sup>102</sup> Establishment figures such as Rafsanjani, a former president and current head of the Expediency Council, reportedly harboured similar fears.<sup>103</sup>

The twin elections in December 2006 – for the Assembly of Experts and municipal councils – suggest the era of competitive politics in fact is far from over. These elections, held simultaneously for the first time,<sup>104</sup> posed a different set of challenges to reformists and conservatives but they vindicated a certain pragmatism. The results suggested yet another pendulum swing in Iran's managed, yet far from static, politics.

Reformers essentially ignored the Assembly of Experts elections for which reformist clerics were almost completely disqualified due to their refusal to take the required written examination and their conviction that the assembly's composition would not change. It became an internal competition among conservatives.<sup>105</sup> The only participating reformist

political group was the newly founded National Confidence Party, headed by Mehdi Karroubi, an unsuccessful 2005 presidential candidate. Even its list did not differ significantly from that put forward by moderate conservative groups.

The elections, as predicted, did not substantially affect the assembly's political make-up. Nonetheless, they represented an important stage in the intra-conservative fight, most importantly because of Rafsanjani's role. The former president occupies a singular place, neither loyal conservative nor reliable reformer, at the same time the target of often vehement reformist attacks, a pragmatic advocate of managed change with ties to the reformist Servants and Construction party and a member of the conservative Society of Combatant Clergy. Perceived as both highly effective and highly corrupt, he has had a chequered political history: elected president in 1989 and 1993, he suffered a humiliating defeat in the 2000 parliamentary elections<sup>106</sup> and, after leading the first round of the 2005 presidential elections, was trounced by Ahmadi-Nejad in the run-off.<sup>107</sup> That said, he remains a symbol of stability and continuity, a pragmatist with ties to all sides.

In December 2006, that posture served him well. Virtually all groups standing for the Assembly of Experts placed him at the top of their Tehran list; the lone exception was Ahmadi-Nejad's supporters. Running under the banner of a new group, "Pleasant Scent of Service" (*Rayehye Khosh-e Khedmat*), they split from the Large Coalition of Conservatives (*E'telaf-e Bozorg-e Usoulgarayan*) and were seen very much as the anti-Rafsanjani camp, backing his hardline rival, Ayatollah Taqi Mesbah Yazdi, Ahmadi-Nejad's spiritual adviser and apparent political counsellor.

The conservative rift, in other words, focused on the presidential camp's insistence that Rafsanjani be excluded and Mesbah Yazdi's allies included, particularly in races in Tehran and Qom provinces. Having routed Rafsanjani in the presidential contest, Ahmadi-Nejad appeared to be signalling his intent to push him out of the political scene once and for all; the president's supporters in effect turned the poll into

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at <http://news.gooya.com/president84/archives/031422.php>. In interviews with Crisis Group in mid-2006, several politicians reflected dismay at the Supreme Leader's purported involvement. In the colourful words of a former high ranking official in the Rafsanjani administration, "it is almost as if the groom's father were to take his son's place at the wedding". Crisis Group interview, Tehran, July 2006.

<sup>102</sup> Crisis Group interviews, Tehran, 2 July 2006. By meaningless, Yazdi and others mean a predetermined outcome guaranteed by the coordinated voting and manipulation of the undeclared "garrison party".

<sup>103</sup> Crisis Group interview, close Rafsanjani associate, Tehran, July 2006.

<sup>104</sup> Since its birth, the Islamic Republic has held 23 elections for various offices. Since these never were held jointly, there were elections almost annually. This led to the decision to hold elections for the Assembly of Experts (every eight years) and municipal councils (every four years) together. Similar attempts are being made to synchronise presidential and parliamentary elections, both held every four years, though the Guardian Council has hinted it would declare unconstitutional any attempt either to shorten the president's term or lengthen that of the *majles*. Legislation moving the minimum age for eligible voters from 15 to 18 and increasing educational requirements for candidates will soon go into effect.

<sup>105</sup> "Unlike what is reported regarding the conflict between the conservative and ultra-conservative clerics, no one expects much change in the make-up of the Assembly", Abtahi told

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Crisis Group well before the elections. Crisis Group interview, Abtahi, op. cit.

<sup>106</sup> Based on initial results, Rafsanjani was not among the top 30 vote winners. While he subsequently was awarded the 29<sup>th</sup> spot, he did not take the seat due to widespread suspicions of electoral impropriety.

<sup>107</sup> See Crisis Group Briefing, *What Does Ahmadi-Nejad's Victory Mean?*, op. cit., pp. 2-6.

a referendum on Rafsanjani. They did not get the answer they wanted. The people of Tehran – voting in higher numbers than usual –<sup>108</sup> elected Rafsanjani with a margin of more than 500,000 out of approximately 3,780,000 votes cast.

The polarising behaviour of Ahmadi-Nejad's supporters proved costly in the municipal elections as well, again most notably in Tehran. By insisting on listing their partisans – some of whom (like the president's sister) had very little experience – ahead of both more qualified personalities and sitting members of the capital's city council, they once more forced a conservative split. In this case, their move was interpreted as an attempt to unseat the conservative mayor, Mohammad Baqer Qalibaf, whose relationship with Ahmadi-Nejad has been strained.<sup>109</sup> In the end, the Large Coalition of Conservatives' more moderate candidates won, and Qalibaf was reappointed.

