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SOCIAL ORDER, RENTS, AND ECONOMIC  
DEVELOPMENT IN IRAN  
SINCE THE EARLY 20TH CENTURY

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## Abstract

This paper examines the evolution of social orders in Iran since the early 20th century and relates the country's economic performance to that process. The study is enriched by comparisons with Turkey. We base our analysis on the social orders framework developed by North, Wallis, and Weingast (2009). We argue that the system in Iran has been a basic limited access order, where the settlements among the elite have been dominated by individuals and groups that have been more effective in organizing and controlling the means of violence. While many aspects of the system and the dominant groups have changed in significant ways over time, the transitions have not yet supported the development of impersonal rules and independent private organizations. This has been in contrast with the situation in Turkey where the army's collective rule and the role played by the European Union has allowed impersonal rules and long-lived private organizations to grow and gain strength. Such gains could be reversible. Nevertheless, they are necessary to preparing a country to transit to more open access orders. The implications of the analysis offer insights for the Arab countries that are going through political transformation in the aftermath of the Arab Uprisings. Awareness about the nature of the long-term effects of the decisions made by the political actors at this time is likely to matter a great deal for the social outcome.

**JEL Classification:** D7

**Keywords:** Social Order, Economic Development, Limited Access Order, Open Access Order, Iran, Turkey

## ملخص

تبحث هذه الورقة تطور النظام الاجتماعي في إيران منذ أوائل القرن 20 وترتبط هذه التطورات بالأداء الاقتصادي للبلاد. وتعد مقارنة بتركيا في هذه الورقة. نبنى تحليلنا في إطار النموذج الذي وضعه كل من (North, Wallis, and Weingast 2009) عن النظام الاجتماعي. ونناقش في الورقة أن النظام الاجتماعي في إيران كان أمرا أساسيا محدودا، حيث هيمنت المستعمرات في أوساط النخبة من قبل الأفراد والجماعات التي كانت أكثر فعالية في التنظيم والسيطرة على وسائل العنف. وفي حين أن العديد من جوانب النظام والمجموعات المهيمنة تغيرت بطرق كبيرة مع مرور الوقت إلا أن التحولات لازالت حتى الآن غير معتمدة على وضع قواعد مجردة ومنظمات خاصة مستقلة. وقد كان هذا على عكس الوضع في تركيا حيث سمح الحكم الجماعي للجيش والدور الذي يلعبه الاتحاد الأوروبي بوجود قواعد غير شخصية ومنظمات خاصة طويلة الأجل للنمو واكتساب القوة. هذه المكاسب يمكن أن تكون قابلة للتبدل. ومع ذلك، كانت ضرورية لإعداد البلاد للعبور إلى نظم أكثر انفتاحا. والآثار المترتبة على هذا التحليل تقدم رؤى للدول العربية التي تشهد تحولات سياسية في أعقاب الانتفاضات العربية. فالوعي حول طبيعة الآثار الطويلة الأجل للقرارات التي تتخذها الجهات الفاعلة سياسيا في هذا الوقت من المرجح أن يكمن لها أهمية كبيرة على النتائج الاجتماعية.

## 1. Introduction

This paper examines the evolution of social orders in Iran since the early 20<sup>th</sup> century and relates the country's economic performance to that process. The study is enriched by comparisons with Turkey. The implications of the analysis offer insights for the Arab countries that are going through political transformation in the aftermath of the Arab Uprisings. The experiences of Iran and Turkey are particularly interesting and relevant for the Arab countries because both societies share historical ties and significant cultural and social features with the Arab world. In addition, both Iran and Turkey have gone through major regime changes with notable similarities as well as differences. The two countries also claim to be offering competing models of institutional and policy framework for the Arab countries undergoing transformation. As a result, a study of the dynamics of social order in Iran and its comparison with the process in Turkey could hold important lessons for the Arab world.

Our methodology is based on a version of the framework developed by North, Wallis, and Weingast (2009, henceforth NWW), enriched by the insights provided by various contributions of Acemoglu and his associates, particularly Acemoglu (2008). A central theme of the framework is that human societies have historically started to establish order, control violence, and enforce contracts through personal self-enforcing dealings. Such deals work when they entail rents that would be lost if either side reneges. This is typically achieved through repeated interactions among individuals who are connected in some way (e.g., via kinship, neighborhood, etc.). To boost their rents and to help make their deals work better, those who are party to a deal (insiders) have an incentive to restrict the access of others to the relevant resources. The rents generated can be used to control the production process and to further restrict access to enhance rents. This gives rise to conflict between the interests of outsiders who want to gain access to the rents and insiders who want to protect and enhance their rents. Conflict over the distribution of the rents also exists among insiders. The outcomes of these conflicts are ultimately shaped by the ability of different groups to exercise violence. The settlement could take the form of dominance by individuals and groups that are more effective in organizing and controlling the means of violence. Naturally, in these situations the dominant groups will be in a better position to rents and resources. Such distribution of rents can also help the dominant groups to gain a stake in the system and contribute to the control of violence, allowing for rents to be generated. An alternative possibility is the emergence of a set of rules that allows the different groups to share the control over the means of violence and use it to maintain order for their collective benefit. Such rules and the beliefs based on them must ensure that while positions of power may be rotating among different individuals and groups, no subset of them can monopolize power and exclude others. One key characteristic of such rules is that they must be impersonal and self-enforcing.

The emergence of a dominant group that can control violence naturally leads to uneven distribution of access to rents and resources, an outcome that NWW call the "natural state," or Limited Access Order (LAO). As we explain in section 2, LAOs may take a variety of different forms. In situations where the level of economic and institutional development is low, some forms of LAO may be conducive to increased production for a while by ensuring property rights for those who have access to the political and economic resources (the elite). However, such growth episodes cannot be long lasting because LAOs severely curb incentives and access to resources for the majority of the population. The alternative social order that is compatible with sustained prosperity and growth is the Open Access Order (OAO), which functions based on self-enforcing, impersonal rules that treat all members of the society equally. Such rules work when they are widely accepted and cannot be changed without broad support. The emergence of impersonal rules is a social process that often requires the prevalence of balance of power among organized groups over decades and the

development of an understanding about the rules that serve their collective interests. Historically, such processes have been slow to emerge, particularly because any group that finds an opportunity to gain an upper hand vis-à-vis others tries to reshape the rules to serve its own interests by constraining others.<sup>1</sup>

Our case study focuses on the ways in which the Iran's politics and economy have developed under different forms of LAO and the reasons why the country has encountered difficulties in moving towards an OAO. In particular, we highlight the roles of initial conditions (existing institutions, beliefs, and social structure), natural resources, and superpower interventions. Our examples from Turkey complement this analysis by highlighting the transition opportunities that emerge under LAO and the constraints that the process faces. The long-term economic performances of the two countries are depicted and compared to those of developed and developing countries in Figure 1.

Our arguments can be summarized as follows. At the start of 20<sup>th</sup> century, for reasons that may be traced back to superpower rivalry and to the strength of tribes as the main agents of violence, Iran had very weak state institutions and a fragile social and political order. In the 1920s, the country came under dictatorial rule of a strong military leader, Reza Khan. He had managed to organize a small, but effective army that gained control of the central government through a coup and began to defeat the other warlords around the country, improving the conditions for revenue collection and providing more resources for the central army to grow stronger. Before long, Reza Khan was in a position to take over as the Shah and to establish a less fragile LAO. The new regime developed a modern bureaucracy and security forces with a fiscal system and a network of elites around the Shah that could encourage production, channel rents, and control violence. However, despite major strides in stabilizing the political order and improving the economic conditions in the 1920s and 1930s, the system remained an LAO with a network of personal connections under the Shah, interwoven with the government and military organizations. As a result, when Reza Shah abdicated in 1941 following the invasion of the country by the allied forces, a period of chaos and instability ensued.

The post-Reza Shah political turbulence eventually came to an end and a more stable LAO reemerged in the mid-1950s, when one elite faction managed to stage a coup and re-establish dictatorial rule under Reza Shah's son, Mohammad-Reza Shah. Superpowers of the time participated both in adding to the intra-elite conflicts and to the reassertion of authoritarianism. Ultimately, the superior ability to organize the means of violence and, thereby, to control rent allocation was critical for the outcome. Though the Shah's firm grip over the system enabled him to stimulate economic growth and keep him in power for a quarter of a century after the coup, there was little institution building that could help the elite coordinate in less personal ways and take the social order towards a more mature system. Indeed, the regime's access to large oil rents and direct superpower backing led to extreme personalization of power and undermined institutional developments that might have helped the elite to coordinate in more impersonal ways. This feature put the system on shaky foundations that easily collapsed when some groups outside the ruling elite managed to

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<sup>1</sup> Khan (2009 and 2010) suggests a related, but different, framework for the analysis of social orders that focuses more on "political settlements" in which growth enhancing rents are created and redistributed. As a key feature, the framework attributes social outcomes and processes to the attitudes of elite groups towards cooperation. For example, if a country suffers from predatory rent seeking by a new elite group, time may be required for them to mature and take more long-term views of rent generation and appropriations. Initially, rent extraction by the newcomers may be needed to avoid chaotic situation where no economic project is implemented properly. As Khan (2009) puts it, a proper understanding of the workings of an LAO in a specific context is vital for re-designing institutions in a way that "improve the ability of competing elites to develop 'live and let live' strategies that also allow growth to be sustained if not accelerated." In this paper, we consider such changes as part of the moves from fragile to basic and mature LAOs.

coalesce around a high-ranking clergyman, Ayatollah Khomeini, and mobilized the mass of the population against the Shah between 1978-1979.

Although the revolutionary movement of 1978-1979 was led by the promise of freedom and equality, it ended up reproducing another LAO, the Islamic Republic. The revolution was followed by a violent struggle among a number of organized groups that contended for power. However, the victors were the coalition of clergy and lay men associated with Ayatollah Khomeini who had gained a better position in the process of revolution to recruit political support and to organize a new cadre of security forces. The Islamist ideology, the nature of the group formation, and the intensity of the post-revolution power struggle were important factors in drawing the boundaries of the new elite and shaping the institutions of the Islamic republic (Ghamari-Tabrizi 2008). The way in which the winning coalition had formed and had reached power and its need to survive under threatening conditions gave primacy to personal relationships and limited the scope for impersonal institutions. The predominant position of Ayatollah Khomeini in the revolution became a model for establishing a pivotal office, the Supreme Leader, with ultimate say in all matters of the state. The office was designed to serve as a coordinator and gatekeeper for the elite. However, this institutional setup largely reinforced the personal nature of power in Iran. There have been a number of attempts in recent years to negotiate new deals that could reduce access restrictions and expand the role of impersonal rules. But, the gains in this respect have remained limited. The elite have mostly viewed such attempts as challenges to their power and have managed to suppress them, sometimes with violence. This process has strengthened the hands of the armed forces in the regime and in the allocation of rents. This shift in the balance of power has also been affected by external interference in Iran and threats of regime change. These trends have contributed to high economic volatility and slow growth in recent years.

Turkey's experiences since the early 20<sup>th</sup> century has similarities with the developments in Iran, but it also contains important contrasts that have helped the country become a more mature LAO and develop more impersonal institutions. Turkey emerged from a chaotic situation following the collapse of the Ottoman Empire at the end of World War I and, as in Iran, came under the control of a strong military leader, Ataturk. However, in contrast to the situation in Iran, Ataturk's regime inherited more advanced state institutions with more systematic control over violence. Also, Turkey's new leaders had been part of the modern Ottoman elites that had experimented with institution building and major state reforms. They had alliances with the regional elites and did not have to subdue them militarily. Moreover, they established a political party that complemented the government and military institutions for managing access to power. These features ensured that after the departure of the authoritarian ruler, there were sufficiently strong institutions to allow the elite factions to compete with each other without causing chaos. The military and the bureaucracy held veto powers and played key roles in steering the system through many episodes of economic and political instability. The elite came to increasingly rely on the court system for managing the intra-elite conflicts and, thereby, laid a foundation for the expansion of impersonal rules. Eventually state institutions and the private sector gained adequate strength to give the elected officials the upper hand vis-à-vis the military and bureaucratic elites. Two other factors seem to have helped this process as well: (1) third party enforcement from an OAO based organization; that is, the conditions for membership set by the European Union (EU), which required increased openness and reliance on formal institutions and (2) the rise of a large number of capitalists who started with small and medium size firms, but took advantage of Turkey's increased economic openness to export and accumulate capital. These groups formed a power base for the new political teams that have joined the ranks of the elite since the late 1990s. As a result, although personal connections still matter in Turkey, the country's

LAO has matured and many impersonal rules have taken root in it. The consequence for the economy has been stable and robust growth over the past decade. Some risk of remaining an LAO exists in Turkey, as the elite groups currently dominant strive to control access to political and economic resources. But, the rise of new interests and impersonal rules along with the EU effect seems to have made the reversal of the progress unlikely.

In the rest of this paper, we first describe the theoretical framework of our study in more detail. We then examine Iran's transformation at various stages and compare it with that of Turkey. Finally, in the concluding section of the paper, we derive the implications of the study and offer lessons for Arab countries that are being transformed in the aftermath of Arab Uprisings.

## **2. The Framework**

According to the NWW thesis, prior to the formation of open political and economic systems (OAOs), human societies avoided chaos when relatively small and cohesive groups (the elite or oligarchy) managed to take charge of the main means of violence and restrict access to economic and political power. Once they controlled the tools of public policy and extracted rents from the rest of the society, the elite were able to support the organizations and social structures that helped maintain their power. The rents also motivated the members of the elite to value cooperation and to reduce risk of violence against each other and against the non-elite. This system, which NWW call the "natural state" or LAO), requires barriers against entry into the ranks of the elite as a means of preserving rents. This is specified through formal or informal rules, including culture and religion. However, control of violence is the ultimate guarantor of access restrictions.

