

A Growing Crisis

The Impact
of Sanctions
and Regime
Policies on
Iranians'
Economic and
Social Rights

INTERNATIONAL CAMPAIGN
FOR HUMAN RIGHTS IN IRAN



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A Growing Crisis: The Impact of
Sanctions and Regime Policies on
Iranians' Economic and Social Rights





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Executive Summary

Despite the international community's stated intention to direct sanctions at the government of Iran for its nuclear program, and the Iranian government's claim that it is successfully instituting a resistance economy, Western sanctions and regime policies are combining to bring about a severe deterioration in the ability of the Iranian people to pursue their economic and social rights. In fact, there is a growing crisis in Iran: Iranians, especially those from the lower and middle echelons of society, are increasingly unable to maintain access to such basic rights as a balanced diet, medicine, employment, education, and healthcare.

This study by the International Campaign for Human Rights in Iran details the costs borne by the Iranian



people as a combined result of the international sanctions imposed on the Islamic Republic and the economic policies instituted by the government of Iran. Drawing on a review of scholarly material and journalistic accounts, as well as extensive interviews with a cross-section of Iranians, the study seeks to show that sanctions and regime policies are now preventing many Iranians from meeting their basic economic needs.

Prior to 2012, sanctions were not a significant contributor to economic hardship in Iran. Throughout the 1979-2011 period, the effect of international sanctions against Iran was limited as sanctions during this period were unilaterally imposed by the US, and other countries were able to fill the void in trade and business transactions with Iran, even if at a slightly higher cost to the Islamic Republic.

Rather, harmful economic policies undertaken by successive governments of the Islamic Republic during this period far outweighed the impact of any sanctions in terms of economic costs to the country. Under the post-revolutionary leaderships of Ayatollah Khomeini (1979-1989), Hashemi Rafsanjani (1989-1997), Mohammad Khatami (1997-2005), and Mahmoud Ahmadinejad (2005-present), economic policies produced—and perpetuated—an Iranian economy marked by state-domination, oil-dependency, inefficiency, and corruption. The result was high unemployment, inflation, brain drain, and anemic economic growth rates. However, exceptionally high oil prices during the last decade allowed the Iranian government to compensate for—and mask—economic

costs that were associated either with government policies or sanctions, thereby mitigating the economic harm to the Iranian population.

This changed significantly with the implementation of multilateral sanctions in 2012, which targeted all sectors of the Iranian economy and took direct aim at Iran's principle source of revenue, its oil sector. The comprehensive and stringent nature of these sanctions has affected all trade with the Islamic Republic, rendering even the movement of goods that are explicitly exempt from sanctions difficult. When combined with the dysfunctional economic policies of the Iranian government—particularly those enacted under the administration of Ahmadinejad, which exacerbated inflation and unemployment in the country and left the import- and oil-dependent Iranian economy deeply vulnerable to the impact of the 2012 sanctions—the economic costs of the sanctions to the Iranian population became severe. Moreover, continued regime mismanagement—which reflects either willful exacerbation of the sanctions' effects for political gain or managerial incompetence—has worsened the economic difficulties of many in Iran; for example, the Iranian government's under-allocation of resources for the import of critical items such as medicines has produced a crisis for many Iranians.

Sanctions and regime policies have thus combined to debilitate. Moving any goods into or out of the country has become prohibitively expensive due to substantially increased transaction and operating costs arising from the sanctions' banking, financial, and

insurance prohibitions. Critically, this includes foods, medicines, and other humanitarian items—either because the payment channels have been cut off as a result of the banking prohibitions, or because firms have become reluctant to do business with the Islamic Republic for fear of running afoul of the sanctions. As a result, it has become difficult for the country to maintain the requisite level of essential imports, which include not only foods and medicines, but the inputs and raw materials that Iran’s industries depend upon as well.

Meanwhile, the sanctions have halved Iran’s oil revenues. This has contributed significantly to the precipitous decline in the value of the rial. With its foreign exchange earnings halved and unable to transfer its oil earnings back to Iran, the Iranian government has found it difficult to supply the requisite funds to support its currency. As a result, inflation has sharply increased, to at least 50 percent by some estimates, and higher in some sectors. The standard of living of all wage earners has plummeted and a rising number of unemployed individuals and their families living in the country’s urban centers are being pushed into poverty and malnutrition.

The decline in the nation’s manufacturing sector, and, with it, the condition of Iran’s roughly 15 million workers and their dependents, has been particularly pronounced. The sanctions have reduced access to and substantially raised the cost of the hard currency that manufacturers require for the purchase of indispensable inputs, raw materials, spare parts, machinery, and capital goods. At the same time, by imposing restrictions

These sanctions have affected all trade with the Islamic Republic, rendering even the movement of goods explicitly exempt from sanctions difficult.

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on and increasing financial, transportation, and insurance costs, sanctions have increased operating costs.

Since 2012, the number of bankruptcies, layoffs, and plant closures has substantially increased. The rapid depletion of the country's foreign currency reserves will increasingly choke off the capital goods and inputs that Iran's industrial sector



requires in order to sustain operations. This will result in the closure of more plants and operations, and the impoverishment of ever-larger segments of the working population. Indeed, some two-thirds of the nation's manufacturing units are on the verge of closure, and employed workers are now being paid in an irregular and infrequent manner. Millions of Iranians from the lower and middle echelons of society are struggling to meet the rising costs of rent and food; the growing ranks of the unemployed now face dispossession and hunger.

The crisis in the country's healthcare system has become particularly severe. Iran is critically dependent on imports in this sector: its stock of medical equipment is almost entirely imported, and its pharmaceutical industry depends on imports for 80 percent of the raw materials they utilize to manufacture their products.

Advanced drugs used to treat life-threatening diseases (which afflict some six million Iranians) are all imported. Yet due to the banking sanctions and Iran's expulsion from SWIFT, there are no viable channels to make payments to Western suppliers.

