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The Effects of Domestic Policies of Governments Before and After the Revolution in Alignment with the Command Economy Model

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ABSTRACT

This article examines the historical trajectory of state intervention in Iran's economy from the Qajar period to the post-Islamic Revolution era within the framework of the command economy model and political economy analysis. The central objective is to evaluate how state-centered economic policies shaped institutional development, market structures, and economic performance across different political regimes. Using a descriptive-analytical method and library-based research, the study compares the economic roles of successive governments—including the Qajar state, the Pahlavi regimes, and post-revolutionary administrations—by analyzing patterns of ownership, regulation, development policy, and state-market relations. Findings indicate that despite major political transformations, continuity in directive economic governance remained a dominant feature of Iran's economic structure. During the Qajar era, weak institutions, fiscal inefficiency, and patrimonial governance limited capital accumulation and economic modernization. The Pahlavi period introduced modernization and industrialization but strengthened centralized state control over markets and social groups. After the Revolution, ideological debates over property, justice, and economic management ultimately reinforced a large state presence, particularly under wartime conditions and rentier economic structures. Later reformist and liberalization efforts sought to rebalance relations between state and market but faced structural constraints, institutional weaknesses, and persistent monopolistic arrangements. The study concludes that economic underperformance in Iran is less a consequence of state presence itself than of inadequate institutional design, weak regulatory frameworks, and limited competitive environments. Sustainable development requires a developmental, law-based, and accountable state capable of fostering competitive markets, strengthening private-sector capacity, and reducing rent-seeking behavior through institutional reform.

Keywords: *Command Economy; State Intervention; Political Economy of Iran; Institutional Economics; State-Market Relations; Economic Development; Iran Economic History*

Introduction

The state is one of the most significant institutions that human societies have created throughout the history of social life in order to establish social order and facilitate collective living (1). Over the course of its historical evolution, the institution of the state has assumed various functions that reflect the scale and scope of governmental authority. One of the central debates concerning the modern state relates to the size of government and the extent of its



responsibilities. In this regard, different schools of political economy have adopted divergent positions, each identifying the principal functions of the state from its own theoretical perspective. These schools have provided different answers to the question, “*What is the optimal level of state intervention in the economy and what instruments should be employed to implement such intervention?*”—ranging from absolute non-intervention to centralized economic planning (2, 3). The state is therefore regarded as one of the most influential actors whose performance is directly associated with a country's developmental trajectory.

This article seeks to examine the consequences of one hundred years of state intervention in Iran's economy. As will be discussed, the Iranian economy over the past century has largely been guided through directive and state-controlled mechanisms by successive governments from the Qajar period onward, and this issue may be considered one of the principal explanations for the country's economic underperformance (4, 5). A command economy concerns itself with determining what *ought* to be and how economic problems of a society should be resolved through prescriptive policymaking rather than descriptive analysis. Such an approach incorporates value judgments and normative directives into economic decision-making and extends beyond analytical explanation toward policy prescription and evaluation of economic actions (6, 7).

The main research question of the present study is as follows: *What consequences have resulted from the adoption of state-centered economic policies by governments before and after the Iranian Revolution?*

In addition, several subsidiary questions may be raised, including: *How have economic policies influenced the nature of governments themselves?* and *What similarities and differences have existed in the character of governments from a political economy perspective?* The research hypothesis proposes that *the adoption of state-centered policies grounded in a command economy over the past century has contributed to the persistent failure of Iran's economic performance* (8, 9).

Literature Review

In general, no single study has been identified that directly investigates the reasons behind the adoption of a command economy model in Iran over the past century. Nevertheless, numerous books and scholarly articles have examined various dimensions of Iran's economic development and political economy.

Studies of Iran's political economy have analyzed economic developments following the Revolution, including early revolutionary transformations, the Iran–Iraq War period, reconstruction policies, reformist economic programs, and later populist economic approaches, while also addressing the impact of nuclear policy and international sanctions on Iran's economic structure (9, 10).

Research adopting a political economy perspective has also examined Iran's underdevelopment by emphasizing the central role of oil revenues and the structural position of the state. These studies analyze the characteristics of a rentier state and explore the relationship between oil dependency and economic underdevelopment (5, 11).

Other scholarly works have focused on transformations in the nature of the Iranian state within the framework of post-revolution political economy, particularly addressing the role of oil as an independent variable shaping relations between state and society. From this perspective, oil rents provided financial resources that strengthened ideological structures while simultaneously contributing to the absence of a socially grounded economic planning framework. Dependence on rent revenues also widened the distance between state and society because governmental expenditures were not derived primarily from taxation of citizens (4, 12).

Discourse-oriented research on post-revolution welfare policies has examined the ideological construction of welfare paradigms in specific administrations rather than the broader logic underlying economic policy choices. Comparative developmental studies of successive governments have likewise demonstrated that divergence and lack of consensus in developmental approaches produced inconsistent—and at times contradictory—policy outcomes, thereby limiting successful development in Iran (13).

Additional comparative studies evaluating administrations from the perspectives of justice and welfare have argued that post-war economic liberalization policies faced significant inefficiencies due to prevailing political and economic conditions, while later redistributive policies intensified economic crises and contributed to the expansion of poverty (8).

