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# Iran's economy may be on the brink of a Soviet-style collapse

In deferring a crisis, the Islamic Republic is also deferring any attempt at a cure

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**L**ast week, the Supreme Leader of Iran held a public meeting with the senior commanders of the Islamic Revolutionary Guards Corps (IRGC), urging them to remain steadfast and vigilant in the face of ongoing challenges.

Those watching the broadcast saw a leader who appeared tired and less enthused about the prospects of the regime he had led with an iron fist for the past 34 years.

Caught between political discontent and a flagging economy, the year following the death in custody of Mahsa Jina Amini has not been good for the Islamic Republic. With the prospect of protests reigniting on the anniversary of Amini's death, Khamenei clearly thought it useful to stiffen the backbone of those tasked with maintaining order.

Yet the IRGC, long considered the shock troops of the revolution, are not as content with their lot as they used to be. Protected from the winds that regularly buffet the regime, members of the IRGC can normally expect to reap economic benefits from their privileged position. The last year has cast that benefit into question.

Moreover, with an ailing Supreme Leader, many commanders are already on manoeuvres preparing for the succession struggle, and Khamenei's steady decline means that procrastination, which has always been a hallmark of the system, has reached stultifying levels.

Members of the IRGC are frustrated for two more reasons, both indicative of the long-term malaise affecting the regime. The first is that many of the young people protesting last year were their own sons and daughters who clearly have not bought into the regime's ideology.

The second and arguably more fundamental problem is that of the prolonged economic decline which frames the seething political discontent. In leaks from IRGC commanders it is clear that the financial largesse that literally oiled the political system is waning, and that junior officers and guardsmen are seeking alternative means of income, including the selling of state secrets.





With an ailing Supreme Leader, many commanders are already preparing for the succession struggle | CREDIT: Shutterstock

Quite why this is happening in a country as rich in mineral resources as Iran is frequently put down to sanctions. But sanctions are simply the salt rubbed into the self-inflicted wound of monumental mismanagement.

Iran is far from a poor country, but it is enormously corrupt. Consequently, as anyone who has tried to work in the country will tell you, the greatest sanctions on the Iranian economy are effectively imposed by the system itself. The problems are structural.

Prior to the revolution, the emphasis of Iran's planners was on manufacture and the development of an industrial base. The Shah, anxious that his country would not be able to rely on oil as a source of income, was determined to diversify.

The revolution effectively put paid to such long-term planning, ideology became increasingly dominant in the regime's outlook and it has since operated on the basis of a permanent revolution.

The result has been an unvirtuous circle of political volatility and economic crisis sustained by periodic uplifts in oil sales which merely serve to disguise the structural problem and defer any solutions.

The Islamic Republic of Iran has become the extractive state par excellence; instability encourages aggressive capital accumulation, corruptly acquired then siphoned away.

If possible, money is moved abroad (weakening the rial and fuelling inflation), but it is certainly moved away from the prying eyes of a regime which is always on the prowl to seize assets. After all, its tax base remains low on account of people hiding their income.

Transparency, accountability and the rule of law, the hallmarks of a modern investment led economy, are alien concepts in a system where volatility is a sine qua non of individual survival. It both informs and feeds off the continuing economic crisis.

Structural reform of the economy would require a level of trust in the regime that doesn't exist, even among the higher echelons. Modest attempts to increase the price of petrol at the pump, poorly managed, only lead to further outrage in the streets with long queues at petrol stations.



The one source of immediate salvation for the regime is the Biden Administration's lax enforcement of oil sanctions | CREDIT: Ting Shen/Bloomberg

A report for the Plan and Budget Organisation, since suppressed, warned that in the absence of serious reform, the government faced bankruptcy in two years. One official even went so far as to suggest that Iran might sell off some islands to stave off a pensions crisis.

It's not surprising that the government regularly tries new wheezes to raise money, borrowing heavily from its banking sector (described by some as a vast "Ponzi" scheme – the Central Bank of Iran has recently caused further panic by threatening to close several banks), seizing assets and bragging about "ransoming" dual nationals.

Lack of infrastructural investment over decades means a country sitting on an ocean of oil and gas, with the rare luxury for a country in the Middle East of having adequate water resources, cannot supply either gas or water to key parts of the country and faces an ecological crisis as the water table collapses.

With the population having more than doubled since 1979, inflation officially at 40pc (though most believe it to be higher) and the currency losing more than half its value over the last two years, it's not surprising that the brain drain is continuing.

[Ironically, the one source of immediate salvation for the regime is the Biden Administration's lax enforcement of oil sanctions](#), keen as it is not to exacerbate an already

tense situation. This may offer Iran some balm for the wound, but it is inadequate for the task at hand.

In fact, in deferring the crisis, it is also deferring any attempt at a cure. And the longer this is deferred, the more unpalatable it becomes. The Islamic Republic is facing its very own “Soviet” dilemma. The consequences may turn out to be similar.

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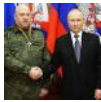
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