The Iranian government has greatly exacerbated the situation by not allocating the requisite hard currency to the medical sector. As a result, there are acute shortfalls in medicines and equipment, and long delays in transporting medicine to Iran. The most vital drugs for cancer and other severe diseases are now unavailable. Shortages, and the devaluation of the rial, have produced a 350 percent inflation rate in medical costs, making what is available increasingly out of reach for most Iranians.

The nutritional value and balance of the consumption basket of the majority of Iranians has also plummeted. The nation is dependent on imports for about a quarter of its food requirements. With the plunge in the value of the Iranian currency, the rise in the cost of imports, and the growing ranks of the unemployed, increasing numbers of Iranians are no longer able to afford meat, poultry, fruits, vegetables, and dairy, relying instead on a diet largely comprised of carbohydrates.

Significant increases in the rate of poverty, hunger, and malnutrition engender other negative repercussions, especially for women and children. The most pernicious of these are the withdrawal of children from schools and child labor, with the brunt of these practices being borne by young girls. Women are more likely to lose

their jobs, and economic and social dislocations may well lead to increased domestic violence.

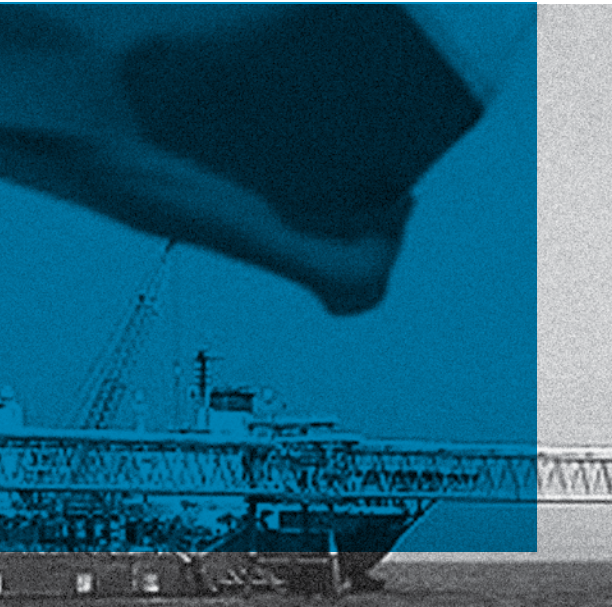
The International Campaign for Human Rights in Iran calls on all parties to reassess their policies in light of the economic harm being inflicted upon the Iranian people. The government of Iran should end the needless policies that only worsen the crisis in access to medicines, foods, and other essential imports. The international community must recognize the growing crisis in Iran and recalibrate the current sanction regime. Sanctions were implemented to raise the cost to the government of Iran of its noncompliance with UN Security Council resolutions on the country's nuclear program. Yet the Iranian people, who bear no responsibility for the policies undertaken by the government, have increasingly come to bear the cost of the sanctions. Accordingly, this study offers specific policy recommendations to the Iranian government, the US and EU governments, the UN, and relevant private sector companies, aimed at instituting a more effective domestic policy environment in Iran and a more effectively targeted sanctions regime that imposes costs on the Iranian government, not the Iranian people.

The background features a blue-tinted photograph of an offshore oil rig. A large, semi-transparent silhouette of a hand is overlaid on the upper right portion of the image, with the index finger pointing towards the rig. The rig itself is a complex of metal structures, including cranes and platforms, set against a clear sky. The overall composition is industrial and modern.

Recommendations

To the governments of the United States and the European Union:

1. Make clear and explicit statements regarding the permissibility of exports of humanitarian goods to Iran, including food, medicine, and medical inputs and equipment.
2. Expedite licensing for all exports justified on humanitarian grounds, especially food and medical exports.
3. Explicitly exempt from banking sanctions all humanitarian transactions with Iran, so that companies who export food, medicine, medical



equipment, and other humanitarian goods to Iran can receive payment by their Iranian counterparts.

4. Select a European bank, trained, officially authorized, and supervised by the US government's Office of Foreign Assets Control (OFAC), to handle all humanitarian transactions with Iran and/or allow an international agency to mediate medical and other humanitarian transactions.
5. Explicitly exempt from sanctions, expedite licensing for, and exempt from banking prohibitions all exports pertinent to the maintenance of civil society in Iran, including those relevant to safe and open access to information such as digital hardware and software.
6. Create channels whereby Iranian educational centers can make payments and gain access to databases containing scholarly books and articles.

To the United Nations:

1. Encourage the establishment of an independent mechanism to monitor the humanitarian effects of sanctions, with particular attention to imports of necessary food and medicine items.

2. Call on all member governments to explicitly exempt from sanctions—and provide expedited export licenses for—all humanitarian goods, including food, medicine, and medical inputs, as well as any goods and services necessary for the maintenance of civil society in Iran.

To the government of Iran:

1. Allocate immediately all necessary funds for the import of requisite medicine and medical inputs and equipment into the country.
2. Allocate to the healthcare sector its share of the savings from the subsidies reform program.
3. Allocate hard currency at the lowest subsidized rate to the Ministry of Health.
4. Re-allocate the funds currently used for luxury items to critically needed humanitarian goods, especially medicines and medical equipment.
5. Encourage Iranian banks to lend to the pharmaceutical industry and the manufacturing sector.
6. Facilitate and expedite licensing and customs procedures for medicines and medical input and equipment.

To private sector companies:

1. Companies relevant to the medical sector, including pharmaceutical companies, suppliers of raw material and inputs, and medical equipment companies, should seek and apply for all necessary licenses for medical exports to Iran, and should facilitate and cooperate with all efforts to set up intermediary financial bodies that can process transactions and payments.
2. Technology firms should seek explicit exemptions from sanctions and apply for licensing for all exports that assist Iranian civil society in information sharing and communication, including hardware needed for the reception of satellite wireless service in Iran, software, social networking tools, and any other relevant and necessary information communication technologies.



Introduction

This study will examine the impact of increasingly stringent and comprehensive sanctions on the ability of Iranians from various walks of life, especially those from the lower and middle echelons of society, to pursue their economic and social rights to employment, food, shelter, healthcare, and education.