As observed, most existing studies have examined the nature of the Iranian state after the Revolution primarily from non-economic or partial analytical perspectives. The present article therefore attempts to provide a comprehensive analytical framework by conducting a comparative examination of different historical periods based on the command economy model in order to analyze the structure and performance of the Iranian state both before and after the Revolution.

Theoretical Perspectives

Given that state ownership and governmental performance in economic activities based on the command economy have increasingly been challenged, while at the same time extensive criticism has been directed against the private sector and market mechanisms, the present theoretical framework seeks an alternative approach superior to the command economy.

Mixed Economy

The concept of the *mixed economy* describes an economic system that simultaneously employs market mechanisms and command-based economic instruments to organize economic activity. A mixed economy is generally regarded as an intermediate domain—or a “third way”—between laissez-faire capitalism and state socialism. Nearly all developed economies, including the United States, fall within this category. Contemporary forms of mixed economies combine varying degrees of private economic activity, such as privately owned enterprises, with governmental regulation and economic control through welfare programs, economic and industrial planning, development policies, and public ownership of selected economic enterprises. The modern welfare state is frequently interpreted as a form of mixed economy designed to mitigate market failures and inequalities emerging from unrestricted market processes (2).

In 1949, Sir Richard Stafford Cripps introduced the term to describe Britain’s post-war economic structure. As Chancellor of the Exchequer between 1947 and 1950, Cripps advocated and implemented strict austerity policies aimed at reconstructing the British economy. The concept emerged partly in response to political accusations that certain elements of these policies resembled socialism or communism, ideologies that were widely rejected in the post-war political environment. Earlier intellectual foundations for this approach had been established through arguments supporting active governmental intervention in shaping economic outcomes and stabilizing markets (2).

Throughout the 1950s and 1960s, the mixed economy became widely accepted as a dominant economic policy strategy. Its legitimacy initially derived from the economic success achieved by countries adopting this model. However, a series of economic crises beginning in the late 1960s and continuing into the 1970s weakened support

for mixed economic systems. Since the 1980s, the rise of neoliberal economic policies has reinforced market primacy and intensified skepticism toward governmental intervention in economic affairs. In the United States, this tendency manifested partly through privatization policies, including the transfer of federal assets such as the Conrail corporation to private investors in 1987 (7).

The Mixed Market System in Institutionalism and the Thought of Douglas North

Institutional economics is generally divided into two major branches: old institutional economics and new institutional economics. The institutionalist tradition began with scholars such as Thorstein Veblen, John R. Commons, and Wesley Mitchell, and gained broader recognition following Hamilton's presentation at the 1919 conference of the American Economic Association. These early institutional economists—later labeled *old institutionalists*—advanced a critical perspective toward neoclassical economics and shared several common intellectual orientations: emphasis on collective action rather than individual action, evolutionary analysis of economic processes rather than mechanical modeling, and reliance on empirical observation instead of purely deductive reasoning. Their intellectual foundations were significantly influenced by the German Historical School. Although institutional economics gradually emerged as an influential economic paradigm, it declined during the interwar period, while the foundations of new institutional economics simultaneously began to develop (1, 6).

New institutional economics integrates economics, law, organizational theory, political science, sociology, and anthropology in order to provide a comprehensive understanding of social, political, and commercial institutions. While borrowing freely from various social sciences, its primary analytical language remains economic analysis. The principal objective of this approach is to explain what institutions are, how they emerge, why they are useful, how they evolve, and how they can be reformed. The defining distinction between new institutional economics and the earlier institutionalist tradition lies in its compatibility with neoclassical economics. Rather than rejecting neoclassical theory, new institutionalists attempt to modify and extend it (3).

Unlike strict neoclassical assumptions, preferences and human choices are not regarded as entirely exogenous within institutional analysis. Although both conventional economics and new institutionalism often assume that individuals create institutions, North explicitly argues that institutions are humanly devised constraints. In this interpretation, the relationship between individuals and institutions is largely unidirectional, whereas old institutionalism emphasizes the reciprocal influence whereby individual preferences and behavior are themselves shaped by institutional environments and social habits (1).

North distinguishes clearly between *institutions* and *organizations*. If institutions constitute the “rules of the game,” organizations represent the players operating within those rules. Organizations consist of groups of individuals united around common objectives and include political structures such as firms, trade unions, family farms, and cooperatives; social organizations such as churches and clubs; and educational institutions such as schools and universities (6).

North further analyzes divergence among countries that began from relatively similar historical starting points yet achieved dramatically different developmental outcomes, such as England and Spain. He argues that although shared ideological backgrounds initially produced certain convergent tendencies, distinct institutional frameworks generated divergent trajectories. In England, institutional arrangements evolved to facilitate complex impersonal exchange necessary for political stability and the exploitation of technological innovation. In Spain, however,

personal relations remained dominant in economic and political transactions, preventing both institutional stability and effective technological advancement (3).

According to North, differences in economic development between countries such as England and the Netherlands on one side and Spain and France on the other can largely be attributed to variations in bargaining power between monarchs and societal representatives. These differences produced divergent property rights structures and systems of social order. Factors such as the benefits derived from property protection and the availability of institutional alternatives influenced these bargaining dynamics. Nevertheless, purely political explanations remain incomplete without considering belief systems. Western Europe shared an initial Christian belief structure, yet diverse historical experiences transformed these belief systems differently across regions. In England and the Netherlands, evolving belief structures encouraged modern interpretations of liberty, whereas in Spain hierarchical medieval patterns persisted, ultimately constraining economic growth and civil freedom (3).

