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# Iran's Political, Demographic, and Economic Vulnerabilities

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## Summary

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After Iraq and Afghanistan, Iran is one of the most important U.S. policy concerns. The country appears to be on its way to becoming a nuclear power in the world's most volatile and violent region. Iran has been heavily involved in the Iraqi conflict, backing Shia political parties and training militias, and is the source of key components of the most lethal roadside bombs. Iran's current president has made highly inflammatory statements concerning the United States, Israel, and Western Europe. The country does not confine its provocations to rhetoric, providing weapons and financial support to Hizbullah, a group responsible for repeated attacks on Israel.

### Purpose

The purpose of this monograph is to identify opportunities for U.S. policymakers to influence Iranian behavior along lines more favorable to U.S. interests and to evaluate potential domestic repercussions within Iran from potential military actions against the country. It also defines probable limits on the effectiveness of certain policies given current political, demographic, and economic conditions. It concludes by recommending and evaluating the likely effectiveness of potential U.S. policies that might exploit these vulnerabilities.

## Political Vulnerabilities

Despite the theocratic basis of its state, Iran is one of the more democratic countries in the Middle East. The president and the Majlis (parliament) are elected; both men and women have the right to vote. However, Iranian democracy is severely constrained. Under the Islamic Republic and the system of *velayat-e-faqih* on which it is based, ultimate power lies with the religious authority, the Supreme Leader, Ayatollah Khomeini. He controls the army and security forces and has the power to override any decision the elected government makes, including those of the president. The religious establishment vets all candidates for public office; those deemed insufficiently Islamic or insufficiently supportive of the regime are banned from running. (See pp. 10–13.)

Despite these authoritarian characteristics, most Iranians perceive the regime as legitimate. In the 2005 presidential elections, more than half of all eligible voters participated. Although many Iranians are dissatisfied with the authoritarianism of the regime, few have been willing or prepared to act outside the electoral process. The regime appears to be under no imminent danger of collapse or coup. Public questioning of the legitimacy of the current system has declined over the past few years in concert with government crackdowns on the media. Facing tough restrictions on the ability to meet and form political groups, those who democratically oppose the political system have been unable to organize effectively. Opponents of the regime who are willing to use force, such as the Mujahedin-e-Khalq, are largely discredited and in exile. (See pp. 20–34.)

Notwithstanding these realities, Iran's political system is not immutable. Iranians who push for change may become more willing to take risks as frustration grows or the sense that change is becoming possible takes root. Slow employment growth or declining incomes could increase the ranks and resentment of disaffected groups. If Iranians take to the streets, the government might have to deploy the Islamic Revolutionary Guard Corps and the Basij (a paramilitary force) to forcibly repress the opposition—a move the regime wishes to avoid, but one that would most likely effectively quash resistance.

## **Ethnic Vulnerabilities**

Ethnic cleavages persist in Iran but do not provide an easy means of swaying Iran's leadership. Although Persians, the dominant group, account for only half the country's population, Iranian governments have been relatively successful in inculcating an Iranian identity into citizens from most other ethnic groups by emphasizing Shi'ism as a unifying force and fostering Iranian nationalism.

While the government has been largely effective in quelling major dissent, ethnic grievances, while muted, still generate political demands. Ethnic grievances focus on the use of language, distribution of government jobs, and equitable sharing of Iran's oil revenues. Non-Persian groups are often strong proponents of expanding civil liberties and the powers of elected government officials; they provided strong support to the reformist former president, Mohammad Khatami. These segments of the population are likely to play a significant role in moving the country toward a more-democratic system. (See pp. 37–56.)

## **Demographic Vulnerabilities**

During the 1980s, Iran's population exploded, creating pressures for schools, new housing, and more public services for children. Rapid population growth is no longer a problem, in contrast to Iran's neighbor, Iraq, whose population continues to increase rapidly. Iran now has the lowest population growth rate in the region. As population growth has slowed, pressures on the government to provide health and educational services for children have abated, although much of the population still considers the levels and quality of services unsatisfactory. (See pp. 59–62.)