It will show that until the imposition of American and European Union sanctions in 2012, the economic and administrative policies of the Islamic Republic itself were more instrumental than sanctions in detracting from the capacity of Iranians to fulfill their rights to adequate standards of living, particularly the attainment and sustenance of gainful employment. Moreover, during the decade preceding the imposition of the 2012



sanctions, the expanding stream of revenue accruing to the Iranian state due to rising oil prices enabled the Islamic Republic to mitigate the consequences of its own policies and tolerate the limited, though gradually increasing, costs that sanctions were imposing on its economy.

However, as this study will argue, this fundamentally changed with the imposition of the 2012 sanctions, which targeted all sectors of the Iranian economy and cut the Iranian government's revenue stream by more than half. The Iranian government's continued economic mismanagement, which reflects either willful exacerbation of the sanctions' effects for political gain or managerial incompetence, has only intensified the economic harm brought by the sanctions to the population. Taken together, sanctions have now combined with regime policies to produce a rapid deterioration in the socio-economic conditions of the Iranian people.

From 1979 to the mid-2000s, sanctions against Iran were essentially unilateral, imposed solely by the US. Although these sanctions inflicted costs on Iran, which were subsequently passed on to the Iranian people, these costs were not overbearing, as non-American companies were unwilling to sever their links to the Iranian economy.

After 1996, with the passage of the Iran-Libya Sanctions Act (ILSA), the US sought to initiate the process of choking off Iran's most important source of hard currency and governmental revenue by imposing

sanctions on any entity that invested more than \$20 million per annum in Iran's hydrocarbons sector. In practice, however, due to severe objections from America's European allies, full implementation of ILSA remained elusive. The imposition of the first round of UN Security Council resolutions against Iran in 2006 enabled the US to receive more cooperation from its European partners and other allies in its endeavor to increase the transaction costs on the Iranian economy. But it was not until 2012 and the imposition of comprehensive, multilateral sanctions that this cooperation reached its apogee, resulting not only in a geometric rise in the costs being imposed on Iran, but also, for the first time since Iran's oil nationalization movement in the early 1950s, an effective embargo on Tehran's primary revenue stream—its oil exports.

The imposition of the 2012 sanctions have now caused Iran's oil revenues to be cut by more than half,¹ and substantially increased its transaction and

1 In August 2012, Bob Einhorn, Special Advisor for Nonproliferation and Arms Control at the US Department of State, citing figures from the International Energy Agency, stated that Iran's crude oil exports in 2011 were approximately 2.5 million barrels per day. They "dropped to below 1.5 million barrels per day in June [2012]." See "Part II: US Assesses New Sanctions," *Iran Primer*, August 1, 2012, <http://iranprimer.usip.org/blog/2012/aug/01/part-ii-us-assesses-new-sanctions>. Thereafter, Iran's oil exports continued their plunge, falling to 860,000 barrels per day in September 2012. See "Reuters: EU Sanctions Have Inadvertently Afflicted Iran's Liquefied Gas," *Radiofarda*, October 31, 2012. While the figure rose to 1.08 million in November, it plummeted to 834,000 million barrels per day in December 2012. See "Iran's Oil Exports Will Plunge to Lowest Level in December," *Voice of America (VOA) Persian*, December 6, 2012.

operating costs by, among other things, making it virtually impossible to transfer funds into and out of the country. The resulting hard-currency crunch and revenue shortfalls have, in turn, significantly decreased the value of the Iranian currency, greatly increased the costs and diminished the amount of both essential and non-essential imports (including medicine and medical equipment), expedited the contraction of the already moribund economy, reduced the tax base, further depleted the government's revenues, and sharply expanded the inflation and unemployment rates—both of which were already in double digits. The costs associated with the newly imposed round of sanctions, therefore, are no longer limited, but increasingly debilitating.

As a result of the 2012 sanctions, Iran is now largely unable to mitigate the worsening structural flaws of its economy. Instead, internal economic, managerial, and bureaucratic flaws have combined with sanctions to impose unprecedented levels of hardship on the lives of ordinary Iranians. The standard of living of all wage earners has plummeted substantially and an increasing number of unemployed individuals and blue-collar workers (and their dependents) living in the country's urban centers, where 71 percent of the population resides, are being pushed into penury and malnutrition.

The internal and external drags on the Iranian economy are now so intertwined that assigning a specific weight to their respective impact on the living standards of Iranians is difficult. However, it is clear that there has been a significant shift: Prior to the 2012 sanctions, it

The decline in the nation's manufacturing sector, and the condition of Iran's workers and their dependents has been particularly pronounced.

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was simple to demonstrate, both conceptually and empirically, that domestic Iranian policies bore greater responsibility for the economic sufferings of the Iranian people than sanctions. This is no longer the case.

So far as the economic well-being of the Iranian population is concerned, comprehensive multilateral sanctions could not have come at a more vulnerable



moment. Imposed at a time when the ramifications of President Mahmoud Ahmadinejad's economic mismanagement were increasingly manifesting themselves, these sanctions have greatly amplified the defects of the Iranian economy, crippling the ability of ordinary Iranians to maintain adequate standards of living and unhindered access to such basic rights as a balanced diet, medicine, employment, education, and healthcare.

Since its inception in 1979, the Islamic Republic has managed to register a respectable record in the promotion of the country's social development, substantially increasing the rates of education, literacy (especially in the ranks of women), and life expectancy. It has also succeeded in bringing about reductions in infant mortality and has introduced modern amenities

(such as educational institutions, paved roads, electricity, piped water, and television) to rural areas. Through its social development programs, particularly in rural areas, the Islamic Republic had also, at least until recently, succeeded in diminishing the overall rate of poverty in the nation, though not that of income inequality and unemployment.²

On the economic front, however, the Islamic Republic has perpetuated and exacerbated the structural economic flaws it inherited from the Shah's regime. The resulting institutionalization of a state-dominated, oil dependent, inefficient, and uncompetitive economy (beset by mismanagement, venality, inflation,³ un- and under-employment, anemic growth, sub-par productivity levels, insignificant rates of foreign direct investment, and the production of low-value-added goods⁴) had, even before the imposition of the most recent round of sanctions, proved inimical to the ability

2 See Ervand Abrahamian, "Why the Islamic Republic Has Survived," *Middle East Report*, March 15, 2009. See also Djavad Salehi-Isfahani, "The Revolution and the Rural Poor," *Radical History Review*, Fall 2009.