Entry barriers play a central role in LAOs. Individuals in political office under LAO try to keep positions of power in order to increase their ability to run long-term projects and gain access to larger and longer lasting economic and political rents. Besides, incumbents may have the fear of being expropriated and prosecuted once out of power. Thus to preserve their positions, the ruling elite try preempt potential rivals by restricting access to power and resources. This requires some sort of coordination among the elite. The state is the organizational structure that brings about such coordination and governs the relationships within the elite and among them and the non-elite. An important implication of these aspects of the natural state is that private organizations will have difficulty surviving independently of the state under LAO.

Limits to entry, coordination among the elite, and the weakness of organizations outside the state may enable the elite to protect the returns to their investments against redistribution demands. This can strengthen the property rights of the elite and motivate them to invest, yielding economic growth compared to the bleak outcome of a competitive (and chaotic) system without such protection (Acemoglu 2008). However, the limitation of entry shrinks the pool of talented entrepreneurs among the elite and, thus, reduces productive investment and growth. Also, given the weak protection of property rights for those out of power under LAO, the potential turnover of the elite diminishes their incentives to invest. As a result, the system becomes increasingly inefficient.

Enforcement of rules and deals under an LAO is based on personal, self-enforcing relationships among the elites. This has important consequences for the forms and functions of LAOs. In particular, the variety of personalities and relationships that they can form causes LAO to take very diverse shapes, especially in structural details. In addition, the functions of the state under LAO have a personal nature and the delivery of government services always depends on whom the recipient is connected to. This feature enables the leaders of elite factions to build hierarchical following among the elite and non-elite for themselves, elicit their loyalty, and deliver discipline when they deem necessary. Vertical loyalties also tend to



reduce trust across members of the hierarchies under each elite group leader, which in turn curtails the possibility of formation of horizontal associations outside the state, especially those that might challenge the LAO.

In contrast to LAOs, OAOs work based on impersonal rules and complex organizations. There are positions of power, especially offices that are in charge of controlling the means of violence. But, the individuals in those positions act as representatives held accountable by the public. They are bound by broadly accepted self-enforcing rules that are difficult to change and permit open access. The constraint on changes in the key rules under OAO is the costs of coordination and consensus building across large numbers of individuals and organizations. As a result, those who are elected to lead the state apparatus face constraints in getting other actors to help them change the rules in their favor, particularly because the other actors expect everyone else to hold them responsible if they deviate from the rules. Openness of access to political and economic leadership positions further means that those who are put in charge of political offices are easily replaceable by other contenders. So, they cannot expect to have much leverage over other members of the society to establish their own personal fiefdoms within the state. This in particular implies that the armed forces as state organizations cannot use their means of violence to gain direct or indirect control over the government. Rather, the military and security forces are placed under the consolidated control of civilians who represent the public.

The diffuse and impersonal support for the rules under OAO can provide a third-party mechanism for the enforcement of new rules that are established through widely accepted procedures. This allows the organizational structure of the society to become increasingly complex and rich. In particular, it provides room for the emergence of all sorts of private associations and organizations outside the sphere of the state, ensuring competition for those in charge of policymaking and providing checks and balances for those acting within the state.

LAOs take different forms in terms of their ability to manage entry restriction and coordination among the elite. One way to classify them is in terms of the durability of institutions and the strength of private organizations present in the system. Using these criteria, NWW classify LAOs into three types: *fragile*, *basic*, and *mature*.

Fragile LAOs are rudimentary systems with many elite factions with their own direct access to violence. Balance of power among these factions could result in mutual deals and settlements that lead to the control of violence, possibly allowing production and rent generation to expand. Violence capacity would then serve as a principal determinant of the distribution of the rents. However, in the absence of institutional structures that allow for impersonal and long-term relationships, the deals among factions fall through once in a while and the power struggle may take violent forms. This inherent instability in the social order along with entry restriction severely limits the incentives to invest and produce under fragile LAOs. Even though output may expand in the short run, growth cannot be sustained. In the long run, fragile LAOs cannot perform well economically.

Basic LAOs emerge when one elite faction (often under the leadership of an individual) gains the upper hand and comes to regulate access to the political and economic resources. The dominant faction coordinates the other elite groups, balancing them against each other. It may even use its control over entry to create competition for other elite groups and to strengthen its own relative position. However, there are limits to the power of the leading elite because they need the other factions to help maintain the order and balance the potential challengers to the leadership. This implies that monopoly of violence may never be consolidated in an LAO. Suppressing all other factions soon brings about a breakup and factionalization of the dominant faction (or coalition) itself. As a result, although basic LAOs may go through

periods of extreme concentration of power, their main mode of operation is the situation where factionalization among the elite persists with one faction or coalition enjoying dominance and serving as the coordinator and gatekeeper.

The dominance of one faction under basic LAO gives it some stability and provides an opportunity for state institutions to gain longevity. This can make the environment more hospitable for investment by the elite. The economic gains then reinforce the system. However, the nature of power remains highly personal and private organizations outside the sphere of the state are hardly tolerated.

Mature LAOs are social systems that go beyond basic LAOs and manage to develop more complex and impersonal institutions for regulating entry and intra-elite relationships. In particular, these take the form of stronger judicial and legislative bodies that regulate elite rivalries and elite-non-elite relations on less personal and arbitrary bases. In contrast to the basic LAOs, where the coordinators and gatekeepers tend to deal with conflicts personally and informally, the elite try to resolve their differences more formally in the legislature or in courts. Also, to select policymakers for political offices, they tend to hold elections that allow the non-elite to vote for competing elite factions. These features reduce the need for the dominance of one faction as a coordinator and guarantor of stability. The LAO becomes more mature as it comes to rely more on rules and formal mechanisms.

Mature LAOs allow for the formation of private organization within some range. Such opportunities enable the social and political entrepreneurs among the non-elite to build new coalitions and to penetrate the elite ranks or create pressure for lowering entry barriers. This process diminishes the rents that can be appropriated by the dominant coalition. If at that stage the society's institutions are sufficiently developed and impersonal, the system might be able to transit into an open access order. However, it is also possible that the erosion of rents weakens the elite's incentive to maintain the institutions, preventing effective transition or even pushing the system into more basic or fragile LAOs.

The transition among various social orders does not follow any teleological process and may take many directions. The transition from a fragile to basic LAO is associated with the emergence of a dominant faction that can help maintain the stability of the system and allow some institutionalization of the state. The reverse transition may also take place. The demise of the dominant faction or its overzealous efforts to gain absolute power could push the system into a fragile state. The move from a basic to a mature LAO requires increased sophistication of state institutions and weakening of the dominant faction. The reverse move can come about if a faction that has the upper hand at some point tries to perpetuate its rule by undermining the system's institutions. For transition to an OAO, the society must have developed some institutional capabilities that can only exist in mature LAOs. NWW summarize such doorstep conditions as:

1. Rule of law for elites
2. Perpetually-lived organizations in the public and private spheres
3. Consolidated political control of the military by civilian leaders

Historically, institutionalization of rules, which plays a crucial role in reducing the arbitrary and personal nature of state power, has often been brought about as an unintended consequence of actions by elite groups or by accidental coordination among them. However, learning from other societies and accumulation of experience about rules that work or don't work can prepare the ground. External forces, such as threats from other states or promises of beneficial exchange with other countries, can also act as catalysts. For example, the potential for entering the European Union seems to have helped Turkey move closer to the doorstep of OAO. Of course, foreign forces may also adversely affect the maturing of an LAO by

actively undermining institutions, intervening in elite rivalries, and the like. For example, US intervention in Iran in 1953 and the Iraqi invasion of Iran in 1980 seem to have adversely affected the development of institutions in Iran.

A question that has not yet been explored much in the social orders literature, but is particularly important for MENA countries, is the role of resource rents in the performance and development of LAOs. Self-enforcing personal deals that play a key role in basic LAOs depend on the rents that each agreement generates for the parties involved. When there are opportunities for generating rents through production, mutually beneficial agreements among the elite are more likely to entail provisions that facilitate investment and productivity. However, when there are significant resource rents to be distributed, the arrangements among the elite may entail less concern about rents derived from production. Furthermore, in pursuit of capturing more of the resource rents for themselves, the dominant elite may prefer weaker institutions and less constraint on their actions.

Another important issue that deserves greater attention is the notion of elite formation and circulation. While the social orders literature has emphasized the capacity to exercise violence, elite groups also need to have the ability to persuade people, to coordinate them, and to manage the production process, including capital accumulation (Mills 1956). Often, different member of an elite faction have different talents and complement each other. For example, elite leaders who are capable of influencing and mobilizing people often do not exercise violence themselves. Rather, they recruit or are joined by other individuals with violence capacity. Also, entrepreneurs who can engage in production may gather around such an alliance to receive protection and greater rent appropriation opportunities in exchange for sharing the generated rent. However, since trust is central for the survival of such alliances, recruiting is limited and sometimes members of the same elite faction circulate among these roles. For example, in French “*pantouflage*,” the same persons occupied leading positions in the military, the government, and the private sector over their careers (Kolabinska 1912 in Bottomore 1993). The importance of trust also helps explain why kinship plays a major role in individuals’ access to elite positions (Heying 1995). Ideological bonds could also help elite cohesion, though such bonds often do not last long. As Higley and Burton (2006) point out, “ideologically united elites” typically originate in revolutionary circumstances in which a movement articulates a specific ideology to overthrow the existing elites. Once the revolutionary fervor is over and some rival groups have been eliminated, stability returns when new alliances lead to the formation “consensually united elites.” In this “elite settlement” process, “rival elite camps manage to bring their major disputes to a close and establish a basis for mutual trust” (Higley and Burton 2006).

An alternative formulation of elite dynamics is Vilfredo Pareto’s concepts of “innovators” versus “consolidators”. In his view, the circulation of elites has a wider meaning than the replacement of existing power elite by new ones. Rather, “consolidators replace innovators, and innovators replace consolidators” (Pareto 1991: 8). Pareto further argues, “when the new elite becomes victorious, it starts subjugating its erstwhile allies, shows a proclivity to monopolize all rewards and becomes more rigid and more exclusive” (Pareto 1991: 13). However, as we have argued above, they may also try to form new alliances or bring in new players to the game to balance the forces that may be pushing for change from within. The new entrants may be individuals or groups from the non-elite who manage to pass the entry barriers.

In applying this framework to the study of Iran, we first identify the nature of social order in each period. We then examine the entry restriction and rent appropriation mechanisms in that period. We also explore the ways in which the social order has shaped investment opportunities and economic performance. Next, we study the dynamics of the system and

project its possible trajectories in the coming years. Finally, we derive the implications of our findings for Arab countries, especially those experiencing major transformation in the aftermath of Arab Uprisings.

### 3. Social Order and Economic Conditions in Iran in Early 20<sup>th</sup> Century

The elite strata in Iran traditionally consisted of the members of the royal court, top bureaucrats and military leaders, tribal chiefs and warlords, high clergy (*ulama*), and local notables (major landlords and merchants). The central government was weak and violence capacity was widely dispersed among the elite, especially tribal chiefs, in various localities. When the government needed to defend its territory against an external enemy or suppress a rebellious warlord, it called upon tribes and other warlords to send troops to join its limited forces. As a result, state power largely depended on how well it could balance the tribes and other organizations with violence capacity against each other and on the support it could muster from them. Rabi and Ter-Oganov's (2012) study of army in 18<sup>th</sup> and 19<sup>th</sup> century Iran concludes:

“The central authorities continued to use the provincial militias to keep order in the provinces and to balance the power of the tribes. They further ensured a balanced and loyal administration by dividing civil and military power between the *beglarbegi* (high provincial governor) and *sardār* (high military commander in the province). Finally, to check the irregular militias and cavalry, Qajar shahs, like their Safavid and Afshar predecessors, had in their service a standing and most loyal force—the shah's bodyguard.” (Rabi and Ter-Oganov 2012, 354).

When power balances shifted, the tribes with their own dynastic ambitions did not hesitate to undertake armed opposition to the government, leading to the frequent and violent turnover of Iranian dynasties until the 20<sup>th</sup> century: Between the early-18<sup>th</sup> century and the early 20<sup>th</sup> century, power shifted from one dynasty to another four times.

The rise of religious leaders to the elite status rested upon a specific historical event: the ambition of the Safavids to strengthen their monarchy as a *Shiite* state against the neighboring *Sunni* Ottoman Empire. Accordingly, Safavid monarchs espoused Shiism as a state religion and provided economic resources and political support for Shiite religious bodies within the framework of the state. The expansion of Shiism further enhanced the *ulama*'s independent sources of funding through religious taxes, contributions, and control of *waqf* property (religious endowments under Islamic law). The collapse of the Safavid state in 1736 and the interregnum of 58 years with tribal and dynastic conflicts provided the Iranian *ulama* with the opportunity to institutionalize their power more or less independently of state apparatus. This process gathered strength with the establishment of Qajar dynasty in 1794. Qajars “...were of nomadic descent, and for them the administration of a country was far more complex than that of a tribe...The growth of the *ulama* was thus reinforced by their ability to perform educational, judicial, and legitimating functions of the Qajar state” (Moaddel 1986 522-3). When the nineteenth century global developments made change inevitable in Iran, the *ulama* were politically and institutionally strong and could claim that they had the ability to lead the society morally and politically through the process of change. Meanwhile, in the Ottoman Empire the continuity of the strong state was considered as the sole guarantor of the preservation of social order and the spread of Islam. Thus, secular imperial politics and the most liberal and pragmatic branch of Sunni Islam, Hanafi School of Law, was adopted. Accordingly, the Ottoman *ulama*'s duty was only serving as experts in “legitimizing” the decisions taken by the government (Gencer 2008). As a result, during the 19<sup>th</sup> century reformist “Tanzimat” movement, the bureaucratic elite easily excluded the *ulama* from the decision making process, arguing that the latter had lost their connections with the political reality in the modern world. The *ulama* lost their financial independence when the

government took over religious endowments and turned the clergy into paid officials of the state (Ahmad 1993: 25).