Ahmadi-Nejad supporters also fared worse than reformers who captured four seats in Tehran's city council and registered significant gains in other major cities.<sup>110</sup> Unlike the conservatives and in contrast to past elections, the reformists were united. Their three principal groupings – the Islamic Iran's Participation Front, National Confidence and Servants of Construction, linked to Mohammad Khatami, Mehdi Karroubi and Rafsanjani respectively – presented unified lists throughout the country. This reflected, in part, lessons learned from their crushing defeat in the last municipal elections. It reflected, too, the fact that conservatives are now in power, controlling the most important elective institutions.

When reformists enjoyed that position, between 2000 and 2004, they had been unable to forge a united front; power provokes competition over spoils while giving rise to rival patronage networks which inevitably exacerbate infighting and highlight policy differences. In 2006, conservatives suffered a similar fate. As Ahmadi-Nejad pushed his economic agenda, appointed close friends to high positions and undercut other

powerful conservatives, he inevitably fomented dissent among conservative ranks. As mentioned, a new conservative gathering has formed in the *majles* (the Creative Conservatives); others are rallying around Qalibaf.

As a result, fears of unified governance have receded. To Mohammad Atrianfar, a leading Servants and Construction Party member, Ahmadi-Nejad's election presents a real opportunity for reformists: "We will keep reminding those who have pushed for unified sovereignty that absolute power and popularity do not go hand in hand and that what they seek – an effective state – can be better achieved in a democratic context".<sup>111</sup>

Reformists also wisely gave up talk of an electoral boycott, which had gained momentum over the course of the past three elections for municipal councils, parliament and presidency. Instead, they took the elections seriously, despite electoral manipulations (achieved through media control and disqualification of non-conservative candidates) and urged people to vote.<sup>112</sup> Mostafa Tajzadeh, a reformist, said: "The only way we can prevent the implementation of arbitrary laws is through political competition. This is no time to abandon the field".<sup>113</sup> By voting in relatively large numbers, Iranians appeared to assent.

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<sup>108</sup> The 2006 elections were the fourth for the Assembly of Experts. According to data provided by the Ministry of Interior ([www.moi.ir](http://www.moi.ir)), over 77 per cent of eligible voters cast a ballot in the first elections but only 37 and 46 per cent in the second and third elections respectively. According to estimates, over 60 per cent participated in 2006. In Tehran province, participation was estimated at 47 per cent, well above the 31 and 39 per cent registered on the two prior occasions.

<sup>109</sup> Crisis Group interview, conservative member of the Tehran city council and Qalibaf supporter, Tehran, 17 July 2006.

<sup>110</sup> The most comprehensive list of reformist gains can be found at [www.shahrefarda.com](http://www.shahrefarda.com), a pro-reformist website.

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<sup>111</sup> Crisis Group interview, Atrianfar, op. cit. To civil society activists such as Emadeddin Baghi, "unified sovereignty is an aspiration that can never be fulfilled given social conditions and the fact that the Islamic Republic's foundations from the beginning were not based on unity. The personnel that run the country have changed but the fabric of power has not been transformed. Our task remains that of making this power more accountable and respectful of citizens' rights", Crisis Group interview, Tehran, 2 July 2006.

<sup>112</sup> During the preceding two municipal elections, no vetting occurred because there is no mention of municipal councils in the constitutional article that provides the Guardian Council with an electoral supervisory role. This was changed for these elections, and vetting responsibilities were given to a supervisory committee consisting chiefly of conservative parliamentarians. Reformists generally agreed that vetting was relatively lenient in Tehran but more severe in other cities. See [www.shahrefarda.com](http://www.shahrefarda.com).

<sup>113</sup> Crisis Group interview, Tehran, 29 July 2006.

#### IV. POLITICS AND THE SUPREME LEADER

##### A. AYATOLLAH KHAMENEI'S BALANCING ROLE

From the onset of his presidency, Ahmadi-Nejad's relationship with the Supreme Leader has puzzled analysts.<sup>114</sup> Constitutionally empowered to "decide the general policy of the Islamic Republic after consultation with the Expediency Council" (Article 110), Ayatollah Khamenei is seen by some as the puppet master, using Ahmadi-Nejad to serve his purposes. Under this view, as one observer put it, the president merely is an exalted information minister, lacking any autonomous ability to decide or conduct policy.<sup>115</sup> Others argue that the president has built an independent power base centred on his own clerical backers and on military and paramilitary elements.<sup>116</sup>

Neither of these extreme versions is wholly persuasive, and neither reflects the complexity of an opaque political system with plural power centres.<sup>117</sup> In public, Ayatollah Khamenei has been supportive of Ahmadi-Nejad, going so far as to describe his administration as the "most popular government in Iran since the Constitutional Revolution" of 1906.<sup>118</sup> He has chastised past and present officials for being "too critical" of an administration that is "trying to serve the people".<sup>119</sup> At the same time, he occasionally has stepped in to assuage the elite, preoccupied above all with stability and worried of the consequences of the president's more assertive and provocative domestic and foreign policies. That differences in style and approach may exist between Khamenei and Ahmadi-

Nejad seems quite probable but fundamental policy decisions cannot be made without the Supreme Leader's imprimatur. Ayatollah Khamenei arguably finds himself in a more comfortable position today than during Khatami's presidency, when he played the part of conservative bulwark against proposed reformist changes. Now he can revert to the traditional role of mediator and arbiter among fractious political groups.