Among economists, North places particular emphasis on institutions as mechanisms for reducing uncertainty. Following what he describes as the Second Economic Revolution—marked by the increased application of scientific knowledge to technology—the nature of human interaction fundamentally changed. Earlier societies focused primarily on controlling the physical environment; industrial transformation shifted human relations toward complex interdependence among individuals. This expansion of interdependence increased uncertainty, prompting societies to create institutions as instruments for managing risk and stabilizing expectations (1).

Before the Revolution

The Position of the State in the Economy during the Qajar Period

The revenue interests of the Qajar state consisted of: (1) livestock and herd taxes; (2) taxes on shopkeepers and business activities; (3) customs duties; (4) confiscations, leases, tax-farming arrangements, and revenues arising from concessions; and (5) land tax. Land tax was the most important fiscal source and was collected in both cash and in kind (14).

Tuyul estates and waqf endowments were exempt from taxation (14). Due to extortion and over-collection by tax agents, tax figures and the details related to taxation were kept opaque (11). Financial administration was marked by widespread abuse, and the fiscal system lacked efficiency. In addition, princes, officers, and government officials did not pay taxes, and owners of caravanserais, bathhouses, mills, and shops also made little contribution to urban taxes (15).

Accordingly, the main tax burden fell on peasants and rural populations. “State revenue from taxation was not spent on the welfare of the peasantry or on improving agricultural facilities, and ultimately led to agricultural stagnation and rural backwardness” (16). The state also maintained a practice of annually “selling” provinces to individuals; whoever paid the highest amount became the authority over the province. This practice had negative fiscal effects, as it led to unrestrained extraction from subjects and local populations (14).

Agricultural products often could not be transported or exported—either domestically or abroad—because of the absence of roads. At times, “one city had an abundance of everything while a neighboring city suffered hardship and famine, and it was impossible to deliver grain and provisions there.” Road construction would have generated significant benefits for the government and would have enabled agricultural progress and commercial expansion; yet the government paid little attention to this, and roads were generally in ruin (16). The exploitation of available

water resources was also neglected: “the failure to build dams, failure to benefit from seasonal rivers, the high cost of building qanats, and leasing out qanats or granting them as personal emoluments” created serious obstacles for irrigation and cultivation (16).

Neglect and opportunistic practices by some merchants and cultivators deprived Iranian agricultural products of foreign markets and accelerated agricultural decline. “Lack of attention to orderly, regular, and clean exports, along with the absence of technical knowledge in agriculture, reduced both the quantitative and qualitative levels of output” (11).

From the standpoint of economic structure in Iran before the Constitutional Revolution, “cities and the urban population perhaps constituted about one-seventh of Iran’s total population. This population consisted of merchants, shopkeepers, artisans, bureaucrats, workers, religious minorities, a small number of foreigners, the urban poor, and the military. Only a small portion of urban residents engaged in trade” (14).

Within the country there was no fixed exchange rate for the value of money. City mints were granted to governors as concessions, and substantial differences existed between the *qirān* of one city and that of others. Coin debasement and counterfeiting were common; these practices disrupted Iran’s monetary order and endangered commerce. In addition, following the discovery and extraction of gold and silver in California and the resulting abundance in world markets, Iranian currency lost value, and merchants engaged in foreign trade faced declining returns on capital (17).

There was a pronounced lack of coordination between state revenues and expenditures. Even when nominal figures were high, the dilution of accounts, fraudulent bookkeeping, and misappropriation blocked capital accumulation and its efficient use. Salaries, bribes, and “gifts” were often paid to persons who provided no public service, but received such payments through inheritance or personal connections with elites. Capital holders did not feel secure regarding life and property; merchants sometimes hid their goods out of fear of the court and feigned poverty. In practice, the state lacked a capital accumulation system: “without large-scale capital accumulation, the initial growth and expansion of capitalism in trade, industry, and agriculture is not possible.” In Iran, mechanisms that could aggregate capital remained ineffective; monetary capital that contained latent value was used to purchase goods and arms in Europe, or exited the country through the royal household or major merchants whose consumption patterns were dependent on foreign goods (4).

Natural resources, mines, forests, and fisheries were not managed with the aim of establishing revenue-generating institutions. The state’s primary strategy for earning income was to grant concessions and collect concession fees and annual profits. As a result, metal mines (copper, iron, etc.) remained largely unexploited. If someone invested in mining, fear of state seizure and arbitrary expropriation often led the investor to abandon the project. Forests were not protected; forestry knowledge was lacking; and timber was exported excessively by concession-holders. The fisheries sector was also disordered and had long been administered by Russian subjects. Tourism was not recognized as an industry, and the state made no meaningful effort to restore historical monuments (18).

Merchants’ lack of knowledge of commercial science, the absence of a chamber of commerce, the lack of schools teaching such knowledge, the absence of legal rules governing bills of exchange, and, ultimately, the Qajar state’s disregard for educated groups all compounded this disorder (18).