Global developments and superpower rivalry also played a role in the functioning of Iran's fragile LAO in the 19<sup>th</sup> century. Iran was a buffer between the territories controlled by Britain and Russia. So, each power had an interest in gaining greater ground in Iran and fending off the other. In doing so, they developed alliances among the central elite as well as the local warlords, with Britain focusing on the southern and Russia on the northern regions of the country. Neither saw a strong central government in their interest, but neither found it feasible to change the balance and replace the central government with its own allies. As a result, the weak Qajar dynasty became more durable than its predecessors.

The weak but durable central government in the 19<sup>th</sup> century changed the nature of land relations in Iran and led to landlordism. The central government weakness allowed the elite members to treat the stretches of land under their control over as private property (Lambton 1969). When Amir Kabir, a modernizing chief minister, tried to reform the system in the 1840s, he was assassinated through palace intrigue. His reforms were defeated and large-scale landlordism strengthened. The large landowners mainly composed of members of the royal family, top bureaucrats, tribal leaders, and local magnets, who had obtained land by conquest, inheritance, gift, or purchase. In addition, many ulama also won large tracks of land through inheritance, purchase, state grants and pensions, and sometimes through usurpation of the *waqf* properties under their supervision.

The rise of landlordism in Iran was in sharp contrast with the developments in Ottoman Turkey in the 19<sup>th</sup> century and had significant consequences for the transformation of Iran's social order in the 20<sup>th</sup> century. It is notable that until the mid-19<sup>th</sup> century the institutional structures of land relations in the Ottoman Empire and Iran were rather similar in their essentials. However, their trajectories began to diverge in the second half of 19<sup>th</sup> century as the Ottoman government began to remove tax collection intermediaries, establish private property rights, and distribute the state lands to small peasantry as a means of increasing government revenues (Karpas 1968). The relative strength of the state and its drive to raise revenues for the bureaucracy and the military were major factors in this process. Although the creation of private property rights allowed some to come to own large tracks of land that they did not cultivate themselves, the landlord class did not grow strong in many parts of the 19th century Ottoman-Turkey because the central state bureaucracy managed to keep control of state lands and defeated the local notables through its reforms.

An important development in the structure of Iranian society in the 19<sup>th</sup> century was the growth of the merchant class, which was made possible by the durability of the Qajar state and the rise of global trade in 19<sup>th</sup> century. As merchants accumulated wealth, they acquired land and some of them managed to join the ranks of the elite. Also, their religious contributions increased and, as a result, they built closer ties with the clergy.

By the late 19<sup>th</sup> century, landlordism and the rise of merchants and Shiite clergy had changed the balance of power in the Iranian society and the old social order was no longer viable. Indeed, in the early 20<sup>th</sup> century, a coalition of merchants and clergy led the Constitutional Revolution of 1905 that initiated the process of state modernization in Iran. However, the transition from fragile to basic LAO proved quite turbulent and prolonged. As the Qajars and some elite factions fought to maintain their relative power, a wide range of tribal leaders and local notables mobilized their armed men in support of the constitutionalists. Eventually the supporters of the old regime were violently defeated, but then conflict among the constitutionalists broke out and plunged the country into chaos during the 1910s. The ripple effects of World War I and the Bolshevik Revolution in Russia added to the turmoil.

Instability came to an end in the 1920s when Reza Khan, a Brigadier General in Iran's military, rose to power. Following a coup d'état in 1921, Reza Khan gained control of the military and the treasury and began to build a centralized army, which in turn made it possible to collect taxes more effectively, thus strengthening the central government. Within a few years, he had subdued the key warlords around the country and obliged a wide range of the elite to enter into alliance with him. In 1925, the alliance helped Reza Khan depose the Qajars and declare himself as the shah. He became Reza Shah Pahlavi and the founder of a new dynasty.

#### **4. Transformation of Social Order under Reza Shah**

The rise of Reza Shah brought some changes to the patterns of land ownership and rent allocation, a process that was also influenced by the dominance of private ownership of land as a key channel of rent extraction. During the early years of Reza Shah's reign the government confiscated considerable areas of land from rebel warlords—mainly tribal chiefs—and other large landowners and local notables. Reza Shah himself sought, mostly through forced sales, to acquire as much land as possible in the form of crown property (Moghadam 1996). The large rents from these lands were needed not so much for covering court expenses that for allowing the Shah to reward loyalty and service to him. Indeed, in spite of Reza Shah's modernization attempts, by the 1930s he had become the country's largest landlord. The government also extended its supervision over *waqf* endowments, reducing the top clergy's control over land and weakening the economic source of their independence.

While expropriating some landlords and undermining the economic source of many clergymen's power, Reza Shah built alliances with the rest. Some of the expropriated and state lands were also granted to military and bureaucratic leaders, thus nudging them to join the landlord class. This expanded the elite's interest in strengthening private property over land and led to a new legal basis for land ownership in the form of land-registration law of March 1932 (Ashraf and Banuazizi 1992).

The increasing power of the central army and the resources devoted to it gradually enabled its leading cadres to replace the defeated warlords as an elite group specialized in the use and control of violence. To keep the military under control and to ensure that the ambitions of the officers were checked, the armed forces were divided along different lines and monitored by intelligence units. However, prospects of benefiting from land rents played an instrumental role in maintaining the order. Indeed, as the political power and autonomy of the large landlords were weakened, some bureaucratic and military leaders advanced their positions in elite spheres via acquiring land (Lambton 1953: 182-89; 241-2; 259-62). Land grants from the government and the court also expanded these possibilities. In addition, the retiring top echelons of the military were often appointed by the shah to consequential positions, e.g., provincial governorship, bureaucratic high offices, foundation headship, corporate directorship, or seats in the Senate (the upper house of parliament). This pantouflage made the officers hopeful of receiving rents beyond active duty and ensured that they remain loyal to the shah and refrain from interference with his policies or decisions of his appointees.

The role of the military in Iran was in sharp contrast with the situation in Turkey, where the Armed Forces saw themselves as the guardians of the country's secular republican system and began to intervene in politics as an institution after Atatürk and his close associates had left the scene (Ahmad 1993: 121-147). In the absence of land rents and a coordinating leader, Turkish military leaders sought to enforce a set of rules in a collective fashion. To this end they tried to formalize and institutionalize their role in the country's politics and policymaking process. In Iran, the loyalty of the armed forces took a personal form: They were rewarded by the shah for being loyal to him and for all matters of politics they deferred

to him. They tried to follow the shah's orders and not to have an opinion of their own. The allocation of land rents during Reza Shah's reign (and oil rents under his son's reign) was a critical element that made the arrangement work.

The LAO that emerged under Reza Shah was no longer a fragile one. The state started to gain more institutional capability and sophistication. New military and bureaucratic elites began to emerge with Reza Shah's efforts to develop a modern army and an efficient centralized bureaucracy. Similar to the aims of the *Harbiye* and *Mülkiye*—the civil and military bureaucratic schools in the 19<sup>th</sup> century Ottoman Empire, in Iran many youngsters were sent to European military academies and universities for training in the 1920s and 1930s. Although an indigenous academy, *Dar ul-Funun*, had been established by the reformist chief minister in the 1840s, its activities never expanded enough to help train the sizable cadres needed for a modern state. With the return of Iranians educated in the West and the expansion of the domestic educational system, the civil bureaucracy expanded dramatically and its leadership rose in status. As mentioned above, some acquired land and gained greater access to rents. Others managed to join the elite sphere via membership in the parliament (*Majles*) (see Table 1), though this role became increasing low status among the elite as the power of the shah grew. It should be noted that according to Table 1, the share of ex-bureaucrats in the parliament was initially high, but those were mostly members of the old oligarchy who happened to hold jobs with the government. The rise of the bureaucrats' share in later years, on the other hand, indicates the entry of new members to the elite circles.<sup>2</sup>

As in other basic LAOs, all major economic organizations were linked to the dominant elite and provided them with the means to maintain or advance their positions. As for political organizations, all non-clandestine ones were dominated by the government, in which the shah was the pivotal player. The parliament (*Majles*) was weakened substantially and the judiciary, although reformed and expanded, came under full control of the government. Reza Shah applied patronage through the military, bureaucracy, and the royal court and seized upon the Iranian traditional web-type power relations and put himself in the center (Bill 1972). All the cabinets of this period "remained in office until they lost the confidence not of the *Majles*, but of the Shah" (Abrahamian 1982: 138). These aspects explain the weaknesses of institutional development and the relative failure of progress toward a mature LAO in Iran compared to Turkey, where institutions had started to take relatively more impersonal forms by the end of the 1940s.

Reza Shah's rise to power broke an old impasse that had kept Iran's social order a fragile one for centuries. The defeat of multiple holders of violence capacity and the expansion of the central military organization allowed the bureaucracy to grow and endow the state with more durable institutions. This eventually laid the foundation for a basic LAO in mid-20<sup>th</sup> century. The acquiescence of many elite groups was important in this transformation, especially the major landlords, merchants, bureaucrats, and professionals who found Reza Shah's dictatorship preferable to the past fragile equilibrium or chaos. The influences of institutional, organizational, and technological advances in the West were also non-trivial. A key loser in this process was the clergy, whose members were deprived of some of their resources and privileges (e.g., as reflected in the share of clergy in the parliament shown in Table 1). As in Turkey several decades earlier, the new dominant coalition in Iran did not find a useful role for the clergy in its ranks, especially in its effort to build a modern state based on the Western model of institutions.

Foreign influence in Iranian politics diminished after the rise of Reza Shah. The increased coordination among Iranian elite reduced opportunities for foreign powers to incite warlords

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<sup>2</sup> The active military officers were prohibited from joining the parliament. Those who joined after retiring have been listed in Table 1 based on other occupations that they had taken on.

against the central government or play different factions against each other. The superpower drive to interfere in Iran also diminished in the 1930s, when they became pre-occupied with the Great Depression. Once World War II loomed, Iran began to attract more attention again as the importance of its strategic location and oil resources got increasingly recognized. Like Turkey, Iran tried to take a neutral position in the War. But, that was not acceptable to the Allied forces that needed Iran as a military supply route to the Soviet Union. They invaded Iran in September 1941 and forced Reza Shah to abdicate in favor of his young son, Mohammad-Reza.

## **5. Economic and Political Change under Mohammad-Reza Shah**

The fall of Reza Shah removed the coordinator of the Iranian elite and opened up the space for freer exchange. However, Iran did not have the necessary impersonal institutions to sustain a real democratic process. The outcome was a rather chaotic process that became increasingly violent, returning the country into a fragile LAO. An important added feature compared to the past was Iran's oil resources that were yielding increasing rents, though mostly captured by the British, who controlled the extraction and shipping of oil. These rents as well as geopolitical rivalries boosted the superpowers' incentives to intervene in Iran. The West chose to support the Shah and the elite groups around him (mostly the military leaders, some top bureaucrats, and many large landowners). The Soviet Union, on the other hand, opted to expand its influence through Iran's communist party (Tudeh Party), which secretly penetrated the military and developed a significant armed wing. This situation had helped line up a large and diverse set of elite groups in the form of the National Front against both Eastern and Western Bloc influences. Control over oil rents was at the top of the Front's agenda. The clergy, who had lost part of their influence among the elite, mostly rejected the three groupings and formed a fourth faction. The multilateral elite game soon became complex and violent.

The standoff among elite factions was eventually resolved with a CIA-backed coup in 1953 that largely decimated the National Front and the Tudeh Party and substantially strengthened the Shah's faction of the elite. The dominant group had a rather similar character to the one that prevailed under Reza Shah, consisting of landlords, military leadership, and top bureaucrats. However, now oil rents were becoming quite sizeable compared to the land rents. This shift enabled the Shah to begin expanding his power in the new system. New technocrats were recruited to join the ranks of the elite, while the decline in the relative positions of the clergy and merchants resumed (see Table 1 for seat shares in Majles, reflecting these trends).

Another new element after 1953 was the response to the relatively wide appeal of the Tudeh and discovery of communist infiltrators and National Front sympathizers in all the ranks of the armed forces. To deal with this concern, the Shah established a secret police organization, SAVAK that would be allowed to use violence with little accountability. The SAVAK also addressed another concern of the Shah: The opposition from large segments of the clergy and the merchant class that had lost their places in the dominant coalition, but had mass appeal and could generate significant resistance. They had also started to support and fund armed groups that engaged in assassinations of the ruling elite members.

As the gatekeeper for entry into the elite circles, the Shah used oil rents to recruit new elite members who would owe allegiance directly to him and would help strengthen his position vis-à-vis the more entrenched elite groups. He particularly preferred professionals who could run the bureaucracy and implement his preferred projects. This required expansion of infrastructure and education, especially for the middle classes, which together with the rising oil rents and other factors gave rise to high economic growth rates (Esfahani 2002).