3 According to the Central Bank of Iran, except for two years, the rate of inflation has perpetually been in double digits in Iran in the course of the past 33 years. See Fereydoun Khavand, "Condition of the Iranian Rial and the Experience of 'Monetary Turkomanchai,'" *Radiofarda*, September 12, 2012.

4 According to the statistics put out by the Department of Customs of the Islamic Republic of Iran, each ton of imports to Iran last year was valued at \$1,634, while each ton of exports had an average value of \$468. See Fereydoun Khavand, "Resistance Economy Or A Shot in the Dark," *Radiofarda*, August 1, 2012.

of Iranians, especially the youth who constitute the majority of the population, to fulfill their social and economic rights to employment, housing, marriage, and family formation.⁵ Indeed, the persistent inability of the Islamic Republic to create the requisite conditions for its youthful population to achieve gainful employment has stood in sharp contrast to its ability to increase the nation's literacy rates and educational levels. In fact, according to statistics put out by the regime itself, unemployment among youth with college and university degrees tends to be higher than among those with lower levels of education.

Since 2005, when Mahmoud Ahmadinejad replaced Seyyed Mohammad Khatami as the president of the Islamic Republic of Iran, however, there has been a persistent and worsening decline in all of Iran's macro-economic indicators. Correspondingly, the ability of Iranians, particularly the young, to make ends meet has gone from bad to worse. The policies that Iran enacted during the presidency of Ahmadinejad paved the way for the transformation of an already inauspicious economic milieu into a dire one, which, with the addition of the sanctions, has now grown into an economic crisis.


This study will examine the impact of sanctions on Iran's economic performance from 1979 to 2012. It

5 Djavad Salehi-Isfahani, "Growing Up in Iran: Tough Times for the Revolution's Children," *Brown Journal of World Affairs*, Vol. XV, Issue 1, Fall/Winter 2008.

The Iranian government's continued economic mismanagement has only intensified the economic harm brought by the sanctions to the population.

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will explain how and why, until the imposition of 2012 sanctions, the structural flaws and policy choices of the Islamic Republic overshadowed the sanctions in terms of their consequences for the economic well-being of the Iranian people. It will also provide an in-depth examination of Ahmadinejad's policies in the course of the last seven-and-a-half years, detailing



how they exacerbated the structural flaws of the Iranian economy, expedited the decline in Iran's macro-economic indicators, and ultimately made the livelihoods of average Iranians far more vulnerable to increasingly comprehensive sanctions. Thereafter, it will provide anecdotal evidence on the impact of sanctions and government mismanagement on the rapidly deteriorating socio-economic conditions of average Iranians.

The study will show that while Iranian government policies produced a deeply dysfunctional economy that left the country's significant economic potential unrealized, it was only with the imposition of the 2012 sanctions (and the Iranian government's policy response to them) that the Iranian people began to be unable to pursue their basic economic and social

rights. The aim is not simply to analyze, but to put into context and humanize the manner in which Western sanctions and regime policies are combining to bring about a severe decline in the living standard (including access to adequate nutrition, employment, healthcare and medication, shelter, and education) of lower and middle class Iranians, particularly those who reside in the nation's urban areas. The study also offers policy recommendations to the Iranian government aimed at instituting a more effective domestic policy environment, and to the international community, aimed at achieving a sanctions regime that more effectively targets the Iranian government and does not force the Iranian people to bear the consequences of regime policies for which they bear no responsibility.



Iran's Economic Malaise

1979-2012

This section will assess the impact of sanctions on Iran's economic performance and the socio-economic welfare of the Iranian people from the inception of the Islamic Republic (which roughly coincides with the initiation of the first set of US sanctions against Iran in November of 1979) to the imposition of American and European Union sanctions in 2012. It will argue that due to their unilateral and targeted nature, the costs of sanctions against Iran before 2005 were limited and generally marginal. During these years, the policies and practices of the Iranian government itself played a far more instrumental role in undermining the capacity of Iranians to promote their economic well-being.



With slightly more than 1 percent of the global population, Iran possesses at least 7 percent of the world's mineral wealth, 10 percent of its petroleum reserves, and 16 percent of the planet's natural gas deposits.⁶ Iran possesses the second-largest known natural gas reserves and the third-largest petroleum deposits in the world. The combination of its natural gas and petroleum deposits makes Iran the world's largest reserve holder of hydrocarbons. According to the World Bank, roughly 98 percent of Iranians between the ages of 15 and 24 are literate.⁷ According to the Central Bank of Iran, the number of individuals with post-secondary degrees, which currently stands close to 9.5 million (out of a population of some 75 million), is increasing rapidly, with close to 3.5 million students presently enrolled in post-secondary institutions of higher learning.

In light of its enormous wealth of human and natural resources, entrepreneurial and youthful population, strategic location (apart from being the only country that connects the Caspian Basin to the Persian Gulf, Iran's status as a neighbor to 15 land and sea countries and its position as a bridge between Europe, South Asia, the Caucasus, and Central Asia makes it an ideal north/

6 Jahangir Amuzegar, "Iran's 20 Year Economic Perspective: Promises and Pitfalls," *Middle East Policy*, Volume 16, No. 3, September 2009.

7 "Literacy Rate: Youth Total," Trading Economics, <http://www.tradingeconomics.com/iran/literacy-rate-youth-total-percent-of-people-ages-15-24-wb-data.html>.

south and east/west transit route),⁸ and relatively advanced infrastructure, Iran is—and has been—ideally positioned to serve as a magnet for investments that could accelerate its economic take-off, transform the country into a locomotive for regional growth, and enhance substantially the socio-economic welfare of its population.