The Position of the State in the Economy during the First Pahlavi Period

The state took major steps toward industrializing the country by attracting foreign capital, and many factories were established; this, in turn, diminished the role of the market in the economy. Reza Shah believed that the more machinery was imported and the more factories were established, the happier people would become (19). He sought to nationalize and state-control the economy and the market; in this regard, Soviet-style state monopolies could be viewed as a potential model in the late 1920s, as the state began supervising production in ways that harmed merchants' interests (4).

Reza Shah's economic policy—expanding foreign trade and the importation of foreign goods—substantially altered the condition of guilds. As Iran became integrated into the global economy, the country's local and land-based economic structure changed abruptly; consequently, the role and function of traditional bazaars weakened, and this shift drew guilds more strongly toward their political identity. The creation of state monopolies and state-owned factories generated dissatisfaction among the older commercial and guild strata. The abolition of guild taxes removed tax-collection power from guild notables and was implemented as a means of weakening master artisans' supervision over subordinates (10). This legal framework—through controlling guild structures, pricing, and intervention in economic life—represented an effort to extend state dominance over the bazaar and to reduce its autonomous power (10).

An important factor shaping the trade pattern in this period was the low tariff regime that Iran had committed to apply to Russian imports after military defeat in the first half of the nineteenth century (5).

Britain obtained similar tariff privileges. The result was a shift in the composition of imports toward manufactured consumer goods that directly competed with domestically produced items. Notably, rival great powers provided substantial subsidies to such consumer goods, which effectively eliminated domestic production in those sectors. The tariff pattern also had significant effects on Iran's exports by steering them toward agricultural raw materials and away from textiles and handicrafts other than carpets. Nevertheless, this did not turn Iran into a single-product economy (5). After World War I and the Bolshevik Revolution, trade with Russia declined and shifted toward Britain and the United States. Even so, by the late 1920s, roughly 40% of Iran's non-oil exports went to Russia, 20% to Britain and India, and 17% to the United States; German markets also became limited targets for Iranian exports, while Germany emerged as one of the most important suppliers of Iran's imports (5).

The state sought to exercise direct—not merely indirect—oversight over the bazaar and guilds; although Reza Shah framed this as a kind of general amnesty, in some regions local governors continued to collect guild taxes. Compared to the earlier period, guilds in this era were subject to close state control (4, 10).

After the Revolution

The Position of the State in the Economy in the Coalition Governments

In the early months following the victory of the Revolution, Mehdi Bazargan openly opposed the expansion of state ownership and the nationalization of economic affairs. In a public speech, he argued that authoritarian governments since the Pahlavi era had consistently attempted to enlarge the apparatus of the state while extracting resources from society. According to Bazargan, one of the greatest harms inflicted upon society was the transfer of activities traditionally managed by citizens—such as cotton companies, livestock enterprises, transportation firms, and construction activities—from the private sector into state control. He maintained that such policies aimed to

transform citizens into government employees and suppress independent economic actors, particularly bazaar merchants and those engaged in free professions. Bazargan emphasized that authoritarianism seeks to concentrate authority within the state and warned that the Revolution should not reproduce authoritarian practices; rather, “the affairs of the nation must be entrusted to the nation itself” (20).

At the time, such statements provoked strong reactions. During a period when orthodox leftist economic thinking and the nationalization of major economic sectors were widely perceived as self-evident revolutionary principles, few political figures besides Bazargan expressed opposition to extensive state control. Significant disagreements existed within the Provisional Government, and Bazargan’s economic perspective differed sharply from many of his colleagues. Because of this orientation, the Tudeh Party labeled Bazargan a “liberal” and portrayed the Provisional Government as representing the petty bourgeoisie—a characterization repeatedly invoked by leftist political forces and later adopted as a broader political accusation within revolutionary discourse (21).

Bazargan’s disagreements with leftist factions intensified to the point that he regarded them as one of the principal sources of deviation within the revolutionary process, describing the transformation of revolutionary unity from the slogan “all together” toward a personalized political direction (21).

However, Bazargan should not be interpreted as an advocate of classical liberal free-market economics. Like his political and religious ally Ayatollah Taleghani, he emphasized justice and its Shi’i-Islamic interpretation within economic life and rejected both capitalist and Marxist economic models. His most systematic economic ideas, presented in *Mission and Ideology*, were deeply influenced by Islamic perspectives on property and social justice. From the viewpoint of Bazargan and Taleghani, the fundamental distinction between Islamic economic thought and Marxism lay in the recognition and sanctity of private property. Bazargan sought simultaneously to legitimize personal ownership and to define ethical boundaries that would ensure equitable wealth distribution and social justice (22).

He criticized excessive wealth accumulation and miserliness as inconsistent with Qur’anic teachings. Thus, while encouraging wealth creation and economic activity, he rejected unchecked capital accumulation and pursued justice primarily through ethical transformation rather than coercive state intervention. Earlier, in his work *Work in Islam*, Bazargan had attributed social backwardness to neglect of productive labor and argued that every Muslim should regard work as an ethical obligation and a path to salvation (22).

Accordingly, like many contemporary religious intellectuals, Bazargan viewed Islamic economics as neither capitalist nor Marxist but as a distinct alternative superior to both. A distinctive aspect of his thought, however, was the belief that Islam does not prescribe fixed economic formulas comparable to rigid governmental systems. Instead, Islam establishes general ideological principles within which economic programs must be formulated according to the requirements of time and place (22).