The stabilization of the LAO in Iran under Mohammad-Reza Shah coincided with increasing interest on the part of the West, especially the US, to help Iran develop economically as a means of reducing the risk of a communist-instigated uprising, similar to those in China, Vietnam, and elsewhere. The landlords, who had some influence in the system, especially the parliament, were not very helpful in promoting this goal. Also, with oil rents and new elite members on his side, the Shah no longer needed the landlords or the rents from the Crown lands, which were costly to manage. As a result, in the early 1960s he decided to undermine the landowners' source of power through a major land reform, which redistributed most of their lands to their tenants. Before the land reform of 1963, members of the royal family, large landowning clans, and a few hundred other families owned about 62 percent of the agricultural land in Iran. Waqf endowments and the state domains accounted for another 18 percent. The remaining 20 percent belonged to about 750,000 small landowners and peasants (Ashraf and Banuazizi 1992). The Shah first distributed part of the Crown lands and then set a maximum limit on land holding by other holders. The land taken away from landlords would be compensated by giving them shares in the stocks of state-owned companies, priced by the government.

The land reform went well beyond passing land title to peasants. It enabled the regime to expand its control over the agriculture surplus through interventions in input and output markets and to move large scores number of agricultural workers to industry and service sectors. More importantly, it was combined with a series of other reforms, such as privatization of state owned enterprises, voting rights for women, and use of military conscripts for education and healthcare development. These measures were meant to appeal to parts of the population and help weaken the landlords and the clergy as much as possible. However, ironically, the land reform may have unintentionally provided the clergy with more political power because it removed landlords as one of their main political rivals at the regional level. Since unlike the situation in Turkey, the Iranian army was not an independent player in the political game, powerful landlords used to serve important roles in the exercise political control at the local level. Thus, demolishment of their power created more space for the clergy. This is an important way in which the characteristics of the dominant coalitions of the LAOs in Turkey and Iran made a difference in the transition period.

The reform package met with strong opposition from segments of the clergy, merchants, and landlords. The demonstrations instigated by this opposition and led by a prominent clergyman, Ayatollah Khomeini, were violently suppressed in 1963 and the leaders were either put in jail or exiled. The Shah emerged victorious as a stronger dictator, but ended up relying on a narrower coalition. The elite factions driven to the sidelines and aspiring individuals outside the elite circles tried to organize and bring down the Shah's coalition, some forming or supporting armed groups. However, initially they met with little success, as the government's security forces managed to keep the opposition at bay through violent repression. The Shah also tried to cultivate moderate and less political religious organizations as competitors for more radical religious groups and as a bulwark against the left.

By the mid-1960s, the Shah had recruited many professionals into the elite ranks and, using Iran's increasing oil revenues, he managed to encourage them to support investment and economic growth. His stronger role as a coordinator, his increased control over means of violence, and his prospects of living a few more decades created a stable environment in which production could expand. As a result, Iran experienced very high growth rates in the 1960s and early 1970s (Esfahani 2002).

Under the Shah, the state apparatus had firm control over generation and distribution of rents. The incentives of the elite were partly aligned through appointments to government positions and lucrative government contracts that rewarded service and loyalty. The Shah and his

family also exerted influence through a series of foundations that they had established to manage their properties. The Shah's own foundation, the Pahlavi Foundation, was by far the largest and the most influential. These foundations generate and channeled rents in support of the Shah in various ways. For example, in Iran's imperfect markets, private companies needed help with ensuring access to inputs, credit, and marketing. Granting a chunk of a company's stock freely to the Pahlavi Foundation could generate vital support. The Foundation would appointment its well-connected representatives to the company's board of directors to deal with any problem the company encountered. These representatives were typically retired high-level military officers and bureaucrats who would receive part of the company's rents as reward. They would also monitor the company's finances to ensure that the Foundation receives its share of the profits. This system was similar to the one exercised under Reza Shah, but instead of granting control over land rents, it offered positions in modern companies.

The Shah's basic LAO began to unravel in the 1970s despite sharp increases in its oil rents. The elite groups that had been excluded from power and wanted to gain access to political and economic resources were already quite large. In addition, the Shah did not want to give much ground to the new elite that he had recruited in the 1950s and 1960s. Many of them had helped improve the administrative system and were responsible for Iran's rapid growth after 1963. As a group, they had accomplished a great deal and had amassed significant professional credentials and experience in the 1960s and early 1970s. They had also developed a sense of *esprit de corps*, which was helping improve the quality of state institutions. However, the Shah was wary of sharing power with them and giving them substantial roles. So, he followed the same strategy that had worked for him earlier: recruit new elite members who would owe allegiance to him only. But, the strategy had significantly diminishing returns. The continuation of the strategy was adding to the ranks of disgruntled elites and even made the new recruits unsure of the long-term benefits of loyalty to the Shah. As a result, Iran's basic LAO become fragile again.

The turnover of the bureaucratic elite under the Shah undermined his regime's policymaking process because acting professionally and raising questions about the Shah's preferred policies would impair one's promotion in the system. For example, when the oil rents rose sharply in the first half of the 1970s, many top technocrats advised against rapid expansions of government expenditure and investment, which the Shah favored. Those professionals were quickly set aside in favor of new comers who would be willing to go along with the policy. The result was high inflation rates in the mid-1970s that forced the government to cut back on spending, slowing down the economy to check inflation. The slowdown and the cut back in rents fueled the growing discontent with the regime and eventually, a vast spectrum of opposition groups began to mobilize against the Shah.

The election of Jimmy Carter as US president in 1976 had important consequences for the Shah and his control over the social order. Carter had campaigned with a promise of support for human rights, which was a signal to everyone in Iran that the Shah may be under pressure to reduce political repression. Indeed, there were some relaxation of restrictions on speech and political gatherings and some constraints on the use of violence by the regime. This emboldened the opposition and revolutionary fervor gathered momentum. In this situation, religious opposition groups had clear advantages over their secular counterparts because religious rituals had provided opportunities for them to build and maintain effective networks, especially through mosques. In fact, after the removal of the landlords as political competitors, the suppression of secular opposition had opened up more space for the networks of the clergy, bazar merchants, and religious groups to grow strong. As a result, they were most successful in organizing the opposition to the Shah and soon helped establish

Ayatollah Khomeini as the leader of the revolutionary movement that encompassed a wide range of groups.

As the revolutionary forces gathered momentum, the Shah's support crumbled. The elite recruited by the Shah could not act as a unified coalition to maintain the regime. They were connected to each other largely through their personal relations with the Shah, and he had kept them more as rivals than coalition partners. Many elite members were already disgruntled and some joined the opposition. Most of the rest also started to desert the Shah once his position became shaky. This was also true of the security forces. The Iranian military leaders all took orders from the Shah and, unlike their Turkish counterparts, were not in a position to act as a team independently of the Shah to preserve the system that they were supposed to serve. Some of them left the country and those who remained were imprisoned and executed soon after the Shah was overthrown in February 1979.

Turkey's experience between from the start of World War II till the end of 1970s had more contrast than similarity with those of Iran. Like Iran, Turkey had economically suffered during World War II. Also, expanding demands from the new propertied groups that had emerged under Ataturk and encouragements from the West convinced the ruling Turkish elite to allow for a certain degree of political liberalization. A new party, the Democrat Party (DP), with support from the new elite factions, came to office in 1950 and reduced the influence of the bureaucratic and military elites who had ruled Turkey since the inception of the republic. However, once in office, the DP applied populist policies, while trying to monopolize power. This was initially associated with increased economic growth, but the economy soon slowed down and tensions between the DP and the bureaucratic and military elites intensified. In 1954, the DP passed a law that entitled the government to dismiss any public employee, except army officers and judges. Eventually, after the economy entered a crisis in the late 1950s and the opposition to the DP became more widespread, the DP was brought down by a military coup in 1960. In some ways the process looked like Iran's brief democratization and coup episodes after World War II. However, the military in Turkey had a very different character and its coup yielded a different outcome. In contrast to the case of Iran's 1953 coup that reestablished dictatorship, in 1960 the Turkish military acted as the guardian of the republic and refrained from directly intervening in the political process. Rather, through a set of complex institutional mechanisms defined in the new constitution, it let other elite groups to run the system collectively, albeit subject to the limits set by the formal institutional veto holders specified in the 1961 Constitution. For instance, the Constitutional Court of Turkey, which was established in 1962 as a response to a series of laws that had been passed by the DP majority government to weaken the military and bureaucratic elite, became the foremost veto playing institution in the judiciary. When the Court first became operative in 1962, it was introduced as a major innovation that would counterbalance the ills of majoritarian democracy and thus contribute to the consolidation of pluralistic democracy in the country. However, with the further empowerment of the Court vis-à-vis the republican institutions of the state in the 1982 Constitution, the guardian role of the Court was more forcefully codified. While the Court was initially given the authority to review the violation of civil rights, the idea of "core rights" was abolished in the 1982 Constitution. In addition, the Court could vet the legality of political parties and enforce state secularism.

The new dominant coalition in Turkey in the 1960s did keep the access to power and resources generally restricted, but this was done through formalization and institutionalization of roles of various groups and organizations. This aspect allowed new independent organizations such as trade unions and business or religious associations to grow and ultimately play important roles in the maturation of the Turkish LAO. Of course, the military carved out a special position for itself in the new system; e.g., through the National

Security Council,<sup>3</sup> the Military Courts and the Armed Forces Pension Fund (OYAK), that in fact let the military to act as a collective capitalist group and become formally embedded in the capital accumulation process.<sup>4</sup>

After the 1960 coup, turnover in the top political offices was relatively frequent, but roughly the same elite groups rotated in power and the overall policy framework was rather stable. The military had a watch on policymakers and would intervene whenever its leaders felt that the system was moving, in their view, in the “wrong” direction. Turkish economy grew robustly between the early 1960s and mid-1970s, coinciding with the period of rapid growth in Iran, though not quite at the same rate (see Figure 1). In the mid-1970s, Iran’s growth was fueled by injection of large oil rents, while in Turkey foreign debt was accumulating fast and driving the country towards a balance of payments crisis. Interestingly, in both countries started to experience economic slowdown and rising political tensions in the second half of the 1970s. The process in Iran led to the formation of a broad coalition against the Shah’s regime, ending with a revolution in 1979. In contrast, in Turkey different factions were battling each other and causing turmoil, which prompted the military to intervene and impose order with a coup in 1980. In the late 1970s, Turkey appeared to be moving backwards towards a fragile LAO. But, its long-lived military and bureaucratic organizations were strong enough to return the country back to its path.

## **6. Formation of the Islamic Republic under Ayatollah Khomeini**

The first decade after the revolution of 1979 was a formative period for the new regime that took shape by Ayatollah Khomeini’s coalition. The vision projected by the Ayatollah and his associates was one of an open access order in which everyone would be treated equally and could freely participate in the country’s political and economic life through a democratic process. In addition, they wanted the new system to pay special attention to social justice, hence serving the masses and eliciting their support. But, they also wanted the new system to establish the Islamic Republic, to be guided closely by their view of Islam, and to be ruled by people they could fully trust. Naturally, many groups that had participated in the revolution disagreed and serious conflicts and violence emerged, which ultimately ended with the establishment of another basic LAO.

The anti-Shah coalition was quite broad and represented wide segments of the population. However, since impersonal institutions in Iran were weak, it was clear from the start that the coalition would not continue after the overthrow of the Shah. Personal relations, especially ties with the leadership of the revolution, were critical for surviving in the dominant coalition. For others who lacked such ties and were essentially going along with the movement because they wanted to see the Shah toppled, the future was very uncertain. Indeed, well before the fall of the Shah, a number of opposition organizations had focused on arming themselves to strengthen their positions in the power struggle that was expected to emerge after the revolution. Some ethnic, linguistic, and religious minority groups at different corners of the country tried to seek autonomy or claim territory. A number of armed organizations also saw those territories as havens and joined them. Meanwhile, the factions close to Khomeini had

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<sup>3</sup> The National Security Council (NSC) was established with the 1961 Constitution. Although the council was to advise the government in internal and external security, the military was given a constitutional role and embedded into the executive branch. The 1982 Constitution increased the number and weight of senior commanders of the NSC at the expense of civilian members. Furthermore, Article 118 stated that the council of ministers shall give priority consideration to the NSC’s recommendations, thus amplifying the NSC’s power and authority.

<sup>4</sup> OYAK was defined as a “financially and administratively autonomous legal person subject to the verdicts of private law.” Paradoxically however, article 37 reads, “all assets, earnings and accounts of the foundation are to be treated as state property, and any party causing damage to OYAK property will be treated as having damaged the state property.” OYAK also enjoyed all kind of tax exemptions (corporation tax, turnover tax, income tax, stamp tax...) at the level of the Foundation (not at the level of affiliated companies) (‘OYAK Law’, Article 35).

developed armed organizations, some of which served as the foundation for the Iranian Revolutionary Guard Corps (IRGC) and its auxiliary militia, *Basij*.