Regrettably, however, the country's economic performance over the last 33 years has at best been sub-par. Iran's GDP per capita reached its pre-revolutionary level only in 2007.⁹ Other indicators of macro-economic performance have been similarly anemic, although the country has, since the revolution, performed better in terms of increasing the overall levels of life expectancy, literacy, and education. In the economic realm, however, Iran has stagnated. Since 1979, inflation and unemployment rates have almost

Sanctions have now combined with regime policies to produce a rapid deterioration in the socio-economic conditions of the Iranian people.

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8 Ibid.

9 Hossein Askari, "Iran's Economic Policy Dilemma," *International Journal*, Vol. 59, No. 3, Summer 2004. See also Hossein Askari, "Iran's Economic Vulnerability: Self-Inflicted, Not Sanction-Driven," *insideIRAN.org*, November 10, 2009, <http://www.insideiran.org/news/iran%E2%80%99s-economic-vulnerability-self-inflicted-not-sanction-driven/>.

never fallen to single digits,¹⁰ while over-employment in the bloated public sector has proved stubbornly resilient and detracted from the nation's capacity to increase economic growth and job creation in the private sector, the primary engine for economic development.¹¹ In the meantime, the nation's business climate has consistently scored poorly in rankings by the World Bank, Freedom House (index on economic freedoms), and Transparency International, while levels of foreign direct investment that the country has managed to attract, especially outside of its oil and gas sector, have been miniscule.¹² In addition, according to the International Monetary Fund, at 150,000 emigrants per annum, Iran has one of the highest rates of brain drain in the world.

Prior to 2012, the primary causes behind such poor performance could be traced back to the structure of the Iranian economy and the policies espoused by the regime. To illustrate the point, this study will review and compare the impact of internally generated impediments (i.e. Iranian government policies) with external detriments (US, UN, and EU sanctions) on the

10 "Except for a few years of strict wage and price controls during the Iran-Iraq War, [inflation] has steadily registered double-digits." Jahangir Amuzegar, "Iran's Economy in Turmoil," *International Economic Bulletin—Carnegie Endowment for International Peace*, March 18, 2010, <http://carnegieendowment.org/2010/03/18/iran-s-economy-in-turmoil/3zgx>.

11 Askari, "Iran's Economic Policy Dilemma," *International Journal*, 2004.

12 Amuzegar, "Iran's 20 Year Economic Perspective: Promises and Pitfalls," *Middle East Policy*. See also Askari, "Iran's Economic Policy Dilemma," *International Journal*, 2004.

performance of the Iranian economy over the last 33 years. For the sake of clarity, a simple classification scheme, corresponding to the Khomeini (1979-1989), Rafsanjani (1989-1997), Khatami (1997-2005), and Ahmadinejad (2005-present) periods, will be employed.



The Khomeini Period

1979-1989



During the time that Ayatollah Khomeini was ruling Iran, sanctions against the Islamic Republic were essentially unilateral, imposed solely by the US. Even at the height of the hostage crisis, which ensued in the wake of the seizure of the American embassy in Tehran and the holding of its personnel hostage by Iranian students for 444 days, American allies and partners refrained from emulating the US's example of sanctioning Iran. To the contrary and to the chagrin of Washington, they generally filled the void that had been left by America's withdrawal from trade with the Islamic Republic.

Between 1979 and 1980, in response to the hostage crisis, President Carter issued one proclamation and three executive orders against Iran. Proclamation 4702

banned the import of Iranian oil into the US. Executive Orders 12170, 12205, and 12211, respectively, froze all assets owned by the government and the central bank of Iran in the US, prohibited American exports to Iran, and forbade the conduct of financial transactions on the part of American citizens with, as well as traveling to, Iran. All of the above restrictions, however, except for the freezing of Iranian assets in the US, were annulled by the US after the release of American hostages in 1981.¹³

In 1984 the Reagan administration designated Iran a state sponsor of international terrorism following the bombing of the US marine barracks in Lebanon, which made Iran ineligible for American financial assistance (with the exception of the provision of disaster relief). In 1986, the US Congress passed, and President Reagan signed, the US Arms Export Control Act, on the basis of which the sale of American weapons and spare parts to Iran became illegal. In 1987, the president issued Executive Order 12613, banning the import of all Iranian products, including Iranian crude oil, into the US. Finally, in 1988, President Reagan ordered American directors at international lending institutions such as the IMF and the World Bank, where America's sway is quite strong, to refrain from agreeing to the issuance of loans to Iran.¹⁴

13 Richard Sabatini, "Economic Sanctions: Pressuring Iran's Nuclear Program," *NTI*, June 24, 2010. See also Suzanne Maloney, "Sanctioning Iran: If Only It Were So Simple," *Washington Quarterly*, January 2010, p. 138.

14 Sabatini, "Economic Sanctions: Pressuring Iran's Nuclear Program," 2010.

Although these moves imposed costs on the Iranian economy, their impact was limited. Among the sanctions that the US imposed during the Khomeini period, the freezing of Iran's assets in the US, which amounted to some \$12 billion, caused the greatest harm to Iran, as the Islamic Republic was in need of these funds to pay for the prosecution of its war with Iraq. However, during this time Iran was still able to sell its oil, the mainstay of its economy, to non-American buyers. Actually, even after being banned from importing Iranian oil into the US, American oil companies continued to purchase oil from Iran for resale to non-American entities. Iran, meanwhile, was able to buy some of its requisite American weaponry and spare parts from Israel instead of the US. Moreover, even the US itself, in violation of its own laws, sold weapons to Iran during the Iran-Contra episode.¹⁵ At the same time, Iran was able to continue to import US-made goods through Dubai at slightly higher prices and, wherever possible, switched to non-American (at the time mostly European, especially German) sources. Lastly, Iran did not seek to borrow money from international lending institutions during the Khomeini period, rendering this American prohibition inconsequential.¹⁶

15 See Trita Parsi, *Treacherous Alliance: The Secret Dealings Israel, Iran, and the United States*, New Haven: Yale University Press, 2007.