The Position of the State in the Economy during the Government of Mir-Hossein Mousavi

Following the Islamic Revolution of 1979 and the subsequent war period, Iran’s economy entered a phase of rapid decline. Except for a brief period in 1984, both investment and gross domestic product decreased sharply, while inflation rose steadily. At its lowest point in 1988, real GDP per capita declined to approximately 54 percent of its 1976 level. Non-oil GDP experienced a smaller contraction but still fell to about 63 percent of its previous peak. Consequently, per capita income declined to roughly 4,300 dollars by 1988, leaving Iran behind many comparable developing countries. Several factors contributed to this decline, including severe political risk for

investors, large-scale emigration of skilled labor, inappropriate economic policies, declining oil prices, and the destructive consequences of the Iran–Iraq War (5).

Among revolutionary forces—and even within Islamist political currents—there existed fundamental disagreement over the scope of state authority and property rights. Leftist factions strongly emphasized a state-centered economy. Islamist political forces themselves were divided into two main groups. One group, grounded in individual-centered jurisprudential principles, opposed extensive state intervention, rejected strict control over domestic and foreign trade, and defended private property. The second group, emphasizing collectivist interpretations of Islamic jurisprudence, supported comprehensive state intervention, nationalization of foreign trade, restrictions on private ownership, and regulatory policies aimed at controlling capital accumulation (23).

The first group, later known as the political right, relied largely on traditional jurisprudential interpretations and accused opponents of ideological deviation and leftist tendencies. The second group—later identified as the political left—emphasized the role of time and place in interpreting Islamic law and placed social justice at the center of Islamic governance principles (23).

The government of Prime Minister Mir-Hossein Mousavi aligned itself with the egalitarian and populist orientation of the revolutionary left. Economically, it adopted a non-capitalist development strategy characterized by a large public sector, centralized planning, and restrictions on private economic activity (23). The government also supported extensive state involvement in educational, social, and economic domains. Nevertheless, structural pressures—including continued rural-to-urban migration, rapid urban population growth, declining government revenues caused by war conditions, and the sharp fall in oil prices in the mid-1980s—significantly constrained state capacity (24).

At the same time, the global decline of socialist economic models and domestic political criticism strengthened opposition to state-centered economic policies. Development projects during the war years remained a secondary priority. Despite wartime conditions, development programs were never entirely halted. Although the volume of development projects was drastically reduced, it never fell to zero. Banks were nationalized, multiple exchange-rate systems were introduced, and even private truck owners were obligated to provide logistical services to war fronts—measures largely understood as necessities imposed by wartime economic management (9).

The Position of the State in the Economy during the Presidency of Hashemi Rafsanjani

When Hashemi Rafsanjani assumed executive power after the end of the war and nearly a decade after the Revolution, the country faced a fragile and highly vulnerable situation. The war had just concluded and had left deep economic and infrastructural damage. For nearly ten years, the country had been preoccupied primarily with survival, leaving little opportunity for development projects. Oil prices—constituting the principal source of national income—were at historically low levels. Under these conditions, the government perceived economic adjustment as the only viable strategy for reconstruction. The state sought to increase revenues while reducing expenditures as rapidly as possible; however, from the outset the adjustment program faced strong opposition from various political factions, eventually forcing the government to retreat from full implementation of the policy (9).

From the beginning of the program, economists and economic actors divided into supporters and opponents. Advocates of liberal economic reform—many occupying key economic positions—supported the adjustment strategy and presented themselves as proponents of economic development and modernization. Despite parliamentary backing, the program encountered substantial criticism and resistance, which reduced both its speed

and intensity. Critics, including supporters of the previous state-oriented economic policies of the Mir-Hossein Mousavi administration as well as traditional conservative groups, argued that the government had failed to reduce the size of the extensive bureaucratic apparatus and had instead expanded it. They also claimed that privatization efforts had been largely unsuccessful. The emergence of accelerating inflation—reaching nearly 49 percent by 1995—was interpreted by opponents as evidence of the failure of price liberalization policies (8).

Nevertheless, supporters of the adjustment program pointed to measurable positive outcomes. Statistical indicators demonstrated an increase in economic growth from approximately 3 percent to 8 percent during the First Five-Year Development Plan, a reduction in population growth, improvement in fiscal self-reliance, reduction of government borrowing from the banking system, decreases in current government expenditures, expansion of development spending, increased agricultural production, growth in non-oil exports, and a substantial reduction in budget deficits. In practical terms, the period witnessed the construction of major economic infrastructure projects, including dams, power plants, petrochemical complexes, refineries, ports, and transportation networks (8).

Rafsanjani's administration pursued economic development through policies emphasizing economic liberalization, reduction of direct state intervention, and expanded international engagement. Economic liberalization and the diminishing role of government were viewed as central instruments for economic recovery. The reform agenda aimed to expand the role of the private sector in the national economy and encouraged both private participation and the utilization of foreign financial institutions as pathways toward economic independence (12).