Ayatollah Khomeini's role as the leader of the revolution made him a natural coordinator and gatekeeper for the new ruling elite. Initially, he seemed to be interested in keeping as much of the coalition together as possible. He appointed the leading liberal members of his coalition to form the first post-revolution government. However, he also appointed the people in his inner circle to the Revolutionary Council, which stood above the government and exercised real power. Such arrangements gave Khomeini and his close associates time to prepare better for establishing and running a new order. It was also an opportunity to assess various groups and individuals and to decide which ones were worth keeping in the ruling coalition and which ones had to be discarded. In this setting, some contenders to power who felt marginalized came into conflict with those closer to Khomeini and soon lines were drawn. Some of these groups were only political. But, many had armed wings and applied their violence capacities. Assassinations, bombings, and executions killed many political activists, politicians, and officials (Abrahamian 1989). The political and armed organizations supporting Khomeini managed to defeat their challengers in the early years of the revolution. Later on, they took on other groups that were not using violence, at least not at the time, some of which were even supportive the regime, but could not be trusted (e.g., the pro-Soviet Tudeh Party).

The use of violence by marginal groups did not always lead to their elimination. In fact, some such groups proved useful to the revolutionary elite and managed to rise in elite ranks. The best example of this is the Muslim Students of the Imam Khomeini Line, who took over the US embassy in November 1979. The revolutionary government at the time was opposed to this move and Khomeini also initially hesitant to endorse or reject them. But, he soon recognized the opportunity that the takeover had offered in dealing with internal and external threats and put his full weight behind them. Taking the embassy staff as hostages created a sense of crisis that made it easier for the new regime to take on the opposition groups and to establish a new order based on Khomeini's vision. It also marginalized many groups whose loyalty to that vision was in doubt. This included the liberals who were running the first post-revolution government and were forced to resign. The government passed on to people closer to Khomeini. The hostage crisis also caused serious cleavages among leftist groups accelerated their elimination, as they were pondering the anti-imperialist credentials of the Islamic Republic. During the prolonged negotiations to free the American hostages, the leaders of the Line of Imam Students ended up strengthening their bargaining positions and establishing themselves as an important elite group.<sup>5</sup>

The power struggle after the revolution made it necessary for Khomeini and his associates to come up with an elite coalition with the ability to maintain itself and run the country. The key membership criterion was "practical commitment" to Islam and the Islamic Republic, as determined by the regime leadership. Such commitment at the time included allegiance to and direct or indirect personal ties with Ayatollah Khomeini. These criteria initially entailed some cohesion and coordination among the elite. However, once the competitors and Ayatollah Khomeini were out of the picture, an effective organizational structure was needed to hold the coalition together and make it functional. The structure that emerged was the byproduct of the specific historical events at that time and the result of some trial and error, rather than pre-planning.

Since the interactions among the elite groups under the new regime were not institutionalized, Ayatollah Khomeini's role among them provided a model mechanism for handling

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<sup>5</sup> See [http://en.wikipedia.org/wiki/Muslim\\_Student\\_Followers\\_of\\_the\\_Imam's\\_Line](http://en.wikipedia.org/wiki/Muslim_Student_Followers_of_the_Imam's_Line) and [http://en.wikipedia.org/wiki/Abbas\\_Abdi](http://en.wikipedia.org/wiki/Abbas_Abdi).

coordination. The experiences of conflicts within and outside the coalition were key driving forces in the developments of the new order. To control intra-elite conflict, the coalition leaders opted for a powerful office for a “Supreme Leader” with an indefinite term for life. After Khomeini, the office was to be held by a clergyman selected by the Assembly of Experts (consisting entirely of the clergy). This was meant to insulate the office from political competition and allow the Supreme Leader to regulate the relations among factions in ways that would be considered fair. The Supreme Leader, as a sovereign Islamic jurist, would also be the guarantor of the compatibility of the system with Islamic Law (Schirazi 1997: 1).<sup>6</sup> This function was to be exercised through the Council of Guardians of the Constitution of the Islamic Republic (the Guardian Council), dominated by six senior members of the clergy appointed by the Leader. The Council was also charged with part of the gatekeeping responsibility of the Leader: All candidates for the presidency, the parliament, and the Assembly of Experts had to be vetted by the Guardian Council. The Leader was also given full control over the judiciary by enabling him to appoint the head of the branch from among Islamic jurists, subject to no checks. The judiciary was made organizationally independent.<sup>7</sup> Thus, while before the revolution Khomeini had suggested that he and other clerics would not hold positions in the government other than guiding the politicians to ensure that they follow the Islamic Law and the interests of the masses, the outcome turned out to be very different (Ghamari-Tabrizi 2008: 49). Indeed, Khomeini later admitted that his initial suggestion to “the clergy to attend to their spiritual and guiding role after the revolution” had been a mistake and, after observing the tensions and conflicts, he changed his view and “asked the clergy to run the country” (Ghamari-Tabrizi 2008: 60). The clerics ended up playing a major role at the top echelons of all organs of the state. This can be seen for example in the composition of the members of Majles in the early and mid-1980s, about half of which were clerics and almost two thirds had had some formal religious education (see Table 2). It should be noted that although the turnover in Majles was relatively high (Table 2), the positions rotated among the regime “insiders”, who were a small group with relatively well-defined boundaries that are guarded by formal and informal barriers.<sup>8</sup> For example, most of the deputies who left Majles ended up in other top positions and their replacements were insiders.

To manage violence, the control of all armed forces was consolidated under the Leader. The regular army inherited from the Shah’s regime was kept, but its role changed as the regime developed parallel revolutionary organizations. Its mission became more focused on protecting the borders and training conscripts. Various security services under the Shah were integrated into one organization in charge of maintain order along the Basij and IRGC, when they were needed. The IRGC was launched at the onset of the revolution as an army with an ideological character and loyalty to the Leader to guard the system. It was also given the role to guide the Basij militia, which it also used as a recruiting ground. The Basij act as a volunteer auxiliary force with strong ideological ties to the regime. They carry out a range of functions including internal and external security, policing of various sorts, and social and religious services. IRGC quickly gained a pivotal role in establishing order when numerous

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<sup>6</sup> For centuries before the 1979 Revolution, the Shia clergy had formed an independent source of political power in Iran, funded by the proceeds of *waqf* properties and the contributions of believers. The theory behind this power was that the true reign over the government belonged to the Hidden Imam, who was the only one capable of bringing about justice. Fallible humans running the government could not dispense justice and should only be true believers and prepare for the emergence of the Hidden Imam. This implied that the clergy did not have to take over the government and become sovereign. They could leave the government to secular politicians and focus on strengthening the faith. Ayatollah Khomeini’s view was different. He argued that despite their fallibility, clergymen who were well trained in Islam’s teachings could do better than laymen, whose government could become evil.

<sup>7</sup> The judiciary’s total budget is determined through negotiations that it holds with the legislature, as is the case for a number of other independent bodies of the state.

<sup>8</sup> Ehsani (2002) mentions a study of the elite of the Islamic Republic that shows that about 2700 individuals who have been rotating in those positions have controlled all the positions of power since the revolution.

insurrections broke out across the country after the revolution and the ensuing chaos had to be controlled. About a year and a half later, when Iraq invaded parts of Iran, IRGC and the Basij were called upon to defend the country along the regular army. However, soon they gained the upper hand vis-à-vis the army and played key roles in defending the regime internally and externally.

Under the new system, a great deal of economic resources came directly under the control of the Office of the Supreme Leader through a series of foundations (*bonyad*) that support the IRGC and Basij veterans and the families of martyrs or engage in charitable, ideological, and religious activities. Most notably the property confiscated from the elite of the Shah's regime, including foundation assets, was assigned to new foundations under the office of the Leader. In addition, some of the foundations received abandoned property and confiscated assets of the individuals convicted of certain illegal activities.<sup>9</sup> The Leader's office and many of the foundations were also given allocations from the government, though they are not accountable to the government or the parliament. As in Shah's time, the foundations became mechanisms to provide consequential positions for the retired IRGC leaders and other elite members. In addition, they offered employment opportunities for other retired members of the armed forces.

Articles 57 and 110 of the Constitution of the Islamic Republic of Iran (IRI) give the Supreme Leader the mandate to intervene in all matters of the state policy. Ayatollah Khomeini interpreted this as a rule enabling the Leader to issue "governmental ordinances" (*ahkaam-e hokumati*) that are above all law (Arjomand 2009: 32-34). Khomeini institutionalized this power after the Guardian Council jurists questioned a series of policies adopted by the government and supported by him as incompatible with Islamic Law. Khomeini argued that exigency and expediency for the preservation of the state were more important than the law. Though some grand ayatollahs objected to this interpretation, the chorus of support for it from the rest of the elite eventually brought all factions into line. In 1988, the constitution was amended to elevate this rule to the Absolute Mandate of the Jurist, which according to Khomeini was "the most important of the divine commandments and has priority over all derivative divine commandments. . [It is] one of the primary commandments of Islam and has priority over all derivative commandments, even over prayer, fasting and pilgrimage to Mecca." (Quoted in Arjomand 2009: 34).

Although the Leader could issue "governmental ordinances" to address contentious issues, Khomeini and other dominant clergy saw it more practical to set up an "Expediency Council" to reconcile conflicts among elite groups. The Council would be at the service of the Leader with his appointees running it, but would also include representatives from various state organizations.

Yet another source of formal power for the Leader was his prerogative to appoint Friday prayer leaders, who lead group prayers and give political and religious sermons every Friday in cities across the country. In addition, he was to appoint representatives in various government organizations and provinces. Finally, the Leader was given command over the national media (official news agency, radio, television, and some newspapers).

The extensive powers formally vested with the office of the Supreme Leader were partly a reflection of Khomeini's charisma and his ability to mobilize the masses and to lead the elite.

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<sup>9</sup> After 1989, Ayatollah Khomeini channelled this latter set of assets to a new foundation, Headquarters for Executing the Order of the Imam, formed following an edict. A recent report by Reuters, [www.reuters.com/investigates/iran](http://www.reuters.com/investigates/iran), estimated the asset of the Headquarters at about \$95 billion and claimed that it has used the edict to acquire the property of some Iranians who have resided outside the country, even though they have not abandoned their property or been convicted for any crime. The executive director of the Headquarters had estimated its assets at \$50 billion in early 2011 ([fa.wikipedia.org/wiki/فرمان\\_امام](http://fa.wikipedia.org/wiki/فرمان_امام)).

They were also driven in part by the exigencies of the existential threats that the regime faced at the time and the war with Iraq, both of which required discipline and coordination on the part of the elite. But, there was another more fundamental and overarching factor as well: Concentration of power reflected the lack of institutional mechanisms to resolve the conflicts that regularly emerged among the heterogeneous elite factions brought to power by the Islamic Revolution. Even when some factions were sidelined to reduce tensions, the winning coalition would soon split up and engage in intra-elite rivalry (Moslem 2004). The Leader would then be called upon to settle the disputes one way or another. However, the arrangement seems to have had a reverse effect as well. The role of the Leader as the ultimate arbiter has tended to prevent the development of institutions and organizations that could bring about coordination in less personal ways. In other words, while factionalism may have given rise to a powerful office for leadership and coordination, power concentration has in turn contributed to continued factionalism and arrested institutionalization, which has been a notable feature of the politics of the Islamic Republic.

An important manifestation of the institutionalization problem was the failure to form and run large and effective political parties (Moslem 2004). One reason for the absence of effective political parties after the revolution may be ideological. Early after the revolution, some leading members of the elite argued that the charismatic Leader of the Revolution based support for the Islamic Republic on mass mobilization. In that context, party activity was viewed as divisive and counter to the Leader's efforts to unify the people. Since for the sake of unity ultimately the Leader had to agree with policies to be adopted, each group was supposed to try to convince the Leader of the positions that it advocated. The Leader would then make a decision based on all such input and communicate his positions to the masses and to the government. Indeed, Khomeini himself was skeptical of political parties, fearing that their activities would lead to dissension and division within the Muslim community (Arjomand 2009: 33). Other prominent figures in the system also echoed similar views, ranging from the claim that the "cleric is the father of the people" to the view that parties sow dissension and destroy the sacred unity of the community (Moslem 2004: 103).

The reasons why parties failed to take root in Iran after the revolution go beyond ideology. After Khomeini's death, the elite camps associated with his successor, Ayatollah Ali Khamenei, maintained the ideological argument but not their rivals, who tried to establish many parties. It appears that the argument had remained functional for the former because they were connected with the main source of power in the country and did not find it helpful to have organized groups opposing them. Another reason seems to be Khomeini's role as the ultimate arbitrator among the elite, who lacked impersonal conflict resolution institutions at the start of the revolution. When elite groups faced a disagreement, they quickly referred the dispute to Khomeini, rather than coming up with impersonal procedures for consensus building. In fact, each side raced to check whether Khomeini was on its side or not, and if not, it tried to make its case before him. This was true of many disputes between parties as well as within each party. So, there was no point in keeping the party.