Immediately after the presidential election, for instance, the Supreme Leader delegated responsibility for supervising policy implementation to the Expediency Council, headed by Rafsanjani.<sup>120</sup> Likewise, in June 2006, and presumably to temper growing anxiety caused by Ahmadi-Nejad's incendiary pronouncements, he announced the creation of an advisory foreign policy council including two former foreign ministers.<sup>121</sup> A new program on state-run radio (falling under the Supreme Leader's authority) has aired criticism of Iran's nuclear diplomacy.<sup>122</sup>

On economic matters, too, he is playing a balancing role. In apparent reaction to Ahmadi-Nejad's heavy emphasis on governmental and military involvement, Khamenei issued a directive explicitly decreeing a "change in the role of government from one of ownership and direct management to an agency for supervision and policymaking".<sup>123</sup> It called for facilitating integration into the global economy and strengthening the cooperative and private sectors, in particular by allocating them up to 80 per cent of government-owned industry shares.<sup>124</sup> Privatisation supposedly will cover, inter alia, the petroleum industry (excluding

<sup>114</sup> "Was Ahmadi-Nejad one of the leader's associates? Or was he, like his predecessor, Khatami, something of a political rival? The answer to this question should determine the extent to which Ahmadi-Nejad's foreign-policy extremism and authoritarian tendencies are taken seriously as a political program. But it is a puzzle that has vexed political analysts since the president took office in August 2005". Laura Secor, "Whose Iran?", *The New York Times Magazine*, 28 January 2007, p. 50.

<sup>115</sup> Crisis Group interview, Middle East analyst, February 2006.

<sup>116</sup> Ayatollah Mohammad Taqi Mesbah Yazdi directs the Imam Khomeini Education and Research Institute and is a member of the Assembly of Experts.

<sup>117</sup> For a discussion, see Crisis Group Briefing, *What Does Ahmadi-Nejad's Victory Mean?*, op. cit.

<sup>118</sup> BBC, 4 June 2006, see [http://news.bbc.co.uk/1/hi/world/middle\\_east/5045990.stm](http://news.bbc.co.uk/1/hi/world/middle_east/5045990.stm).

<sup>119</sup> ISNA, 10 October 2006. Ayatollah Khamenei's complete speech can also be found at <http://www.khamenei.ir/FA/Speech/detail.jsp?id=850718A>.

<sup>120</sup> Article 110 of the constitution posits "supervision of the implementation of the system's general policies" as one of the Leader's responsibilities. According to the same article, however, the Leader can delegate some of his responsibilities.

<sup>121</sup> The two former foreign ministers are Ali Akbar Velayati and Kamal Kharazi (who heads the council); the other members are Mohammad Shariatmadari, former commerce minister; Ali Shamkhani, defence minister under Khatami, and Mohammad Hossein Taremi-rad, a former ambassador to China and Saudi Arabia and its only cleric. The exact title of the advisory board is Strategic Council for Foreign Relations. *Financial Times*, 29 June 2006.

<sup>122</sup> See *The New York Times*, 1 January 2007.

<sup>123</sup> The full text of the directive can be found at ISNA, 3 July 2006.

<sup>124</sup> The directive relies on Article 44 of the constitution, which divides the economy into private, public and cooperative sectors and places large industries and banking in the public sector. On this ground, some reformist figures who are also strict constitutionalists consider the directive unconstitutional. "Any change in the location of large and mother industries as well as banks must come through a constitutional revision and cannot just be mandated by the Leader", Crisis Group interview, Behazad Nabavi, Tehran, 1 August 2006.

the National Iranian Oil Company, deemed both too large and too strategically important) and companies in the steel, copper, petrochemical, shipping, airline, banking and insurance sectors, as well as several industries connected to the armed forces.<sup>125</sup>

Doubts abound concerning the extent to which the decree will be implemented, and this too is a reflection of the Supreme Leader's nuanced task as balancer-in-chief, intent above all not to rock the boat excessively. The private sector may not have the necessary absorptive capacity, "particularly in light of President Ahmadi-Nejad's rhetoric and policies that have scared off both foreign and domestic capital".<sup>126</sup> Moreover, unresolved issues remain regarding how to pursue privatisation; some argue it must be preceded by liberalisation of the regulatory framework, reduction in governmental involvement in wage and price policy and transfer of management from government to private sector.<sup>127</sup> Ahmadi-Nejad chose to interpret the directive as setting the stage for massive income redistribution through what he calls "justice shares" – shares of privatised companies that ordinary citizens can purchase with government loans.<sup>128</sup>

In apparent reaction, Mohammad Nahavandian, head of Tehran's Chamber of Commerce, Industries and Mines and economic deputy at the High Council for National Security, insisted that the decision to increase the private sector's share "has been taken at the highest level of the system". He warned that merely changing an institution's name, "without changing its nature and performance is an illusion. To

change a government institution into a pseudo-governmental institution through the outward sale of stocks and by bringing the government's share below 51 per cent is not privatisation".<sup>129</sup>

Given all this uncertainly, a prominent businessman adds: "If we end up with a 10 per cent increase in private sector economic participation we would be lucky and happy".<sup>130</sup> Still, in light of Ahmadi-Nejad's strong pronouncements in favour of a more voluntaristic, state-centred economic model, the Supreme Leader's intervention was worthy of note and an indication of the role he intends to play. For Saeed Laylaz, economist and former manager of a state enterprise:

[The decree's] political ramifications and timing are most important. Not only did it legitimise Tehran's stock exchange as an important capital market against the backdrop of attacks describing it as a type of gambling, it also reaffirmed the overall trend towards privatisation that had been set into motion under the previous two administrations.<sup>131</sup>

## B. FOREIGN POLICY DILEMMAS

As Crisis Group described in an earlier briefing, "major foreign policy decisions – notably on the nuclear file – are made by a small group of high-level officials who arguably are insulated from electoral

<sup>125</sup> According to the directive, the process is to take place through Tehran's stock exchange.