16 See Hossein Askari, John J. Forrer, Hildy Teegen, and Jiawen Yang, "US Economic Sanctions: Lessons From the Iranian Experience," *Global Management Working Paper Series*, The George Washington University, July 2001.

The standard of living has plummeted and an increasing number of unemployed individuals are being pushed into penury and malnutrition.

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At the external level, during the 1980s the Iran-Iraq war and reductions in the price of oil had a far greater effect on the Iranian economy than American sanctions. Indeed, damages inflicted on Iranian civilian and petroleum infrastructure by the Iraqi war machine in the 1980s ran into hundreds of billions of dollars, and the fall in the price of oil from close to \$40 per barrel in 1981

to near \$10 per barrel by 1986 hugely reduced Iran's export revenues. In contrast, the price that Iran was made to pay because of the American sanctions was approximately \$1 billion per annum.¹⁷

These costs, however, pale in comparison with the internal burdens that were placed on the Iranian economy during the Khomeini period. The transformations that were unleashed between 1979 and 1989 in Iran resulted in the institutionalization of exceedingly damaging economic and social structures.

While Ayatollah Khomeini and his associates inherited

¹⁷ Ibid. See also Hossein Askari, "Iran's Economic Policy Dilemma," *International Journal*, Vol. 59, No. 3, Summer 2004, pp. 659, 660.

a largely oil-dependent economy with a relatively inefficient manufacturing sector from the Shah's regime, the policies they implemented during the first decade of the revolution laid the groundwork for the entrenchment of a far more inefficient and oil-dependent system—saddled with a much larger and incompetent bureaucracy. This system has come to perpetuate consistently high rates of unemployment, inflation, and venality as well as anemic rates of growth, which have, in turn, been inimical to the economic welfare of the Iranian people. At the same time, the policies implemented during the first decade after the revolution to promote child bearing helped to unleash a population explosion which, in the face of the country's poor economic growth, has proved disastrous for the economic well-being of Iranian citizens, particularly the youth.

Largely swayed by developmental models that emphasized the non-capitalist path to economic progress, the framers of Iran's post-revolutionary constitution enshrined the principle of state domination and control of the economy in Article 44 of their new constitution. This article enjoins the state to control "all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph, and telephone services, aviation, shipping, roads, railroads, and the like." The implementation of Article 44, along with the decision to expropriate and nationalize the assets of those industrialists who had been close to the Shah's regime, caused state and quasi-state organizations to exert

control over what is estimated to be 70 to 80 percent of the Iranian economy.¹⁸ The bonyads, opaque, state-controlled “charitable organizations” formed from expropriated private assets during these years, came to control as much as 30 percent of the Iranian economy, furthering the state domination of the economy.¹⁹

Iran’s unemployment problem, meanwhile, is in part the result of its overwhelmingly young demographic profile. Between 1979 and 1989, the Islamic Republic experienced a population explosion. During these years, the annual population growth rate hovered around four percent. This youth bulge has since served as an internal drag on the advancement of the economic and social rights of Iranians, 70 percent of whom are presently under the age of 35. In large part because of the regime’s pro-natal policies from 1979 to 1989,²⁰ roughly

18 See Jahangir Amuzegar, “Iran’s 20 Year Economic Perspective: Promises and Pitfalls,” 2009.

19 Hossein Askari, “Iran’s Economic Policy Dilemma,” 2004.

20 On the adoption and subsequent reversal of pro-natal policies in Iran during the first decade after the revolution, see Homa Hoodfar, “Devices and Desires: Population Policy and Gender Roles in the Islamic Republic,” *Middle East Report*, September-October 1994. See also Homa Hoodfar and Samad Assadpour, “The Politics of Population Policy in the Islamic Republic of Iran,” *Studies in Family Planning*, Vol. 31, No. 1, March 2000. Ayatollah Seyyed Ali Khamenei, the Supreme Leader of Iran, has recently lamented this reversal, along with his own role in it, enjoining the government to start the process of nullifying family planning. Fearing the consequences of a graying population, the supreme leader has again called on the people to go forward, be fruitful, and multiply. See “Khamenei on Population Control: ‘May God and History Forgive Us,’” *Al-Monitor*, October 10, 2012. According to the

20 million babies were born in Iran in the first ten years after the revolution.

Iran's highly restrictive labor laws, enacted during the Khomeini years, also served to undermine the ability of Iranians to fulfill their right to gainful employment. Although intended to expand workers' rights and job security, the labor code's draconian prohibitions against the elimination of redundancies



through lay-offs only succeeded in exacerbating unemployment. Fearful of getting stuck with their employees, existing businesses were confronted with an additional disincentive against expansion, and would-be entrepreneurs were cautious about starting new businesses and hiring workers on a permanent basis. To circumvent the labor law's restrictive prohibitions, which applied only to permanent employees, most employers took to hiring contract workers, who could be summarily dismissed. The law thereby subsequently harmed both job creation and security.

These sanctions amplified the defects of the Iranian economy, crippling the ability of ordinary Iranians to maintain adequate standards of living.

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Iranian daily *Maghreb*, both Ayatollah Khamenei and President Ahmadinejad have emphasized the necessity of expanding the population of the country to 120-200 million individuals. See "Reaction of the Health Minister to the Prohibition on the Sale of Contraceptives," *Maghreb*, October 18, 2012.