The prime example of this phenomenon is the fate of the Islamic Republican Party (IRP), which had been established to act as an encompassing state party sanctioned by Khomeini. The IRP's roots went back to 1963 when in the process of the uprising against the Shah, a mix of clergy and lay followers of Ayatollah Khomeini formed a clandestine organization called the Coalition of Islamic Societies (known as Mo'talefa). The organization served as a network of Islamist political activists and provided moral and financial support for the families of those who were jailed or killed by the Shah's regime. It also had an armed wing that assassinated Prime Minister Hasan-Ali Mansur in 1966. In 1977, in preparation for the revolution, the clerical members of the network formed their own separate organization and called it the Society of Militant Clergy, SMC (Arjomand 2009: 21). Both branches played



important roles in organizing demonstrations against the Shah, broadcasting Khomeini's declarations from exile, and bringing about regime change. After the revolution, the leaders of the SMC formed the main body of the Revolutionary Council, which set the main policy parameters for the provisional government appointed by Khomeini in 1979. At the same time, to prepare for political dominance in the years that followed, they established the IRP, led by the SMC clergy, but included a wide range of lay members as well. Soon after the hostage crisis, the provisional government was removed and the members of the IRP took many of the positions in the executive and the legislature. While IRP members all agreed on following Ayatollah Khomeini and supported a broad notion of the Islamic Republic, they had little agreement about the nature of the new state and the policies to be followed. They disagreed across many lines; e.g., how much the government should intervene in the economy or engage in redistribution. Naturally, to promote their policies and to channel rents and resources in their preferred directions, they also tried to take control of various state organizations and public foundations, while getting Khomeini's blessing. Increasingly intense disputes erupted over these matters and over why some have more access to Khomeini than others. Eventually in 1987, IRP leaders went to Khomeini and asked him to disband the party, which he did. Since similar tensions existed within SMC, it also split in the following year, again with Khomeini's permission. This time the left wing of the group split away and formed a new organization called the Association of Militant Clergy, AMC. The centrists and the conservative/right-wing members remained organized as SMC.

The war with Iraq, 1980-1988, took a very heavy toll on Iran in terms of human lives and economic hardship. But, it provided an important context for the regime to develop its revolutionary armed forces (IRGC and the Basij), suppress the opposition, and consolidate its grip on power. By mid-1982, Iran had gained the upper hand in the war and the West and many Arab countries had begun to support Iraq and prevent an Iranian victory (Bulloch and Morris 1989). However, despite the signs that tide could be turning, the government of Iran insisted in continuing the war. A declared goal was to punish the aggressor. But, the internal situation was also part of the agenda. For example, in October 1982 Khomeini stated "This [war] was a blessing for us. In the continuity and maintenance of the revolution and growth of human potential this played an important role . . . The war confronted our people with great difficulties but made our people more committed to the revolution and hardened their will and determination." (Zabih 1988: 158).<sup>10</sup> Iran eventually accepted a UN resolution for ceasefire in 1988 after it had been economically and militarily weakened and it was clear that it would not be allowed to emerge as the winner of the war.

The Iranian economy transformed significantly after the revolution. In 1979, all banks and large firms were taken over by the government or the new foundations. The government also imposed tight controls over trade and capital movements. These takeovers and controls, along with the departure of large number of business people and professionals from the country, lowered GDP per capita significantly. At the same time, the rents available to the country were quickly shrinking because oil exports as well as oil prices were falling precipitously. The controls enabled the new elite to channel the rents towards the war effort, internal security, and social base support. For example, the official exchange rate was kept at extremely overvalued rates and then allocated through a rationing system that subsidized the targeted organizations and individuals who enjoyed access to leaders. Most products were also rationed via a coupon system, with special allocations to the families of martyrs, war veterans, and those serving IRGC and Basij. As the war continued, shortages intensified and the value of such allocations increased. But, the number of claimants was also rising fast and the available rents were shrinking. As a result, the amount offered to each family was

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<sup>10</sup> See also IMESS (2004) for the views of Iran's political and military leaders on the reasons for the continuation of the war.

diminishing and making it increasingly difficult to maintain the system. This factor, together with the realization that the war was unwinnable, convinced the leadership that continuing the war would jeopardize the survival of the regime.

Another major source of transformation of the economy was the new regime's effort to expand its base in the lower strata of the society and prevent the professionals who did not belong to the elite circles from getting access and exerting influence. The top positions in the bureaucracy and large economic enterprises went to the elite members who were trusted, but did not necessarily have the skills required for those jobs. This realignment led to the migration of large numbers of professionals, depriving the country of their expertise and lowering productivity in many parts of the economy. On the other hand, the effort to reach out to the poor gave rise to new organizations that could help alleviate poverty, except during the second half of the 1980s when resources were extremely limited. An example of such an organization was Imam Khomeini Relief Foundation (IKRF), which is a bonyad formed by some Mo'talefeh members and run under the auspices of the Leader. Another example is the Reconstruction Crusade organization, formed to help develop rural areas. These organizations contributed a great deal to the reduction of poverty rates after the end Iran-Iraq war.

Over time, the new military and security forces, bonyads, and other revolutionary organizations became stronger and their top ranks became proactive in gaining influence over policymaking offices. They built closer ties with the regime's leaders and promoted their own kinds and allies in the system. Initially, they work mostly in cooperation with each other and occasionally in competition. Their main competition in the 1980s consisted of clerical groups that had been formed before the revolution and were in stronger positions in the early years of the revolution. However, as time passed, the leaders of the new organizations gained ground and competed with the clergy and others more effectively. This phenomenon can be seen in Table 2, which documents the rapid decline in the share of Majles seats occupied by the clergy after the mid-1980s. Table 3 further shows the concomitant rises in the shares of those with administrative, military and security backgrounds.

The similarities and contrasts between Iran and Turkey in the 1980s are interesting. In both countries, new basic LAOs formed in the early 1980s. In Iran, a group of clergy organized new military and security forces and drew rather sharp access limits in the course of internal and external struggles during the decade. The outcome was a relatively stable basic LAO. In Turkey, the military used the 1980 coup to assert its predominance and strengthen its formal role through a new constitution drawn in 1982. It enjoyed important veto powers and major access to resources, while restricting the participation of many politicians and organizations in politics until the late 1980s. However, the main institutions of the state had been maintained and there were expectations and pressures from both inside and outside the country for the system to return to its old path, albeit with some modifications. In particular, new rules were designed to give rise to large parties and to help reduce the fragmentation of the polity. However, once the restrictions on political participation diminished, the country began to experience political and economic instability again. As a result, the economy, which had grown at a decent pace during most of the 1980s following major export-oriented reforms in 1980, began to experience slowdown and high inflation. This was in contrast with Iran's economy that had experienced decline in most of the 1980s after becoming highly controlled in 1979-1980, but started to recover at the end of the decade.

## **7. Reconstruction, Reform, and Reaction**

Ayatollah Khomeini passed away in 1989 and Ayatollah Ali Khamenei was selected to replace him as the Supreme Leader. Ali-Akbar Hashemi-Rafsanjani, the Speaker of Majles at the time, was elected as President under the amended constitution that had merged the position of the Prime Minister into that of the President and made it more a powerful office.

Both Khamenei and Rafsanjani belonged to SMC, which after the split by AMC, consisted of the centrist and conservative clerics. Khamenei had served as the President in the previous 8 years, sharing power with the left-leaning Prime Minister, Mirhossein Mousavi, who was supported by the AMC. The transition was initially associated with increases in the relative powers of the centrist elite groups associated with Rafsanjani. The elite factions on the conservative side gathered around the office of the Supreme Leader and tried to exert influence on the system through offices and organizations under his control (Gheissari and Nasr 2005).

Some elite members with backgrounds in the military, bonyads, or administrative units such as the Reconstruction Crusade used their connections with the voters to get into the Majles (see the middle rows of Table 3). The left-leaning groups that had dominated the government during the war in the 1980s, especially those associated with the AMC, were mostly sidelined by the Rafsanjani administration. Quite a few of the individuals in this group joined cultural organizations, universities, and think tanks, where they carried out studies on culture, philosophy, political science, sociology, and economics.

The government of Rafsanjani announced a major reconstruction and reform program in 1989 to rebuild the economy and make it more market-oriented. This required the rechanneling of rents towards investment, especially in the country's infrastructure that had fallen into serious disrepair during the war. The resources flowing to many organizations, most importantly to the armed forces and veterans, had to shrink, causing dismay among them. Rafsanjani's solution to the problem was to ask those organizations to seek revenues of their own. For IRGC, the Basij, and the foundations supporting the veterans, this meant engaging in economic activity and earning their share of the rents while contributing to the reconstruction. The IRGC already had many enterprise activities to bolster its budget during the war. But, in 1990 it formed enterprises to carry out contracts for the government or produce goods on a large scale. One example of such a unit is *Gharargah Sazandegi Khatam Alanbia*, which in time became "one of Iran's largest contractors in industrial and development projects, and today is considered the IRGC's major engineering arm" (Wehrey et al. 2010: 60).<sup>11</sup>

Rafsanjani's approach looked practical at the time, but it proved fateful for the economy because it set in motion a process by which the armed forces became involved not only in economic activity, but also in efforts to influence a variety of economic policies in highly distortionary ways (Wehrey et al. 2008; Borger and Tait 2010). As we have seen above, such organizations had promoted their representatives in the legislature and the executive by the second half of the 1980s. So, they were particularly effective in getting policies selectively turned in their favor. This included government contracts, regulations, insider information, and impositions on the private sector to share assets and profits. Rafsanjani's approach stabilized the political and social system for a while and postponed the urge to reach a more fundamental solution to the economic policy quagmire in Iran. But, it strengthened the role of personal connection and enabled those with better connections to power to strength their position and to limit the access of outsiders to resources. It ensured the continuation of the basic LAO that had been established after the revolution and made it less likely for impersonal rules to emerge and help the LAO to mature.

The reconstruction policy initially proved successful in helping the economy quickly rebound from its abyss in the second half of the 1980s. But, after a few years, the economy entered a balance of payments crisis that led to very high inflation and several years of economic stagnation. A key source of the problem was the way market liberalization was followed

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<sup>11</sup> For a recent list of the economic interests of IRGC, see Iran Focus (2010a, 2010b). It should be kept in mind that the data presented in these articles are partly guesswork and in some cases depend on dubious sources. See also the Wikipedia page on IRGC, [http://en.wikipedia.org/wiki/Iranian\\_Revolutionary\\_Guard\\_Corps](http://en.wikipedia.org/wiki/Iranian_Revolutionary_Guard_Corps).

while the organizations that had access to power were expanding their roles in the economy. In particular, in the early 1990s the government of Iran decided to unify the exchange rates and open up the country's capital account. This removed part of the rents captured by the firms and organizations that had good connections and benefited from the pre-existing multiple exchange rate system. But, it presented them with a new profit opportunity. Given the openness of the capital account, they started to borrow heavily in international markets on a short-term basis. They did not seem to be worried about bankruptcy because they expected the government to come to the rescue. In fact, since many firms were borrowing in the short-term and there was a risk of balance of payments crisis, every firm that was in a position to borrow had strong incentives to stock up inventories of imported goods or foreign currency reserves, waiting to make large profits in case of devaluation. The lenders were also counting on the government's incentive to help out the borrowers with its oil revenues. However, during 1993-1994 when a large amount of short-term foreign debt was coming due, oil prices declined and the government was confronted with a balance of payment crisis (Pesaran 2000). The Iranian rial quickly lost a great deal of its value and borrowers claimed that they could not pay back their foreign currency debts at the new exchange rate. The government ended up providing them with foreign currency at the pre-crisis exchange rate, in effect assuming a big chunk of their debts for free. It also began to ration some of its foreign currency revenues at low rates to ensure that certain staples were imported at affordable prices. The result was a full-circle return to the multiple exchange rate system and its concomitant rent allocation to organizations that enjoyed access to the policymakers. The deficit caused by these subsidies led to monetary expansion and validated the inflationary pressures from the devaluation cost-push. Dealing with the debt crisis and stabilizing prices curbed Iran's economic growth until the late 1990s.

The economic stagnation of the mid-1990s in the context of continuing cultural limitations and access restrictions imposed on the population under the Islamic Republic led to growing frustrations among broad segments of the Iranian society. Meanwhile, the left-leaning elite groups that had been sidelined by the Rafsanjani administration were strategizing a comeback and saw the growing discontent as an opportunity. They coalesced around a charismatic AMC cleric, Mohammad Khatami, who had served at high positions after the revolution. They advocated political reform to make it possible for the democratic potentials of the constitution to be utilized under the Islamic Republic. Khatami won the presidency in landslide election in 1997. The left-of-center reformist elite was soon on the ascendancy. Once in control of the executive branch, they began to push against the conservative/right-wing elite and Rafsanjani's associates in various arenas. In particular, they opened up multiple news media channels to campaign against the conservatives and some centrists, especially Rafsanjani, and discredit them. The reformists also tried to curb the flow of government resources to their opponents. For example, part of the budget going to the IKRF was reallocated to new NGOs backed by the reformists to restructure welfare services (Esfahani 2005). These moves bred strong reactions among conservatives and alienated centrists, who had hoped to get along with the reformists. Some groups on the right mobilized pressure groups to use violence to intimidate and undermine reformists. This included an assassination attempt on a leading reformist, who barely survived, and the murder of a number of intellectuals. These acts did not deter reformists, who were attracting sympathy.

In 1999, reformists organized elections for local councils for the first time after the revolution. They received 75 percent of the vote. The victory emboldened reformists and their non-elite supporters. In particular, many student groups began demonstrating and demanding greater openness and change. However, the reaction from the conservative side grew stronger and student protests in the summer of 1999 were violently suppressed. Still,

reformists had a great deal of momentum and won almost 70 percent of the vote in Majles elections in February 2000.

With the executive and the legislature under their control, reformists seemed to be dominating the political game in Iran and promising to bring about changes in the social order. But, there were at least two factors that worked against them. The first and foremost factor was the basic institutions of the Islamic Republic that gave disproportionate power to the organizations under the office of the Supreme Leader, where the conservative elite groups had gathered. In particular, according to the constitution, conservatives could disqualify reformists from running for national offices, and they did take advantage of this prerogative in later elections. The reformists wanted to reduce such powers and bring about many other changes. But, all those steps required the consent of the conservative elite. The reformists had no real strategy to deal with this hurdle because they had wanted to stick to the constitutional rules and the conservatives had no intention of yielding power voluntarily.