<sup>126</sup> Crisis Group interview, Nabavi, op. cit.

<sup>127</sup> "Given current regulations, how can one talk about privatisation? How can one talk about privatisation of state-owned banks when the existing private banks are about to go bankrupt because of recent regulations imposed by the Monetary and Credit Council which dictate interest rates? How can we privatise state-owned banks that have less than 1 per cent profit? The same holds true for every other industry that is covered in the decree and that, because of direct government intervention in its pricing system, is in recession. Simply put, at this point there is really no interest in the private sector for privatisation given existing regulations", Crisis Group interview, Saeed Laylaz, op. cit.

<sup>128</sup> According to the head of the Privatisation Organisation and deputy economic minister, Gholamreza Kord Zangeneh, some 2.5-3 million people currently own shares. Ahmadi-Nejad's intention is to increase the number to 24-25 million, *Kargozaraan*, 5 July 2006. The president has not made clear whether as a result of such a large transfer of wealth from government ownership to dispersed private owners, government-controlled cooperatives would be making decisions about how to run privatised companies.

<sup>129</sup> Interview with reporters, *Sharq*, 9 July 2006. Resistance to privatisation predates Ahmadi-Nejad's presidency and, rhetorical support aside, it has been a very slow process. According to Gholamreza Kord Zangeneh, the government has privatised approximately \$3 billion worth of assets since 1991. During that same period, investment in the government sector was approximately 39 times greater – some \$120 billion, *Sedaye Edalat*, 5 July 2006.

<sup>130</sup> Crisis Group interview, former general manager of one of Iran's largest steel factories now working in the private sector, Tehran, 9 July 2006. Experts disagree on the scope of state control over the economy. According to Davood Danesh Jaafari, current minister of economy and finance, "while the economic share of the services and agriculture sectors, which are mostly run by the private sector, is high, the government's industrial share, particularly in the oil and energy sectors is very high. While there is no comprehensive and reliable study in this regard, the state and cooperative sectors control about 70 per cent of the economy. The rest is controlled by the private sector". Given the large role played by the agricultural and services sectors, he dismissed as inaccurate estimates of 80 per cent state control, *Sharq*, 9 August 2006.

<sup>131</sup> Crisis Group interview, Saeed Laylaz, op. cit.

shifts or changes in formal institutional structures".<sup>132</sup> Domestic developments, including the strengthening of the conservative faction in the *majles*, certainly influence policy decisions. But Ahmadi-Nejad's election, in and of itself, did not trigger a radical departure in nuclear policy; the fundamentals – on the right to develop a nuclear energy program, including the right to an indigenous enrichment capacity – remained the same. Symptomatically, during the painstaking nuclear talks that occurred during Khatami's era, Iranian negotiators, whenever criticised at home, consistently pointed out that their position had been approved by the "highest authorities".<sup>133</sup> The August 2005 decision to resume uranium enrichment, for instance, undoubtedly was made with his approval as well as that of the group charged with managing foreign policy.

A similar consensus cannot be said to exist regarding Ahmadi-Nejad's bellicose rhetoric in the wider foreign policy arena. Even among some former allies, there is a growing feeling that the president's pronouncements concerning Israel and the Holocaust have weakened Iran's negotiating hand on the nuclear issue. Supporters of a tough stance, who not long ago criticised Khatami's "passivity", are now taking aim at Ahmadi-Nejad's "adventurism"<sup>134</sup> – a more damaging charge, since the price of passivity is unjustified concessions whereas the price of adventurism can be instability. Others argue that the president's strident rhetoric on the nuclear file itself has undermined Ali Larijani, the chief negotiator.<sup>135</sup> Criticism has grown

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<sup>132</sup> Crisis Group Middle East Briefing N°15, *Iran: Where Next on the Nuclear Standoff*, 24 November 2004, p. 9; see also Crisis Group Middle East Report N°18, *Dealing with Iran's Nuclear Program*, 27 October 2003, p. 20.

<sup>133</sup> See, for instance, the interview with Hassan Rowhani, Iran's chief nuclear negotiator during the Khatami administration with the hardline *Kayhan*, 23 July 2005. Rowhani explains how the "highest authorities", including the "eminent leader", insisted on him becoming the chief negotiator and were involved in all the decisions.

<sup>134</sup> See, e.g., Foad Sadeqi, "The Nuclear File: From Passivity to Extremism", at <http://www.baztab.com/news/56552.php>. Baztab is an internet site affiliated with Mohsen Rezaei, former IRGC commander and critic of Khatami's so-called passivity throughout the nuclear negotiations. Mohammad Kosh Chehreh, the former Ahmadi-Nejad adviser and current *majles* member, said: "The Iranian people are facing sanctions solely because of a man who is making immature and adventurous statements. He put too much emphasis on Iran's nuclear accomplishments. He has scared the West, while there is nothing to be afraid of", Crisis Group interview, op. cit.

<sup>135</sup> A former diplomat claimed that Ahmadi-Nejad had directly interfered with the nuclear negotiation by publicly announcing the date of Iran's response to the EU package, thereby tying

markedly since the UN Security Council imposed sanctions on 23 December 2006.<sup>136</sup> Symptomatically, and although supportive of Ahmadi-Nejad's stance on the enrichment question, the Supreme Leader has kept silent on other matters, such as the president's decision to organise a Holocaust-denial conference.