The reconstruction and development strategy thus pursued two principal objectives: restructuring a disrupted economic system and reopening Iran's economic, commercial, and industrial relations with the global economy. Achieving economic reconstruction required engagement with the international community, as domestic capital resources were insufficient for rebuilding efforts. Consequently, the government adopted policies of international détente alongside domestic economic reform, concluding that global conditions had become less ideological and increasingly centered on economic integration. Economic policy therefore moved toward alignment with prevailing global economic frameworks, including borrowing from international financial institutions, encouraging foreign investment, promoting non-oil exports, privatization, exchange-rate liberalization, subsidy reductions, and price deregulation (3, 12).

The end of the Iran–Iraq War marked the beginning of a new phase of economic development. Beginning in 1989, the government gradually dismantled extensive market controls imposed during the revolutionary and wartime periods. Rising oil prices enabled increased investment and contributed to temporary reductions in inflation. Although private investment played an important role, much of what was classified as private-sector investment was undertaken by quasi-state foundations, such as the Foundation of the Oppressed, which controlled significant portions of modern light industry and operated under indirect governmental supervision (9).

However, postwar economic recovery proved short-lived. Managing deregulated markets and foreign payment obligations became more complex than anticipated. Accumulated short-term foreign debt was insufficiently monitored, and declining oil prices in the early 1990s generated balance-of-payments pressures. As reconstruction progressed, the promotion of a “minimal state” approach and price liberalization policies sought to reduce government involvement in the economy. Liberalization revealed structural inefficiencies within the public sector, as many guilds, cooperatives, and distribution organizations lost market control following price deregulation, reinforcing perceptions of state failure (23).

Despite the ideological shift toward reduced government intervention, private-sector expansion remained limited because state monopolies persisted and unfair competitive conditions continued within the economy. Although efforts were made to move toward a freer economic environment, comprehensive reform aimed at dismantling state monopolies was never fully realized (8).

The first post-revolution Five-Year Development Plan was implemented during this administration. Inflation averaged approximately 20.8 percent over a decade, placing Iran within the category of high-inflation economies. Elevated inflation was interpreted both as evidence of structural inefficiency and as a consequence of economic reforms implemented according to market-oriented models after 1989. While reforms significantly reduced losses among state-owned enterprises, they failed to eliminate government monopolies or establish competitive conditions capable of facilitating private capital accumulation. Partial implementation combined with persistent state intervention produced unintended outcomes, contributing to economic inefficiency and high inflation. Continued government intervention disrupted free exchange of labor and capital within the non-state sector amid severe recessionary and inflationary pressures (23).

These problems intensified following policies aimed at reducing foreign-exchange controls and moving toward a unified exchange-rate system. Currency depreciation increased the repayment burden of foreign debts held by domestic firms. The government assumed a significant share of these losses, which expanded the monetary base at a time when fiscal revenues were declining and government credibility was weakened. The result was stagflation characterized by economic stagnation alongside severe inflation. In response, the government reintroduced extensive controls over foreign trade, external payments, and domestic markets. Although these interventions prolonged economic stagnation, they restored state control over economic conditions and reduced the risk of a balance-of-payments crisis. Sustained economic growth remained limited until the global rise in oil prices in the early twenty-first century.

Efforts by the Islamic Republic to stabilize the economy through partial economic isolation generated unintended consequences. Extensive state intervention in trade and markets weakened relationships between domestic producers and foreign partners, reducing technological exchange and slowing industrial development. Interventionist policies adopted after the Revolution aimed partly at reversing rising inequality, and evidence suggests that these policies contributed—directly and indirectly—to moderating distributive disparities within the economy (6).

The Position of the Economy in the State during the Presidency of Seyyed Mohammad Khatami

The problems that emerged during the years of implementing adjustment policies—rising inflation, increases in the exchange rate, and recession in productive activities—intensified the perceived need for state support and compelled the government to expand its protective interventions. Such support appeared highly effective as short-term management, but it generated difficulties in the long run. Accordingly, it became necessary to transform the overall framework of economic activity. Measures were therefore adopted so that, rather than positioning the state as the sole محور (axis) of the economy or attempting to eliminate it, conditions for joint interaction between the state and the market (the private sector) could be established. In this direction, policymakers' orientation shifted toward strengthening a secure and rule-based environment for all economic activities, transferring state-owned enterprises to the private and cooperative sectors, eliminating monopolies, decentralizing administrative and economic structures, targeting the state's supportive policies, establishing a comprehensive social security system, prioritizing

employment and maximizing labor-market dynamism and job opportunities, promoting an export “jump,” and reducing dependence on oil revenues as the core objectives. In operational terms, this approach relied on encouraging investment and entrepreneurship, developing employment-generating activities to reduce unemployment, and prioritizing the private and cooperative sectors in access to privileges and information (3).

The Fourth Development Plan was likewise designed with a private-sector development orientation, but it simultaneously pursued the revival and redefinition of state functions, while strengthening institutional perspectives within the plan. For example, Article 98 of the plan's law obligated the government to carry out functions aimed at preserving and enhancing social capital—an objective consistent with institutionalist logic. In provisions such as Article 38, the state was tasked with preparing competition legislation to protect citizens' rights. In effect, this period was devoted to administrative modernization and enhancing the effectiveness of governance. It is evident that, while the private sector was accepted as the *محور* of economic activity, the state's institutional, regulatory, and complementary roles in the economy were simultaneously affirmed. This meant that the private sector was recognized as central to economic activity, yet remained subject to state regulation and oversight through formal regulatory frameworks. This approach—shaped by evolving understandings of state–market relations and global intellectual currents of the second half of the 1990s, including agendas such as modernization, state revitalization, and good governance—was advanced through instruments such as regulatory rules, particularly competition law. Such instruments seek to remedy market failure while preserving market mechanisms and have attracted growing interest across many countries in recent years (1, 6). The redistributive function of the state in the Mousavi period had been particularly prominent.