The second adverse factor was that the elected offices had little control over the state's means of coercion. The conservatives used those means to systematically arrest and try some reformists, but the latter would only publicize such practices in their media. The reformists avoided moves that would lead to significant mobilization or public protest by their supporters. They were concerned about violent confrontations and cautious about new entry into the elite circles that could bring new competitors for them. The result was a war of attrition between the reformists and their opponents, which turned into a frustrating experience for the public. Although Khatami remained personally popular and was reelected with another landslide in 2001, participation rate in the subsequent local and Majles elections went down sharply, which worked against the reformists. In 2004 Majles elections, the Guardian Council disqualified many reformist candidates, ensuring a conservative victory.

Curiously, despite the political confrontations in the first half of 2000s, the economy started to grow and gathered speed. There were two reasons behind this trend. First, Iran's oil revenues began to rise after 1999 when oil prices recovered from their lows during the East Asian crisis of 1997-1998. Second, having been blocked in their efforts to reform the political system, many reformist policymakers focused on economic policy. Many of them had also learned more about growth-oriented policies by then and helped the government rationalize and streamline many economic policies. In the early 2000s, the exchange rate was unified, many quota restrictions on trade were turned into tariffs, and trade barriers were generally lowered. The government improved its budget balance and established a foreign currency saving fund to help stabilize the foreign currency flows. However, growth proved highly disproportionate. Although the system had safety nets, they worked only for the very poor and left a large range of the population from lower and middle classes behind (Esfahani and Karimi 2013). By 2005, this factor along with the failure of the reformists' political agenda turned many voters towards a populist political entrepreneur, Mahmoud Ahmadinejad, who offered to bring the country's oil revenues to the dinner tables of common Iranians. Ahmadinejad had been a member of the IRGC and had served as a province governor in the 1990s and as Mayor of Tehran during 2003-2005.

Political tensions during 1997-2005 and reformists' efforts to redirect parts of the rents away from organizations associated with the conservative camp led to greater solidarity and mobilization on that side against reformists. Both the right and the left had undermined centerists after the early 1990s, although in the early 2000s they began to mend fences with reformists. In 2005, this situation handed a victory to Ahmadinejad, who had the support of the security forces and conservative organizations. In return, Ahmadinejad's administration redirected the government's resources to serve the interests of the enterprises under the control of those organizations more than ever before (Wehrey et al. 2008; Borger and Tait

2010; Habibi 2013). One mechanism of this rent allocation was to increase the contracts allocated to IRGC-affiliated enterprises and to facilitate their participation in investment, production, and trade projects (Habibi 2013). The activities related to oil and gas sector were especially useful for this purpose. Another related mechanism was the use of state banks to offer preferential loans to those enterprises and to families associated with the IRGC and the Basij (Habibi 2013).

The other mechanisms used by Ahmadinejad to deliver rents to those connected with security forces served broader purposes as well and helped fulfill his promises to the poor that they would receive a share of the oil rents. The prime example of this was the privatization program, which had started under the Rafsanjani administration, but had progressed slowly because of opposition from the conservative camp (Harris 2013). Ahmadinejad redesigned the program to ensure that its benefits go mainly to his constituencies that were shared by other conservatives as well. Under his plan, which tremendously accelerated privatization, 40 percent of the shares of some 2000 state-owned enterprises were to be sold on the stock market. In practice, “most shares of privatized firms were purchased either by semi-government enterprises or by investors who had close ties to security forces or government officials” (Habibi 2013). Another 40 percent of the shares were designated as “Justice Shares” to be distributed to the “lower” strata of the society, though the criteria for eligibility were not necessarily household income (Harris 2013). As Habibi puts it,

“The distribution of justice shares also served as an indirect mechanism by which to reward the low-income supporters of the regime, particularly the Basij militia, for their loyalty and support. The veterans of the Iran-Iraq war, the families of war martyrs, and households that had received income support from government welfare agencies—all were declared eligible to receive justice shares” (Habibi 2013).

Another important policy that served multiple purposes was the restructuring of the budget process and the dissolution of the Budget and Management Organization (BMO). The BMO was a central professional bureaucracy that controlled the budget and recruitment processes of the government and tried to impose some economic cost-benefit analysis on public expenditures. In this sense, it acted as a constraint on political allocations of public funds. Ahmadinejad turned the central part of the BMO into an advisory bureau in the office of the President and placed its provincial offices under the control of provincial governors (Kian-Mehrzaad 2013). This change removed an important constraint on discretionary recruiting and use of public fund at all levels, making high offices much more rewarding to the office holders. He “appointed a record number of current or former members of the IRGC and the Basij to key government positions and to upper-level management slots in public enterprises ... [who in turn] used every opportunity to appoint former IRGC and Basij officials to lower-tier government posts and positions in state-owned enterprises” (Habibi 2013). With these changes in the administration, Ahmadinejad increased the budget allocations of the provinces where his governors could redistribute them with relatively free hands. Also, he himself traveled to provinces on a regular basis to be in direct contact with his constituencies in various corners of the country and hand money to those whom he or his staff deemed needy. Meanwhile, oil prices were going up sharply and were bringing the government larger windfall rents to be distributed.

A third major multiple-purpose policy adopted by Ahmadinejad was the so-called “Quick>Returns Projects.” This program was meant to provide financing for small projects to create jobs expeditiously. The banks were obliged to offer a myriad of loans on preferential terms without much scrutiny, with implicit guarantees from the Central Bank and the government. This provided ample opportunities for rent allocation to the government’s constituencies, both in security forces and the population at large. Naturally, the mechanisms used and the amounts distributed under this program were highly inefficient and inflationary (Amuzegar

2010). The default rate was quite high and few jobs were created (Habibi 2013). However, because of accelerating inflation, the program had to stop and the government and the central bank had to apply contractionary policies in 2008. By the first half of 2009, when Ahmadinejad was engaged in his reelection campaign, the economy was still suffering from high inflation and slowdown in the wake of “Quick>Returns Projects” program.

Although Ahmadinejad’s distributive policies had gained him the support of a sizable part of the population, dissatisfaction was also on the rise in many other parts. This gave reformists an opening to plan a return to office via the ballot box. Their main candidate was Mirhossein Mousavi, the Prime Minister in the 1980s, who had not been politically very active for two decades. The election in June 2009 became quite contentious, and when Ahmadinejad was announced as the winner, the reformist candidates claimed fraud and demanded that the result to be annulled and a new election to be held. The Supreme Leader directed the objecting candidates to file their complaints with the Guardian Council, which ruled that there had not been any cheating of significance. However, the reformists did not trust the Guardian Council’s ruling. The Supreme Leader, the conservative camp, and the security forces stood fast behind the verdict, while the supporters of the reformist candidates took it to the streets of major cities to protest, thus launching the so-called “Green Movement”. After a few days, the Supreme Leader ordered the protesters to stop and disband. But, sentiments were strong and the demonstrations continued. Soon the security forces entered the picture and violent confrontations erupted for several months until the Green Movement protests were suppressed. Many reformists were arrested, tried, and imprisoned.

In the wake of the Green Movement protests, the IRGC and other security forces gained further prominence among the elite. For example, their profile in the cabinet rose sharply. During Ahmadinejad’s first term, “the number of cabinet ministers with IRGC or Basij backgrounds varied between six and ten. When he appointed the former IRGC commander, Gholamreza Rostami, oil minister in July 2011, the number of ministers with such a background in his twenty-one-member cabinet rose to twelve” (Habibi 2013).

In his second term, Ahmadinejad championed two major policies that are a major part of his legacy. One was a vast home construction project for low-income households (*Maskan-e Mehr*). The other was a massive energy subsidy reform that raised energy prices sharply and made a uniform cash subsidy to everyone in the country. The initial plan for the cash subsidy was to be set such that it would use only one half of the proceeds of the energy price increases. The other half was supposed to be utilized to expand the infrastructure and to enable the industry to adjust to the new relative prices. However, both policies turned into major liabilities. The housing project proved very costly and caused large deficits. The energy price reform turned out to have promised cash transfers much larger than the proceeds from price increases. The government tried to reduce the monumental deficit that it faced by cutting investment and other expenditures. But, this proved contractionary.

At the same time, the government of Ahmadinejad was engaged in a confrontation with the West over Iran’s nuclear energy program and remained defiant despite the threat of international sanctions. This confrontation seemed to have the support of the conservative elite and security forces since it gave primacy to security concerns and enhanced their relative positions, a purpose similar to the one that the war with Iraq had served in the first half of the 1980s. However, in 2012, as the difficulties due the domestic economic policies were becoming clear, tough sanctions went into effect as well and led to serious stagflation in Iran. When Iranians went to the polls to elect a new president in June 2013, they delivered a resounding verdict against Ahmadinejad’s approach and in favor of a candidate who promised to resolve the nuclear dispute and pursue more responsible economic policies. There was also a calling the armed forces to reduce their roles in the economy. The ballot box

served as a dispute resolution mechanism, though the range of individuals who can participate as candidates remains quite limited. Also, courts and many other potentials mechanisms are still under the control of one side.

The contrast between the social orders in Iran and Turkey increased after the 1990s. In Iran, the circle of the elite remained closed and some groups were even expelled. Despite the slogans and efforts by many elite groups, especially those on the left, the nature of power remained highly personal. Intra-elite disputes ultimately entailed the use of violence and the settlements favored the organizers of the more effective means of violence. A substantial share of the rents produced in the economy or flowing from energy resources went to those who organized and supported violent groups in the form of subsidized good, services, credit, and foreign exchange. This was done through contracts with or transfers to the households and enterprises associated with the elite groups managing the means of violence. When dispute settlement mechanisms such as courts were used, they were aligned with the powerful groups rather than acting as impartial and impersonal referees.

In Turkey the military had the monopoly on the legitimate use of violence and continued to exercise power over the political and economic process, but it was acting as a collective and had to follow rules within itself and its relations with other groups. High military officials were not accountable to the public, but still could not act in an arbitrary manner and had to justify their actions. They did, for example, pressure Necmettin Erbakan, the Islamist Prime Minister 1996-1997, to step down through their role in the NSC. Eventually the Constitutional Court, buttressed by the military, banned him from politics. However, the incident taught the next generation of Islamist leaders about the ways in which they could navigate to power with less conflict with the military. They also found ways of making the rules less stringent. The European Union was particularly helpful in this regard because of its requirements for the countries (e.g. increased civilian control over military that is also one of the doorstep conditions in the NWW framework) that wanted to apply for accession. Meanwhile, the expansion of the economy and its global reorientation after 1980 was changing the social forces in the country. In particular, lowering of trade barriers had enabled a host of new firms from Anatolia to grow and give rise to a powerful bourgeoisie that was more religious and socially conservative than the secular elite that had dominated Turkey since the beginning of the republic. This group provided a social base for new Islamist politicians who saw their opportunity to join the elite by advocating the rule of law and engagement with Europe and the rest of the world. As a result, they could get support from the EU to bear pressure on the military to open political space for them. Their conservative social roots and outward economic outlook also found wide appeal among the Turkish middle class and gave them a large constituency, thus enabling them to work as a more unified political force than the traditional secular parties in Turkey. Since the latter were quite divided and could not form stable governments to stabilize the economy, the economic booms and busts of the 1990s helped to build stronger support for the Islamist parties that seemed able to form unified governments. Eventually after the banking crisis and deep recession of 2001, the Justice and Development Party (AKP) won the majority of seats in the 2002 parliamentary election and formed the first single party government since mid-1980s.

Once in power, AKP leaders followed the logic of LAOs and tried to dominate Turkish politics. They adopted policy reforms that had been introduced after the 2001 crisis and ensured that the rate of inflation went down and the economy grew fast. This provided positive feedback and raised their chances of staying in power. However, to ensure success, they started to drive out their rival elite groups. Most significantly, AKP leaders challenged the military through the court system, which had become the preferred means of conflict settlement among the Turkish elite and was also acceptable to the EU. Of course, their longevity in office and the EU requirements on reducing the workloads of the courts had



provided them with ample opportunities to control the appointment mechanisms of new judges and prosecutors, which enabled AKP leaders to assert themselves quite effectively through the court system. The control that civilian leaders have gained, over the military and long-lived organizations and impersonal rules that have grown in Turkey, seem to have brought it closer to the doorstep of an OAO. However, this is far from clear at this point because the domination of AKP over Turkish politics have also given it the chance to personalize a large part of the rent creation and distribution mechanisms as well as power relations. Over time, this process may move the system towards a less mature LAO. The following two examples highlight the recent setbacks in Turkey and draw parallels and contrasts with the situation in Iran.

In a process reminiscent of the dissolution of the BMO in Iran, the authority of the Turkish Court of Accounts, responsible for oversight of the use of public resources, has been curtailed over the past several years. The legal procedure for which the Court was to inspect the reliability and accuracy of financial reports of public administrations and scrutinize whether public resources were used efficiently was abandoned. Moreover, the principle of the independence of the audit was destroyed by the regulation that stipulated that the Court couldn't form a report contrary to the views of public administrations' audit authorities (e.g., auditors in the state ministries and in social security institutions). The amendments were partly annulled by the Constitutional Court in December 2012 in what the media considered to be a "revolution." Yet, only 3 months later, AKP submitted another proposal amending the Court of Accounts Law. With the new amendments, audit reports will no longer be sent to the Turkish Parliament for review but will only be discussed within the Court of Accounts. Moreover, the auditors will not have the authority to automatically launch an investigation if they detect a problem. Rather, if auditors determine that there was a mishandling of finances at a public institution, the Court of Accounts Council (comprised of the President and five other members elected by the government) will determine whether or not an investigation should be launched. Also, very recently Turkey's Court of Accounts decided to exclude the "public loss" section from its audit reports for the year 2011, which would be sent to Parliament in 2013, allowing the losses by state institutions to go unrecorded.