It is unclear why it is taking so long to rein in Ahmadi-Nejad if, in fact, Khamenei is the ultimate authority and if, as is now widely suspected, he is increasingly uncomfortable with the president's style. One possible explanation is that the approach was seen as working, certainly better than the reformists' prior attempts at nuclear diplomacy: Iran moved its nuclear program forward; the West softened its position somewhat (agreeing to resume negotiations even though Iran had undertaken uranium conversion activity);<sup>137</sup> and the international community did not impose stringent sanctions. The president's vehemently anti-Israeli rhetoric also seemed to serve a purpose, currying popular favour in the wider Muslim world, introducing the question of Israel's arsenal into the nuclear equation and shifting the ideological balance of forces in the region.

Moreover, factional dynamics by their very nature tend to favour radical stances that hark back to earlier revolutionary days and so are difficult to denounce. Under this view, Ahmadi-Nejad essentially dared other significant players to publicly oppose hardline stances that he drapes under the mantle of ideological purity.

That calculus may have changed. UN sanctions have now been imposed and, though far from being decisive, they sent a troubling signal to those in Tehran who had counted on Russian and Chinese support; they also have been accompanied by a less visible U.S. effort to curb Iran's access to the international banking system that is causing increasingly serious concern.<sup>138</sup> Moreover, the bitter and violent

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Larijani's hands, Crisis Group interview, Tehran, July 2006. See also <http://www.baztab.com/news/56552.php>.

<sup>136</sup> For example, *Jomhuri-ye Eslami*, a conservative newspaper formerly supportive of Ahmadi-Nejad, wrote: "Turning the nuclear issue into a propaganda slogan gives the impression that, to cover up flaws in the government, you are exaggerating its importance. If people get the impression that the government is exaggerating the nuclear case in order to divert attention from their demands, you will cause this national issue to lose public support", 15 January 2007.

<sup>137</sup> See Crisis Group Middle East Report N°51, *Iran: Is There a Way Out of the Nuclear Impasse*, 23 February 2006, p. 11.

<sup>138</sup> Crisis Group interviews, U.S. and European officials, Washington, Brussels, November 2006-January 2007. Mohammad Abtahi, Khatami's vice president for legal and

Sunni-Shiite rift in Iraq, coupled with heightened anxiety about Iranian aspirations in that country, has led to a more confrontational U.S. posture, including a strategy of strengthening cooperation with Sunni Arab governments against Tehran.<sup>139</sup>

For now, because Khamenei has not defended Ahmadi-Nejad's foreign policy endeavours, critics have been able to take issue with the president without crossing any sensitive political lines. But Khamenei's silence also has helped Ahmadi-Nejad remain unphased by the intensified criticism. In his recent *majles* speech introducing the 2007-2008 budget, he labelled reports of his troubles and possible political demise "psychological warfare", adding:

[Our enemies] attempt to use threats and propaganda to create shock, isolate us and promote their objectives through the use of some despicable and weak elements, but fortunately we ensured that these sinister objectives were also neutralized. The plan of the system was to prevent a [UN Security Council] resolution against Iran, or if a resolution was going to be issued, to delay it and ensure it had little content. And you saw that this is what happened.... The resolution was still born and will not have any effect on the economy and politics of our country.... Erroneously, they want to give the impression that with this resolution and sanctions Iran has to pay a heavy price.... But we have yet to pay a price.<sup>140</sup>

Ahmadi-Nejad's combative response suggests he is not about to change his political style. He has been criticised since his first days in office, and since then rumours of a rift with the Supreme Leader have been rife. True, the volume has intensified, and consequences are beginning to be felt. Over time, Khamenei may not be able to remain above the fray. Because ultimately he is responsible for foreign policy, he cannot forever back the president without himself being identified with and thus held accountable for Ahmadi-Nejad's undertakings. As growing numbers of conservatives accuse Ahmadi-Nejad of adventurism – including hardline newspapers –<sup>141</sup> and thus of

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parliamentary affairs, pointed out the gravity of unprecedented international sanctions and their potential economic consequences, see <http://www.webneveshteha.com/weblog/?id=2146308495>.

<sup>139</sup> Crisis Group interviews, U.S., Egyptian and Saudi officials, January 2007.

<sup>140</sup> ISNA, 21 January 2007.

<sup>141</sup> Reacting to Ahmadi-Nejad's description of the UN resolution as "a piece of torn paper", an editorial in the conservative *Jomhuri-ye Eslami* accused the president of

endangering the Islamic Republic's stability, Khamenei at some point may well have to rein in either the critics or their target. But if the example of his public involvement in domestic issues over the past year and a half is a precedent, any such intervention in foreign policy is likely to be more subtle than blunt, more indirect than direct and more likely to tinker with the outer edges of Iran's approach than to alter its fundamentals.