A more-pressing problem for the Iranian government is how to satisfy expectations for higher quality government services and lower-cost housing for Iranians living in urban areas. Iranians endure some of the highest urban housing costs relative to incomes in the world, making housing one of Iran's most pressing social problems. In urban

areas, dissatisfaction with the government is high because of widespread corruption and poor government services. (See pp. 62–65.)

## **Economic Vulnerabilities**

Like other oil exporters, the Iranian regime has benefited from increased revenues as oil prices have risen since their nadir in 1998. Increases in oil output have also boosted exports and government revenues. Although nonoil sectors loom larger in gross domestic product, oil remains crucial for Iran's economic health, both as a source of budgetary revenue and exports.

Employment and incomes have risen sharply since 1998, but increasing oil prices have not been the only source of economic growth. Economic policy changes under the Khatami government accelerated economic growth over the last decade. The unification of the exchange rate and the relaxation of import barriers have contributed to increased output and employment in trade and manufacturing. But the Ahmadinejad government has been reluctant to continue these economic policies. Because Ahmadinejad is unlikely to continue to liberalize the economy, especially by reducing subsidies, Iranian growth may slow, and the government will face rising fiscal pressures.

The Iranian government also faces great pressure to generate employment for the children of the 1980s population boom. The number of young people entering the labor market has risen by four-fifths over the last two decades and is at an all-time high. The stultifying effects of regulation, government control, and the corruption of Iran's bureaucratic, state-run economic system have made Iranian youth highly cynical, even angry, about their prospects for employment.

Inflation remains stubbornly high, running in double digits. Failure to improve the effectiveness of monetary control will mean continued high rates of inflation, slower growth, and dissatisfaction with the regime.

Many Iranians believe the highly skewed distribution of wealth in Iran is due to corruption. Because the factors that foster corruption (price controls, state ownership of major companies and assets, compli-



cated regulations, lack of oversight of government contracting, etc.) are unlikely to change under Ahmadinejad, popular dissatisfaction with the current system is likely to grow.

## **Likely Domestic Consequences of U.S. Military Actions Against Iran**

A number of commentators have discussed using military power to force the Iranian government to change policies that run contrary to U.S. interests, such as targeted attacks, responses to hostile action, or blockades. How effective would these actions be?

### **Attacking Iranian Nuclear Facilities**

A large majority of Iranians strongly believe that Iran has the same right as other nations to develop nuclear energy, including the construction and operation of nuclear enrichment facilities. If Iran's facilities were to be bombed, public support for any retaliation its government took would likely be widespread. If Iran's nuclear facilities were to be bombed, richer Iranians would soon find means to transfer more of their wealth outside the country. Poorer Iranians would shift more of their assets from dinars to euros, gold, or dollars. Private domestic investment would take a hit. But at current oil prices, an attack would be unlikely to stop the Iranian nuclear program. The government would be able to finance the reconstruction of the facility and continue the current program without major budgetary consequences.

The ramifications of an attack for Iranian domestic politics are less clear. Ahmadinejad has come under fire from other politicians for baiting the United States. An attack might be perceived as his comeuppance. In our view, a more likely response would be a strong push to retaliate. Critics of such a policy would likely choose to keep silent.

### **Responding to Iranian Involvement in Iraq**

Iranian society has been fairly insulated from the violence next door, although some of the hundreds of thousands of Iranian pilgrims to Najaf and Karbala have been targets of car bombs. Because so much of

the Iranian government's activities in Iraq are covert, these aspects of Iranian policies toward Iraq have not been subject to public debate.

If confined to Iraq, U.S. retaliatory measures against Iranian agents would be unlikely to elicit much response from the public. Substantial setbacks within Iraq might persuade the Iranian leadership to scale back its efforts. On the other hand, the intelligence services might just absorb their losses and continue to pursue their current activities. In contrast, attacks on Iran proper would generate a great deal of ill-will and, in our view, would be unlikely to change Iranian policy. The initial response of the current Iranian leadership would likely be to intensify covert activities against U.S. forces in Iraq and elsewhere.

### **Blockading Iranian Oil Exports**

A blockade of Kharg Island, Iran's main oil loading terminal, or the Straits of Hormuz to prevent shipments of Iranian oil would effectively halt most Iranian exports. Maintaining a blockade for even a few months would have a devastating effect on the Iranian economy and living standards. Destruction of Kharg Island would hit the Iranian economy hard for a number of years.