By way of partially compensating for its economic deficiencies, attracting public support, and dealing with the exigencies of the Iran-Iraq war, the Islamic Republic instituted a highly inefficient universal subsidy system during this period, covering all basic food items as well as kerosene, diesel, natural gas, and gasoline. Until Ahmadinejad initiated his subsidy rationalization program in December 2010, these subsidies, particularly the ones on energy, consumed, depending on the year and the price of oil, between 10 and 30 percent of the nation's annual GDP, a figure far more costly than the burdens imposed by sanctions during this period. Moreover, the energy subsidies, which consumed by far the largest share of the allocations devoted to the program, primarily benefited the affluent who, depending upon the year, were favored by a ratio of about 12:1.²¹

On the more positive side, the first decade of the revolution also witnessed the laying of the foundations for improving the social conditions of Iranians, enabling them to further their rights to education and healthcare. In spite of the sanctions, infant mortality, life expectancy, access to healthcare, the number of physicians and nurses per capita, clean water, immunization, and access to education all registered significant improvements. The greatest strides in literacy and education were made by women and youths, while conditions in the countryside (where a large fraction of the devoted social base of the regime resides) were

21 Askari, "Iran's Economic Policy Dilemma," 2004, p. 662.

improved substantially. The rate of poverty, according to the World Bank, eventually dropped from 40 percent to 20 percent.²² Families from the traditional strata of society, who had been reluctant to allow their daughters to attend the Shah's secular schools, relented, and the stage was set for females to eventually replace males as the more numerous entrants and graduates from the nation's expanding institutions of higher learning.

In sum, the essential features of the economy of the Islamic Republic, which were put into place and became entrenched during the first decade of the revolution, were far more detrimental than sanctions in detracting from the capacity of Iranians to attain their economic rights to gainful employment as well as affordable food and shelter in the 1980s. This pattern would be replicated in the 1990s and 2000s, since the structure of the Iranian economy that took shape in the 1980s was not appreciably altered.

22 Ibid, pp. 656-657.



The Rafsanjani Period

1989–1997



With the exception of the Iran-Iraq Arms Non-proliferation Act, which was signed into law in October 1992, the George H. W. Bush administration (1988-1992) refrained from imposing additional sanctions on the Islamic Republic of Iran. The act, which was sponsored by Senators Al Gore and John McCain, provided for the sanctioning of individuals, countries, and entities that assisted Iran in the development or acquisition of chemical, biological, and nuclear weapons.²³

America's unilateral sanctions against Iran, however,

²³ Richard Sabatini, "Economic Sanctions: Pressuring Iran's Nuclear Program," 2010.

expanded substantially during President Clinton's first term in office (1992-1996). Ironically, the impetus for the intensification of US sanctions against the Islamic Republic was the decision on the part of President Akbar Hashemi Rafsanjani to award a \$1 billion contract to the American oil company Conoco as a means of sending a goodwill signal to the US and initiating the process of healing the rift in US-Iran relations, which had become severed due to the hostage crisis in 1979.

Rafsanjani's outreach to the US, in turn, was a part of his broader strategic vision to bring about realignments in Iran's foreign and domestic policies and priorities. In the aftermath of the passing of the regime's charismatic founder in 1989, Rafsanjani felt that the long-term survival of the Islamic Republic could become imperiled if it did not succeed in bringing about an appreciable improvement in the standard of living of the Iranian people, which by 1989 had on average plummeted to about a third of what they had been in 1979.²⁴ He reasoned that the system's credibility and the people's willingness to endure rationing, shortages, and sacrifices might not long endure the death of Khomeini, who had uniquely been able to combine the charismatic, traditional, and popular sources of legitimacy.

24 Hossein Askari, "Iran's Economic Vulnerability: Self-Inflicted, Not Sanction-Driven," *insideIRAN.org*, November 10, 2009, <http://www.insideiran.org/news/iran%E2%80%99s-economic-vulnerability-self-inflicted-not-sanction-driven/>. See also Jahangir Amuzegar, "Iran's Economy and the US Sanctions," *Middle East Journal*, Vol. 51, No. 2, Spring 1997.

To enhance the system's performance and legitimacy, Rafsanjani felt that it was imperative to generate a sustained expansion of the economy. His planned reforms included: streamlining the bureaucracy, replacing inept ideological purists with pragmatic technocrats, de-nationalizing the economy, promoting private enterprise, rebuilding the nation's infrastructure, attracting foreign and expatriate investment, reversing the brain drain, rationalizing the subsidies system, integrating Iran into the global economy, and removing unnecessary restrictions on people's personal and social lives. In short, he sought a repudiation of most of the policies adopted during the first decade of the revolution, and the embrace of the so-called Chinese model—socio-economic liberalization, without meaningful alterations in the power structure.²⁵


Rafsanjani recognized that the promotion of the Chinese model necessitated the jettisoning of an aggressive foreign policy. He therefore sought to overcome Tehran's international isolation by pursuing détente with Iran's neighbors, improving ties with European countries, and seeking rapprochement with the US, which, he calculated, as the world's sole remaining superpower at the time, could play an inordinately important role in hindering or assisting Rafsanjani in implementing his vision.

25 Ervand Abrahamian, *A History of Modern Iran*, New York: Cambridge University Press, 2008, pp. 182-195 and Said Amir Arjomand, *After Khomeini*, New York: Oxford University Press, 2009, pp. 56-71.

The injection of massive amounts of money into the economy without a corresponding rise in production has given rise to runaway inflation.

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President Clinton, however, citing Iran's support for terrorism, its opposition to the Arab-Israeli peace process, and its pursuit of weapons of mass destruction, issued Executive Order 12957 in March 1995. In addition to cancelling the Conoco contract, this order prohibited American companies from participating in oil development projects in Iran. Two months later, he



issued Executive Order 12959, which imposed a blanket embargo on all American trade and investment in Iran. Thereafter, the US Congress passed, and President Clinton signed, the Iran-Libya Sanctions Act (ILSA) in 1996. This secondary boycott obliged the president, at his discretion (he could waive sanctions if he deemed them inimical to US national interests), to impose at least two out of six sanctions on foreign entities that invested more than \$20 million per annum in the Iranian oil and gas industries. Apart from undermining Iran's oil and gas sector, ILSA sought to appease American oil companies by ensuring that the law would not put US firms at a disadvantage by simply paving the way for their competitors from Europe and Asia to fill the void