The Position of the State in the Economy during the Presidency of Mahmoud Ahmadinejad

With the start of Ahmadinejad's presidency, he criticized prior governments' privatization policies, arguing that state factories and assets had been transferred at low prices to certain groups, and he adopted a different policy orientation. In 2006, despite the Leader's decree and a new interpretation of Article 44 emphasizing the strengthening of privatization, only 9 percent of planned privatizations were executed. Later, however, the administration pursued the transfer of strategic sectors—such as telecommunications, transportation, electricity, fuel, banking, and steel—with the stated aim of privatizing 80 percent of state industries by the end of the Fourth Development Plan. While Ahmadinejad claimed that the Islamic Republic had performed better in privatization than European and Middle Eastern countries, critics argued that the emphasis in Iran was placed more on the volume of privatization than on its quality (13).

In this context, the weakness of the private economy in Iran on one side, and the dependence of most large economic enterprises on the state on the other—many of which operated under monopoly or *شبه انحصاری* conditions—reduced creativity and competition in production, contributed to technological backwardness, increased costs, weakened international competitiveness, intensified pressure on employment opportunities, and raised the prices of goods and services. Ultimately, these outcomes reduced state efficiency and even undermined governmental legitimacy (23).

Within Ahmadinejad's administration, distributive and redistributive functions became a defining characteristic. The government adopted policies that—at least as claimed by its policymakers—were intended to transfer resources geographically from less-developed to more-developed regions, and socially from upper to lower classes. Among various policies, four economic programs in particular—Mehr Housing, Justice Shares, subsidy targeting,

and changes in provincial budget allocations—were explicitly oriented toward such redistributive aims. These policies were treated as expressions of a “state in the periphery” model.

During Ahmadinejad’s first four-year term, fluctuations in economic growth remained relatively stable with a mild range, similar to the preceding four years, and the average growth rate during the Ninth Government was around 4 percent. From the final year of that term onward, however, publication of official growth statistics was suspended for a period, and later figures were released following the publication of global statistical indicators for Iran’s economy. These growth figures were reported at a time when oil revenues had risen significantly, generating substantial foreign exchange resources.

Beginning in 2011, economic conditions became more difficult due to the implementation of subsidy targeting and higher energy-carrier prices on one side, and command-based control of production costs on the other, producing significant difficulties for the productive sector. Economic growth for that year was reported at about 3 percent. In 2012, conditions changed sharply: a sudden exchange-rate jump and intensified production-sector problems made declining growth undeniable. Although government officials resisted acknowledging entry into recession, international statistical institutions published negative growth for Iran’s economy, after which domestic centers also reported that the indicator had fallen to around negative 5.8 percent in 2012. Following the change of government in 2013 and a partial return of stability to the broader public environment, short-term efforts were undertaken to address economic challenges, yet the growth rate remained negative by the end of that year, reaching approximately negative 1.9 percent.

Real minimum wage is a key indicator of household welfare. Since real wages—derived from nominal wages adjusted for inflation—reflect purchasing power over time, this measure can indicate how Iranian households’ welfare changed across different administrations. In Ahmadinejad’s second term, real wages reportedly declined substantially, placing strong pressure on households’ purchasing power.

Another relevant variable is the Gini coefficient, which measures income inequality; higher values indicate worse inequality. The Gini coefficient followed a relatively stable pattern around the three-decade average during Rafsanjani’s administration, Khatami’s first term, and Ahmadinejad’s first term. The lowest inequality period by this measure was reported for the Tenth Government, while the highest inequality period was associated with the Eighth Government. The decline in the Gini coefficient during the Tenth Government began in 2007 and—except for an increase in 2009—continued downward until 2011. The sharp decline during 2010 and 2011 was largely influenced by the subsidy targeting program and the equal distribution of cash transfers to Iranian households. Because the paid subsidy was the same for all income groups, it improved the situation of lower-income deciles more than higher-income ones, since it constituted a larger share of their incomes, thereby increasing their spending capacity. However, with rising inflation, the distributive improvements gradually dissipated over time (8).

Conclusion

In a general conclusion, it can be stated that from the Qajar period to the post-Revolutionary era, Iran has largely experienced a command-oriented economic system, and extensive state intervention in economic affairs has constituted a major factor behind limited economic growth. Rather than directly controlling economic processes, the state was expected to establish appropriate institutions and legal frameworks capable of fostering economic dynamism. During the Qajar era, however, the government attempted, through directive policies, to transform nomadic and rural life toward urban patterns while the internal structure of urban society itself was undergoing

profound change. Within a tribal and patriarchal administrative order, dominant cultural patterns remained traditional, and the economy preserved a backward structure; these two dimensions reinforced one another. The institutionalized social order inherited from Iran's historical past was characterized by patriarchal, tribal, and predatory features, reflecting a closed political culture in which tribal modes of life remained dominant.