Another example that seems to reflect the recent move away from impersonal relationships with the state in Turkey, with a parallel in Iran, is the developments in the housing sector under AKP domination. In 2004, the government passed a law that transferred all the duties and the authority of the Urban Land Office to another entity, the Housing Development Administration (TOKI) and allowed the latter to form partnerships with the private sector to provide affordable housing. TOKI also received 64.5 million square meters of urban land, which have been its main asset in these partnerships and have provided opportunities for strengthening patron-client relations through TOKI. The distribution of contract values has been highly skewed: Out of 817 partner firms in 2011 being granted contracts worth \$18 billion, 30 firms received 42 percent of the total and another 45 firms received 20 percent of the total. The contracts have been associated with significant increase in the profitability of larger firms and are being questioned for their appropriateness. The size and activities of TOKI have some resemblance with the Masken-e Mehr project in Iran, with the difference that in Turkey the investment financing comes from the private sector, which benefits from the land rents provided by TOKI, while in Iran the land and the financing are both provided by the government and the contractors are companies connected with security forces.

## **8. Conclusion**

Iran started the 20<sup>th</sup> century as a society with a very fragile limited access order. It lacked economic development, rule of law, and basic security of human life and property. A coup by an effective military leader changed that equilibrium into a basic LAO, where he became the shah and dominated as a dictator. This was associated with stability and economic growth,

but offered few opportunities for broader access and impersonal rule development. The replacement of the dictator with his son as the new shah in 1941 made it possible for the elite to interact in a less centralized fashion, with a potential for impersonal rules to develop. However, instead elite factions intensified their conflicts and organized violent groups to dominate each other. Ultimately, one group led by the Shah managed to win the game with support from Western superpowers. The system returned to a basic and harsh LAO, though stability and availability of resources enabled it to do economically quite well for some time. Once the good performance created opportunities for some elite members to gain power, the Shah and his close associates undermined them to maintain their own dominance. However, in doing so, they also lost allies and succumbed to the revolutionary forces that could mobilize the public much more effectively.

After the revolution of 1979, many groups contended for power. While the characteristics of these groups and their power struggle gave rise to violence, the violence in turn shaped the system that was established after violence came under control. The faction associated closely with Ayatollah Khomeini was a much more effective mobilizer of the masses and took the lead in the power struggle. They managed to form new security forces that defeated other power contenders. At the same time, they came up with mechanisms to ensure that access remained limited to the new elite or “insiders” as they have come to be known. Since personal connections and trust has been the main criterion for identifying the insiders, the mechanisms could not be rule based. The arbitrariness of the access restrictions has been an important impediment to the expansion of impersonal rules as determinants of social interactions. The mechanism has also been a key factor shaping the intra-elite struggles as some factions have used it to marginalize or exclude others. The tensions and conflicts caused by the struggle among elite groups to gain control of state organizations and access mechanisms has made the system unstable and caused economic growth to be relatively anemic. Sidelining of most of the country’s professionals as outsiders who could not be trusted by insiders has also restricted the regime’s access to expertise and has hurt economic performance.

In recent years, poor policy design and weak implementation together with tightening foreign sanctions have substantially reduced the rents available in the Iranian economy. The GDP has declined and inflation has been rampant. The dominant coalition has put forward a moderate candidate, Hassan Rowhani, for presidency to ease tensions internally and externally and to help the economy to recover. Large segments of the population have welcomed the move and have endorsed it by participating in elections, where a majority voted for Rowhani. This has affirmed elections as a mechanism for settling intra-elite conflicts in the Islamic Republic. However, the episode has also affirmed the system’s vetting process, which lacks impersonal rules. As a result, while elections serve as a non-violent mechanism for settling contests among the Iranian elite, the access restrictions and most essential features of the social order remain intact. In this sense, entry barriers are likely to remain high and become a source of new disputes between the elite and non-elite and among elite groups. Also, long-lived private organizations independent of the state have yet to develop. Thus, Iran’s social order appears to have remained a basic LAO and slow to mature.

Turkey’s social order managed to go further and develop long-live private organizations such as business associations and labor and trade unions, especially after 1960. The institutional role of the military and the expanding connections with the European Union played important roles in allowing some impersonal rules to emerge and a more mature LAO to form. However, progress came at the cost of significant instability. Once new entry into the system allowed a stable dominant coalition to form, the economy also grew more robustly. But, this is no guarantee for the transition to an OAO. Indeed, the case of Turkey shows the risk that the dominant elite groups may try to undermine the new institutions, reinvigorate access

restrictions, and take the system back towards personal rule to preserve their own power. Indeed, the recent outburst of the Gezi protests in June 2013 was the latest signal of a series of negative political trends that had transpired in Turkey in the last several years.

The social orders framework applied in this paper has a number of implications for the Arab countries experiencing change since 2011. A key point is that OAOs do not emerge from basic LAOs in a short time period because impersonal rules that allow access to be open to the population at large have to emerge and become widely accepted and deeply ingrained in the collective understanding of the society. As a result, many transitions from an LAO are likely to end up with another LAO even though the discourse of those who lead the change may be openness. However, the nature of the transition and the character of the LAO that emerges matter for the possibilities for the system's institutions to mature. When the power structure in an existing LAO begins to crumble, many groups aspire to gain power and in the chaotic situation that arises, armed organizations present themselves as solutions to the society more broadly that desires order and to individual groups that want to maintain their power or dominate. Naturally, some conflict and violence among these groups may be inevitable. In some cases, violence could be minimized if some existing institutions have already reached some level of maturity under the pre-existing LAO. This appears to have been the case in Tunisia, where organizations such as labor unions had maintained some degree of independence from the state and could help make the transition more orderly (Kienle 2012). In other cases, the level of violence could remain high after the toppling of the old regime, as seems to be the case in Libya. Thus, the new system that is emerging there is likely to be a fragile or basic LAO for quite some time, while Tunisia could be on its path to establish more mature institutions. Oil rents in Libya, as in Iran, may add to the intensity of conflict over access and rent distribution, stifling productivity of the economy.

In the case of Egypt, the army and Muslim Brotherhood were two long-lived organizations with potentials to dominate the new order. The Brotherhood got a chance to rule, but proved relatively weak in controlling violence and establishing order. Before long, the army pushed the Brotherhood aside and started to establish a new order. The outcome may take the path that Turkey took after 1960, with a gradual maturing of the new LAO, if the army carves out a rule-based position for itself as the guardian of the system and allows independent private organizations to grow. However, it is also possible that the continuing conflicts and security concerns take the system in a more basic LAO direction, where access remains restricted to some elite groups and individuals based on personal trust.

Current conditions and choices made by the political actors in the Arab world are quite critical and are likely to have very long-term consequences. Awareness about the form and nature of such effects is likely to matter for the decisions that the contenders for power make and for the social outcome.

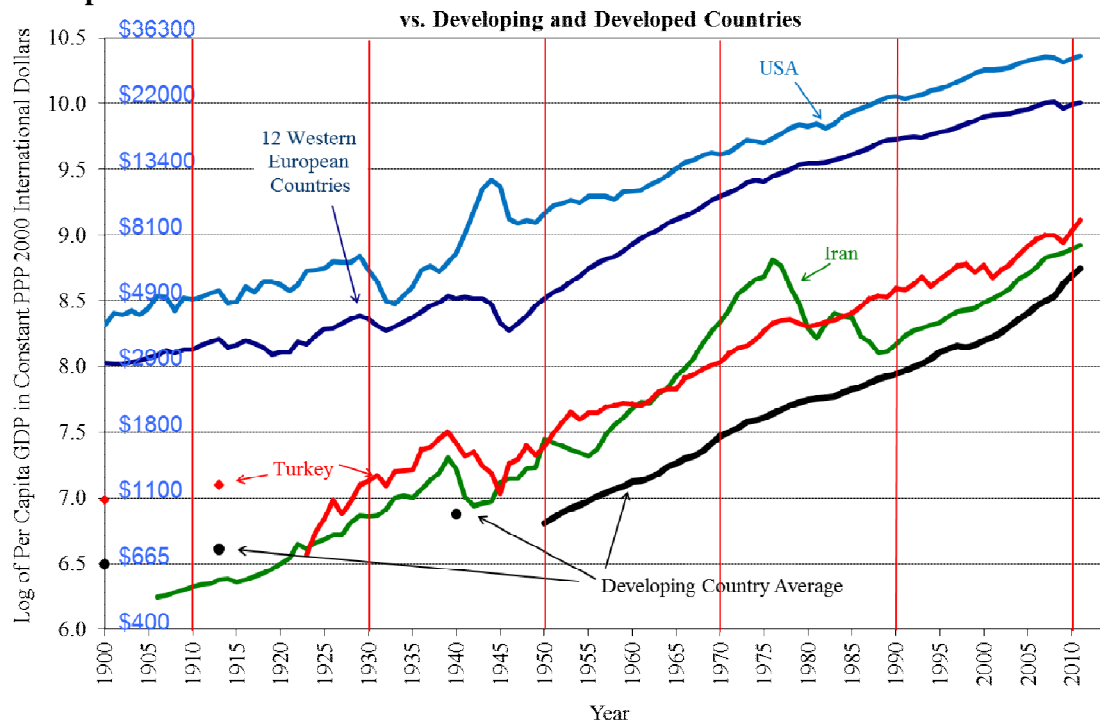
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**Figure 1: Long-Term Economic Development: Iran and Turkey vs. Developing and Developed Countries**



Sources: Authors' calculations based on the Maddison Project Database (see Bolt and Zanden, 2013, [www.ggdc.net/maddison/maddison-project/data.htm](http://www.ggdc.net/maddison/maddison-project/data.htm)), extrapolated using growth data from *World Development Indicators*, [databank.worldbank.org/data/databases.aspx](http://databank.worldbank.org/data/databases.aspx), and Khavarinejad (2003).

**Table 1: Occupational Backgrounds of Parliament Members in Iran (1906-1979)  
(Percent of Total)**

Occupation	1906-26	1926-41	1941-63	1963-7	1975-9
Cleric	24	11	4	0.3	0.3
Merchant	11	11.4	9.2	7.7	6.8
Landowner	28.5	40.4	40.4	23.2	9.8
Bureaucrat	32.1	26.9	32.6	45.8	40.8
Professional	12	17	19	13.8	21.3
Private Sector	3	2	2	3.7	3.2
Worker-Unionist	-	-	-	3	4.9

Source: Ashraf and Banuazizi (1992).

**Table 2: Distribution of the Members of the Islamic Consultative Assembly (Majles)**

Session of the Majles	1	2	3	4	5	6	7	8
Year of Election	1980	1984	1988	1992	1996	2000	2004	2008
Actual number of MPs	327	277	278	268	265	297	285	285
First-time MPs	327	171	153	162	142	190	159	152
<i>As (%) of total</i>	<i>100%</i>	<i>62%</i>	<i>55%</i>	<i>60%</i>	<i>54%</i>	<i>64%</i>	<i>56%</i>	<i>53%</i>
<b>Clerical Background</b>								
Clerical	161	149	80	63	53	37	43	44
<i>As (%) of total</i>	<i>49%</i>	<i>54%</i>	<i>29%</i>	<i>25%</i>	<i>20%</i>	<i>12%</i>	<i>15%</i>	<i>15%</i>
With some formal religious educ.	49	26	32	23	32	16	26	11
Total with religious education	210	175	112	86	85	53	69	55
<i>As (%) of total</i>	<i>64%</i>	<i>63%</i>	<i>40%</i>	<i>32%</i>	<i>32%</i>	<i>18%</i>	<i>24%</i>	<i>19%</i>

Source: Arjomand (2009).

**Table 3: Prior Occupations and Careers of the Majles Deputies after Khomeini**

Session of the Majles	1	4	5	6	7	8
Year of Election	1980	1992	1996	2000	2004	2008
Educators and teachers	127	47	33	52	74	79
<i>As (%) of total</i>	<i>39%</i>	<i>18%</i>	<i>23%</i>	<i>18%</i>	<i>25%</i>	<i>28%</i>
Clerical professors and seminarians	101	29	15	9	14	12
<i>As (%) of total</i>	<i>31%</i>	<i>11%</i>	<i>6%</i>	<i>3%</i>	<i>5%</i>	<i>4%</i>
Medical and other professionals	35	14	16	25	18	18
Agriculturalists	13	1	0	0	0	0
Bazaar Merchants	5	1	0	0	0	0
Workers	2	0	1	0	0	1
Private sector managers	1	4	3	4	3	3
Public and bonyad managers	1	3	6	9	6	8
Civil employees and local admins.	11	97	121	127	117	104
<i>As (%) of total</i>	<i>3%</i>	<i>38%</i>	<i>45%</i>	<i>43%</i>	<i>40%</i>	<i>36%</i>
Military and security staff	7	37	53	45	24	35
<i>As (%) of total</i>	<i>2%</i>	<i>14%</i>	<i>20%</i>	<i>15%</i>	<i>8%</i>	<i>12%</i>
Judiciary staff	11	15	11	16	15	16
Leadership personnel	2	7	8	7	8	6
Other (including the press)	11	1	2	3	13	3
Total	327	256	269	297	292	285

Source: Arjomand (2009).