## V. AFTER THE HONEYMOON: AHMADI-NEJAD'S OPTIONS

Ahmadi-Nejad has appeared unmoved by growing disquiet at senior levels over his domestic and foreign policies. Instead, using the presidency's powers and prerogatives, he has banked on a populist approach, bringing his ideas and government to the people. Symbolically, cabinet meetings have been held in the provinces, chiefly the poorer ones – a clear signal of the president's intent to address economic inequalities. During the first eighteen months of his tenure, the cabinet made 24 trips to provinces; according to the interior minister, it visited over 160 cities in the first year.<sup>142</sup>

Such meetings outside the capital are unprecedented and, in the manner in which they were set up, a microcosm of Ahmadi-Nejad's populist ways: advance teams from the president's office travel to the province to assess educational, cultural and economic needs; the president and cabinet members attend and speak at large public rallies, with Ahmadi-Nejad spending no more than a few hours in any given city; a cabinet meeting is held on the final day of the trip, with decisions concerning development projects made on the spot.<sup>143</sup>

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using "such an aggressive tone that sounds so stubborn to listeners", 9 January 2007.

<sup>142</sup> *E'temad Melli*, 25 July 2006. In a 23 January interview with Channel 2, Ahmadi-Nejad claimed he had visited 340 cities.

<sup>143</sup> Crisis Group interview, former member of Construction Crusade, Tabriz, 20 July 2006. For instance, in Tabriz (East Azerbaijan province), where Crisis Group was present during a cabinet visit, the minister of welfare and social security announced fund allocation for 100 housing units to benefit provincial welfare administration (*behzisti*) employees and for building a genetics laboratory. Ahmadi-Nejad experimented with a similar approach as mayor of Tehran. A high ranking civil servant in Tehran who regularly participated in meetings between the mayor's committees and citizens of the capital's 22 neighbourhoods said that, while initially sceptical, he ended up finding Ahmadi-Nejad's approach useful. It helped us get

But like much else, the approach is riddled with imperfections – again, a microcosm of Ahmadi-Nejad's overall performance. Promises made have not meant promises kept; in fact, some projects never make it past cabinet meetings<sup>144</sup> or, if they do, fail to get budget authorisation from the Management and Planning Organisation. Trips also are time-consuming and costly, another source of criticism.<sup>145</sup> They tend to unduly inflate expectations, a concern echoed by the interior minister: "These visits have heightened popular demands and increased the load on all those active in implementation, particularly sub-governors".<sup>146</sup> They promote an atmosphere in which people are encouraged to rely on government answers for the minutest personal problems.<sup>147</sup> And they have given rise to the charge of demagoguery (*avamfaribi*) by both reformist and conservative critics.<sup>148</sup> Ultimately, even conservatives fear that Ahmadi-Nejad's combination of piety and unfulfilled promises risks disheartening "true believers" in a religious republic.

As suggested by the first elections since Ahmadi-Nejad's presidency, he confronts a challenge from both pragmatic conservatives and pragmatic reformists,

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to "know Tehran's varied neighbourhoods, identify needs and ultimately respond to some of them", Crisis Group interview, Tehran, 29 July 2006.

<sup>144</sup> In an editorial in the conservative *Resalat*, Nasser Imani remarked: "If the promises are rejected, this is not appropriate for the position of the president. If they are approved, it is not good for the cabinet since it looks like decisions have been made prior to its approval", *Resalat*, 6 September 2006.

<sup>145</sup> Crisis Group interview, conservative *majles* member, Tehran, 17 July 2006. Ahmad Tavakoli, a prominent conservative deputy and head of the *majles* research centre, criticised the government for "spending the cabinet's valuable time on small individual matters when it should be spent on macro issues", ISNA, 7 July 2006.

<sup>146</sup> *E'temad Melli*, 25 July 2006. "It is true that these trips focus national attention on the dispossessed and can be defended on that basis. They also facilitate the resolution of some old and small problems in faraway places. But they heighten people's expectations tremendously, increasing rifts and leading people to always wait [for something to happen]", Tavakoli, INSA, op. cit.

<sup>147</sup> "The way these trips are conducted undermines the Islamic Revolution's basic message of self-reliance and rejection of consumerism. They have a very adverse cultural impact. They encourage reliance on government. In every trip hundreds of thousands of letters are handed to the government, a majority of them asking for individual favours. The government has become something of a big bear from which everyone is trying hard to pull out some hair", Crisis Group interview, Tehran University sociology professor with close ties to conservative circles, Tehran, 4 August 2006.

<sup>148</sup> Crisis Group interview, conservative member of Tehran municipal council, Tehran, 17 July 2006.

dissatisfied with his economic performance and alarmed by his foreign policy. Increasingly, reformist critics have shifted their focus from the consequences of monopoly conservative control over elective and non-elective institutions to a more substantial assessment of the president's policies. Even his political base, attracted by his revolutionary ideology, may well abandon him should he prove incapable of achieving his more earthly objectives of economic justice and fair government.<sup>149</sup> Like his predecessor, Ahmadi-Nejad may well find himself the victim of the gap between lofty promises and inadequate performance, brought down by the very electoral process that propelled him to power.<sup>150</sup>

Ahmadi-Nejad's honeymoon has ended. Still, one should not wager on rapid or radical change nor underestimate his ability to put up a serious fight. To tackle the discontent, Ahmadi-Nejad could move to the centre, restraining the expansionary impulses of his populist economic policies and fiery rhetoric; as mentioned, elements of such an approach can be detected in his 2007-2008 budget. More likely, he will combine more fiscally responsible policies resulting from the drop in oil prices, continuation of the populist campaign mode and periodic, strident attacks against the West.