In the contemporary era, particularly with the rise of the Pahlavi state, a central issue became the transformation of internal social structures and patterns of collective life. Guilds and bazaar merchants constituted one of the social strata most directly affected by rapid and comprehensive modernization policies and thus became a primary focus of state attention. Although these groups had participated in major historical developments such as the Tobacco Movement, the Constitutional Revolution, and republican debates, their limited political experience often rendered them susceptible to manipulation by elites and political actors, and they rarely demonstrated independent political agency beyond economic interests. Their opposition to governments was generally motivated by economic considerations rather than ideological autonomy.

Under Reza Shah's policies, the expansion of state influence over the bazaar was pursued through directive measures aimed at weakening the traditional autonomy of market institutions and affiliated groups such as guilds and artisans. Urban modernization projects, including the construction of new streets and administrative centers, disrupted traditional spatial and commercial patterns and reduced the historical centrality of bazaars. State economic policies transformed both the appearance of the economy and broader social relations, weakening guild activities and marginalizing the traditional bazaar community, which had historically maintained close ties with religious authorities. As these groups lost financial independence and internal cohesion, their political function diminished considerably. Consequently, unlike earlier periods, bazaar participation in political affairs declined during Reza Shah's rule. The modernization project and formation of a centralized modern state required confronting semi-autonomous domestic groups, thereby strengthening central authority while simultaneously dissolving many traditional professional structures and giving rise to new occupational formations shaped by modern economic demands.

Despite extensive socioeconomic transformation and the expansion of bureaucratic capacity during the Pahlavi II period, governance retained a fundamentally patrimonial character. Political power was largely monopolized by the monarch and exercised according to royal preference rather than institutionalized political participation. The regime's patrimonial nature restricted the development of open political processes and instead expanded a managerial and technocratic vision of governance implemented through directive administrative policies. Although ministerial reforms were intended to modernize bureaucracy, they generated organizational instability and reinforced command-based economic practices. Rational policy initiatives frequently intensified tensions between developmental ambitions and the structural foundations of the patrimonial regime. These tensions influenced state capacity, economic resource allocation, social transformation, and policymaking, ultimately reflecting the contradiction between modernization goals and traditional power structures.

After the Revolution, one of the principal aspirations of revolutionary forces was to redirect the country's economic orientation through state-directed transformation. Subsequent developments—particularly the eight-year war that absorbed substantial human and economic resources—facilitated the continuation and even expansion of state dominance in the economy. As a result, the pre-Revolutionary economic structure persisted with greater weaknesses. The state became larger and more deeply embedded in economic life than before, discouraging private investors and major liquidity holders from directing resources toward productive industrial investment. A

similar pattern emerged across economic sectors: rooted in a culture of statism, society increasingly expected the government not only to perform political and security functions but also to manage economic and social domains such as education, healthcare, housing, employment, and welfare provision. Many citizens came to believe that achieving a desirable standard of living was impossible without state assistance. Policymakers, responding to these expectations, expanded state economic structures, while the rentier nature of the economy reinforced this tendency.

Nevertheless, private markets can serve broader social interests only when economic activity operates within a competitive environment. Achieving such an environment requires neither the elimination of the state nor unrestricted market dominance, but rather a developmental state that is powerful, law-based, regulatory, accountable, and capable of supervision. An efficient and capable private sector can emerge only under such institutional conditions. Economic performance, historical experience, political systems, and sociocultural structures profoundly shape the nature and effectiveness of the private sector in any country. In Iran, state ownership of oil and gas resources and control over substantial foreign exchange revenues derived from exports have created structural characteristics distinct from both advanced industrial economies and non-oil developing countries. The existing private sector remains institutionally weak, and mere expansion of its size cannot by itself generate transformation. Strengthening the private sector therefore requires first establishing competitive conditions through economic liberalization, followed by privatization aimed at improving efficiency within public enterprises rather than simply transferring ownership.

If governments genuinely seek economic development, they must eliminate rent-seeking opportunities, create equal economic opportunities, and establish institutions capable of supporting small and medium-sized yet risk-taking investors. Such objectives ultimately depend on comprehensive reform of the state itself. A dynamic private sector capable of sustaining its interests in competitive markets can grow only in an environment free from discrimination and state-granted privileges.

The findings of this article indicate that private investment in Iran is highly dependent on the security of the investment environment. Improving institutional mechanisms and legal frameworks—particularly by reducing uncertainties arising from the nature and performance of the state—can significantly increase private investment. Statistical evidence suggests that political development in Iran does not demonstrate a meaningful positive relationship with private investment, and improvements in administrative quality primarily expand public rather than private investment. Likewise, the limitation of corruption under existing institutional conditions may paradoxically constrain private investment growth, reflecting the weakness of formal institutional arrangements and the absence of effective legal mechanisms across investment stages. Under such circumstances, informal or extra-legal mechanisms sometimes function as substitutes or complements facilitating investment projects. The identification of this inverse relationship between corruption reduction and private investment growth should not be interpreted as justification for corruption; rather, it highlights the strategic necessity of strengthening institutional frameworks and reinforcing legal mechanisms so that lawful structures—not informal practices—become the primary foundation of economic development.

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Authors' Contributions

All authors equally contributed to this study.

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Transparency of Data

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