A blockade, however, would probably do more to solidify public support for the regime than weaken it. During the Iran-Iraq war, living standards plummeted. Yet opposition to the war was muted because most Iranians rallied around the flag. Moreover, such a blockade would sharply increase world market oil prices, both because of the drop in the oil supply and because of concerns that the conflict would escalate. Iran would probably respond by attacking tanker traffic through the Persian Gulf. Depending on the circumstances, other producers in the region might refrain from increasing output in fear of or in solidarity with Iran. A sharp rise in the price of oil on the world market because of a massive disruption of oil exports from the Persian Gulf would probably push the world economy into recession.

## Implications for U.S. Policy

At least in the near term, the Iranian regime is likely to be relatively stable and resistant to external pressures for dramatic change. But societal conditions for a more-constructive relationship with the United States exist: In contrast with the Arab Middle East, the United States is popular in Iran. Long-term trends suggest that Iran is likely to become more democratic and less obdurate.

U.S. policies vis-à-vis the Iranian government need to be designed with these conditions in mind. Although coercive strategies are possible and could achieve some specific policy goals, moving Iran toward a more generally cooperative stance will require a focus on encouraging tendencies and policies in Iranian society that favor the expansion of economic and personal freedoms. Broadly speaking, the U.S. government has opportunities to encourage Iranians, including members of ethnic groups, to push for expanded civil liberties and democratic practices in Iran. The United States also has the ability to encourage policy changes in Iran that would liberalize the economy, thereby possibly strengthening nongovernmental actors. Such an approach will not yield immediate fruit, and its ambitions will need to be modest. And as long as relations are so hostile, U.S. initiatives will require deft handling, perhaps more so than in the past.

Under these conditions, we argue that U.S. policy should focus on creating conditions for effective relations over the long haul. These policy options fall into three broad categories:

1. fostering conditions for a more-pluralistic, more-democratic political system by engaging with Iranian society
2. weakening the ability of the Iranian government to clamp down
3. penalizing the Iranian government or its officials for pursuing policies that harm the United States.

To foster conditions for a more pluralistic Iran, once the current crackdown in Iran moderates, the U.S. government should expand its public diplomatic policy by

- funding programs that facilitate contacts between Iranians and Americans more generously, especially those focusing on educational and other exchanges
- encouraging U.S. officials and private individuals to provide interviews and commentary for Iranian media and expand U.S.–supported radio broadcasts and other programs in local languages to provide unbiased information on and a forum for discussion of major social issues.

To weaken the ability of the Iranian government to clamp down on groups advocating increased pluralism, the U.S. government should

- mute U.S. policy statements advocating regime change; security forces often use these as an excuse for detaining individuals seeking more freedom
- discourage ethnic groups from revolting against the Iranian regime; Iranian security forces have convincingly shown that they can handle restive ethnic groups, and violent opposition to Iranian rule is more likely to entrench the current security and political forces than to elicit a positive change in regime policies
- support International Monetary Fund and World Bank efforts to encourage better economic management in Iran; this will help expand the sphere for private sector activity
- not oppose Iran's accession to the World Trade Organization.

None of these developments would threaten U.S. interests or reward Iran for behavior inimical to U.S. interests. However, in a number of instances, the Iranian government or its officials have pursued policies hostile to the United States. To discourage pursuit of these activities and to limit new sources of revenue for Iranian government coffers, the U.S. government should

- maintain the embargo on gas liquefaction and gas-to-liquids technologies, which is likely to prevent Iran from developing its natural gas resources for export; keep the embargo as a bargain-

ing chip until assured that Iranian policies have become more congruent with U.S. interests

- expand contingency plans to seize Iranian foreign accounts
- encourage U.S. allies to bar selected Iranian officials from obtaining visas.

The U.S. government is often accused of having a short attention span. But the United States has successfully pursued long-term policies, as in the containment of the Soviet Union, that have yielded considerable results. With Iran, the U.S. government will again need to keep an eye on the long term, communicating with the current government but also encouraging more discussion among Iranians and more contacts and interactions between Iranians and Americans. Societies and governments change. The U.S. government has some ability to foster favorable trends in Iran, but these policies will take time to come to fruition.