Moreover, as Ahmadi-Nejad faces growing disquiet, he will bank on the domestic reaction to intensified external intervention, whether on the rhetorical, economic or, more pertinently, military front. He may not have to wait long. U.S. officials, persuaded their current strategy is succeeding, appear willing to up the ante. Over the past several months, they argue, heightened pressure – more robust rhetoric; passage of UN Security Council resolution 1737 imposing sanctions;<sup>151</sup> banking restrictions; forceful action

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<sup>149</sup> *Keyhan*, a newspaper close to the Supreme Leader, wrote: "People see the results of government policies in their lives. Two years have passed since Ahmadi-Nejad took power, and what is seen is different from what the government promised. Increasing cost of living is stinging the people. If the government doesn't curb it, at least it shouldn't deny it, as denying reality will only further anger the people. The government should know it cannot fight on 100 fronts at once", 17 January 2007.

<sup>150</sup> Indeed, disappointment with Khatami took significantly longer to become vocal and never presented a genuine electoral threat. He handily won reelection and, in that contest, was challenged by conservatives but not by members of his own camp – a fate Ahmadi-Nejad, should he run again, will find hard to avoid.

<sup>151</sup> Security Council Resolution 1737 (23 December 2006) prohibits the supply, sale or transfer of all items, materials, equipment, goods and technology which could contribute to

against Iranian activities in Iraq, including the incarceration of officials;<sup>152</sup> dispatch of two aircraft carriers to the Persian Gulf; strengthening of a U.S.-Arab coalition against Iran – has exposed cracks in the regime, allowing more pragmatic voices to speak out.<sup>153</sup> A U.S. official said simply: “What we’re doing is working. Three months ago, Iran was overconfident. Today, we have grabbed their attention”.<sup>154</sup>

In coming weeks, Washington will seek to persuade European banks to limit their lending; get the European Union to curtail its export credits; and convince Russia and China to halt their arms sales, all purportedly with the goal of convincing Tehran to suspend uranium enrichment and resume negotiations – including with the U.S.<sup>155</sup>

Views may not be unanimous; “there is still a debate within the administration between those who want to push for short term, revolutionary change, and those who accept a more incremental, evolutionary process”.<sup>156</sup> But, adds another official, “at this point there are no soft-edges when it comes to Iran”.<sup>157</sup> Nor is this solely a U.S. view. British and many Arab officials – worried that American inaction would embolden Iran –

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Iran’s enrichment-related, reprocessing or heavy water-related activities, or to the development of nuclear weapon delivery systems. It also calls upon member states to exercise “vigilance” regarding the entry into or transit through their territories of individuals who are engaged in, directly associated with or providing support for Iran’s proliferation sensitive nuclear activities or for the development of nuclear weapon delivery systems. In addition, member states are asked to freeze the funds, other financial assets and economic resources owned or controlled by a number of individuals or entities listed in the Annex of the Resolution.

<sup>152</sup> U.S. officials assert that such action is fully justified because Iran has been supplying “Shiite militias” with advanced improved explosive devices (IEDs), which, they claim, are responsible for the deaths of some 250 U.S. servicemen and women. They also maintain that those they detained were part of Iran’s security/intelligence branch and were planning attacks against Americans. Crisis Group interviews, U.S. officials, Washington DC, 1 February 2007.

<sup>153</sup> In the past month, as documented above, several hardline newspapers in Tehran closely affiliated with Supreme Leader Khameni and previously supportive of Ahmadi-Nejad have voiced criticisms of the president. Former Presidents Rafsanjani and Khatami have attacked Ahmadi-Nejad’s disregard for diplomacy.

<sup>154</sup> Crisis Group interview, U.S. official, Washington DC, 24 January 2007.

<sup>155</sup> Should Iran suspend its enrichment, Secretary of State Condoleezza Rice herself would attend the talks. Crisis Group interview, U.S. official, 1 February 2007.

<sup>156</sup> Crisis Group interview, U.S. official, Washington DC, 25 January 2007.

<sup>157</sup> Crisis Group interview, U.S. official, 25 January 2007.

reportedly urged and welcomed this more assertive posture.<sup>158</sup>

That concern over Iran’s potential isolation has emboldened Ahmadi-Nejad’s critics is without doubt, as documented in this briefing. But it is by no means clear that this approach, if unaccompanied by offers of unconditional engagement on the entire range of issues in dispute, will succeed in altering Iran’s underlying strategy is another matter. While differences in style and emphasis certainly exist, there is no evidence of a real rift within the regime on policy toward Iraq, on the right to domestic enrichment or on the aspiration to play a broader regional role.<sup>159</sup> There are differences chiefly on how best to advance these goals. On issues critical to U.S. interests and regional stability, Tehran continues to hold strong cards; as pressure in Iraq or on the nuclear file increases, so does the likelihood of retaliation by Iran, whether directly or through its allies. Any chance of altering its behaviour, it still appears, will come, if at all, through broad-based discussions of issues of mutual concern.<sup>160</sup>

U.S. strategy also appears premised on a faulty analysis of Iranian politics – the notion that Ahmadi-Nejad is responsible for nuclear policy and that pressuring Iran will weaken him and bolster pragmatic forces prepared to concede on the nuclear issue. Rafsanjani, Khatami or Karroubi will have little difficulty invoking Iran’s international predicament to fortify their criticism of a political foe; but they will have no hesitation at all closing ranks behind Ahmadi-Nejad if they perceive the Islamic Republic

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<sup>158</sup> Crisis Group interviews, UK and Arab officials, January 2007.

<sup>159</sup> Sadeq Kharrazi, a relative of the Supreme Leader and former ambassador to France, who has been critical of “counter-productive” rhetoric, dismissed reports of disagreements on the nuclear issue. “I have never had any indication that the Leader has disputes with Ahmadi-Nejad over the [nuclear] issue.... Top officials have consensus over Iran’s right to peaceful nuclear technology.... But they might have different ideas about how to achieve it”, Reuters, 31 January 2007. On the question of Iran’s regional role, an Iranian official said: “We are not asking to be recognised as the ‘regional hegemon’. We simply want our rightful role as an important power in the region, not *the* important power”, Crisis Group interview, October 2006.

<sup>160</sup> Iranian officials complain that the U.S. administration has not offered Tehran any meaningful incentive to compromise or a realistic path toward normalised relations. “Put yourself in Ayatollah Khamenei’s shoes. So we temporarily suspend enrichment activities, then what? Will the U.S. adopt a fundamentally different tack toward Iran?”, Crisis Group interview, Iranian official, 14 December 2006.

or its vital interests to be at stake.<sup>161</sup> In other words, perception in Tehran that U.S. policies aim to undermine the regime will retard rather than accelerate policy change.<sup>162</sup>

Of course, there is an even greater danger. U.S. officials, the president included, consistently maintain that they have no intention of provoking a military confrontation with Iran and that stories of an impending war are “overheated”.<sup>163</sup> Rather, in the face of Iranian overconfidence, they argue, the U.S. needs to flex its muscles, strengthen its presence in the Gulf and demonstrate it can strike back in order to “restore respect for the United States before a more balanced dialogue can take place”.<sup>164</sup> Building up one's strength in anticipation of a negotiation is nothing new. But, in the absence of any diplomatic engagement and with extreme tensions in the region, such escalation will be exceedingly difficult to calibrate or control. The risks of an accidental war are very real and very frightening.

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<sup>161</sup> Rafsanjani, for example, simultaneously criticised Ahmadi-Nejad and defended the Islamic Republic's overall policies – in particular pursuit of the nuclear program – against attacks from its “unruly enemies”, *Kargozaraan*, 27 January 2007.

<sup>162</sup> In the words of a former Iranian official, “deep down Ayatollah Khameni believes that the U.S. will not be satisfied until it goes back to the same patron-client relationship they had with Iran during the time of the Shah”, Crisis Group interview, Paris, 19 January 2007. Iranian officials cite a newly created Iran-watching outfit at the U.S consulate in Dubai as evidence of a “regime change” approach, Crisis Group interview, December 2006. An Iranian official highlighted the following passage in a speech by Under Secretary for Political Affairs Nicholas Burns as further evidence: “We have a responsibility to support those within Iran that want to see in the future a more open, democratic society emerge and evolve. And so the Congress has been good enough to give us in a supplemental fashion this past year sufficient funds that now we can take Voice of America Television Service and broadcast twelve hours a day into Iran, not four hours a day; and that Radio Farda, the U.S. government radio Farsi language station can broadcast 23 hours a day, not eight hours a day, into Iran... We have established in Dubai our 21st century version of Riga Station. In the past year we've built up an office in Dubai solely dedicated to watching Iran and understanding Iran and talking to the thousands of Iranians who come out of Iran into Dubai itself”, R. Nicholas Burns, address to the Council on Foreign Relations, 11 October 2006.

<sup>163</sup> Crisis Group interview, U.S. official, Washington DC, 1 February 2007.

<sup>164</sup> *Ibid.*

## VI. CONCLUSION

The process of internal debate and elite competition evident in Ahmadi-Nejad's still brief term of office suggests the continued ability of politics in Iran to swing the pendulum back, rein in policies deemed dangerous to regime survival and trigger change – arduous, slow and modest though it might be. The president's inability to deliver on his economic program, more than anything else, is contributing to his noticeable and steady decline in the public's eyes. At the same time, his inflammatory behaviour on the international stage is both causing disquiet and emboldening political rivals.

But that is far different from concluding either that Ahmadi-Nejad's days are numbered or that Iran soon will back down on the fundamentals that have driven its international policy. Under increased pressure, the president may well have to compromise on parts of his domestic agenda. But he also will rely more heavily on the nationalist sentiment that a more confrontational U.S. posture will likely provoke, in order to change the subject and seek to mask his domestic failures. In this sense, a hawkish U.S. – or Israeli – policy toward Iran could turn out to be Ahmadi-Nejad's best friend. External military and security threats inevitably will constrain the ability – and even willingness – of domestic actors to press their case. Says a prominent reformist: “Those who threaten and pressure from the outside forget that we still think in traditional ways about national sovereignty. If we have to choose between individual freedom and national sovereignty, we will choose the latter. We hope we don't have to choose”.<sup>165</sup>

**Tehran/Brussels, 6 February 2007**

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<sup>165</sup> Crisis Group interview, Behzad Nabavi, former minister of industries and deputy speaker, Tehran, 1 August 2006.



## APPENDIX B

### ABOUT THE INTERNATIONAL CRISIS GROUP

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The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with nearly 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made available simultaneously on the website, [www.crisisgroup.org](http://www.crisisgroup.org). Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policy-makers around the world. Crisis Group is co-chaired by the former European Commissioner for External Relations Christopher Patten and former U.S. Ambassador Thomas Pickering. Its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

Crisis Group's international headquarters are in Brussels, with advocacy offices in Washington DC (where it is based as a legal entity), New York, London and Moscow. The organisation currently operates thirteen field offices (in Amman, Bishkek, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Pristina, Seoul and Tbilisi), with analysts working in over 50 crisis-affected countries and territories across four continents. In Africa, this includes Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, the Sahel region, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia,

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