left by the departure of the Americans.²⁶

Yet until the mid-2000s, this is precisely what happened. In the absence of the US oil majors, European, Malaysian, Chinese, and Indian companies were able to win contracts for the development of the Iranian oil and gas industries. Thus, although President Clinton's executive orders and ILSA managed to increase the external burdens on the Iranian economy and dashed Rafsanjani's aim of normalizing US-Iran relations, they did not prove to be overbearing. Faced with the opposition of its European partners, who were as yet not ready to terminate profitable business interactions with Iran, the US backed down. American presidents from Clinton to Obama did not apply ILSA (later renamed the Iran Sanctions Act—ISA—after Ghaddafi was partially rehabilitated in 2006) until the expansion of the law in 2010. Instead of carrying out a fight in the WTO with American allies over the extraterritorial nature of the law, US presidents opted to work directly with their European and Asian partners, whereby the US refrained from imposing ILSA in return for its partners' vigilance in not selling conventional and dual use technologies to Iran. At the same time, until 2010, loopholes in the American sanctions against the Islamic Republic allowed the foreign subsidiaries and branches of American companies, such as Halliburton, General Electric, and Coca-Cola, to engage in trade and

26 Richard Sabatini, "Economic Sanctions: Pressuring Iran's Nuclear Program," 2010. See also Nikolay A. Kozhanov, "US Economic Sanctions Against Iran: Undermined by External Factors," *Middle East Policy*, Vol. 18, No. 3, Fall 2011.

investments in Iran.²⁷

This is not to argue that ILSA and the executive orders issued by President Clinton did not exact costs on the Iranian economy, which were subsequently passed on to the Iranian people. Shortly after the imposition of President Clinton's first executive order, the value of American dollars sold on the Iranian black market increased from 2,500 rials for each dollar to 6,500 rials.²⁸ Thereafter, the plunge in the value of the Iranian currency, from which it never recovered, continued, causing large increases in the value of non-essential consumer imports and smuggled goods (which were technically ineligible for lower exchange rates reserved for essential items). The decline in the value of the rial also prevented Rafsanjani from achieving a unified currency exchange rate. The continuation of multiple exchange rates for the purpose of distinguishing between imports, in turn, provided ample opportunities for engaging in corrupt commercial transactions. Moreover, American oil companies that were, up to 1995, buying Iranian crude, refining it, and subsequently selling it to non-American or American entities, had to stop doing so after President Clinton's executive orders. To compensate for the loss of its previous

27 Kenneth Katzman, "Iran Sanctions," paper presented to the Congressional Research Service), July 20, 2011, p. 16, cited in Nikolay A. Kozhanov, "US Economic Sanctions Against Iran: Undermined By External Factors," 2011, footnote 6.

28 Suzanne Maloney, "Sanctioning Iran: If Only It Were So Simple," *Washington Quarterly*, Vol. 33, No.1, January 2010, p. 140.

Iran's severely weakened industrial sector and its dependence on both petrodollars and imports, made it far more vulnerable to new sanctions.

customers, Iran had to bear the costs of storing, slightly discounting, and finding new buyers for the oil that had been previously bought by American companies.²⁹

More importantly, due to increased American sanctions and pressure after 1995, Iran's short-term credit risk and letter of credit (LC) fees rose, causing the country's cost of capital to increase. As a result, depending upon

the year, Iran was forced to endure additional borrowing costs of between \$29 and \$164 million per annum.³⁰ At the same time, "the mark-up of imports of US goods through Dubai [was] estimated at 20 percent."³¹ This mark-up lasted until the mid-2000s, when American and international sanctions against Iran began to get tougher. Because of US opposition, Iran was also forced to pay increased debt rescheduling fees between 1993 and 1995. The Islamic Republic had purposefully borrowed only miniscule amounts of money from



29 Askari, et al., 2001, p. 5.


30 Ibid, p. 8.

31 Ibid, p. 6.

Inflation and unemployment have become severely exacerbated, and access to healthcare and education has been significantly harmed.

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abroad during the first 10 years of its existence. With the end of the war, the inauguration of Rafsanjani, and the attempt to promote hitherto suppressed consumerism, the regime relented, and borrowed roughly \$30 billion in short-term loans between 1989 and 1993. The bulk of these funds were spent on financing consumer goods (instead of productive



investments).³² American pressure, however, prevented Iran from receiving favorable refinancing and rescheduling agreements under the auspices of the Paris Club (the group of creditor nations), compelling Tehran to pay an additional \$8-55 million per annum (depending on the year) for the rescheduling of its short-term loans.³³ Moreover, after 1995, because of US sanctions and Tehran's inability to access American-made and -patented liquefaction technology,³⁴ Iran was effectively prevented from transforming itself into a major exporter of natural gas, despite having the

32 Askari, "Iran's Economic Policy Dilemma," 2004.

33 Ibid, p. 8.

34 Suzanne Maloney, 2010, p.140.

second-largest gas reserves in the world. In all, the intensification of American sanctions on Iran under the Clinton administration is estimated to have cost the Islamic Republic about 1 percent of its annual GDP from the 1990s to the early 2000s.³⁵

Nevertheless, as was the case during the Khomeini era, the primary causes behind Iran's underperformance during the Rafsanjani period remained internal. Although the rate of average annual economic growth accelerated during 1990-1995, this rate was unbalanced due to borrowed external financing, and plummeted to 3.8 percent between 1995 and 1997.³⁶ Moreover, growth was inequitably distributed and the income gap widened. With baby boomers beginning to enter the job market, consistently high rates of unemployment and inflation, which hit wage earners especially hard, continued unabated.³⁷ Although oil production increased and much of the damage inflicted on the nation's infrastructure during the Iran-Iraq War was repaired, the country became more dependent on petroleum, and the task of economic diversification remained unfulfilled.³⁸

35 See Akbar E. Torbat, "Impact of the US Trade and Financial Sanctions On Iran," *The World Economy*, Vol.28, No. 3, March 2005.

36 Askari, "Iran's Economic Policy Dilemma," 2004, p. 655.

37 Ibid.

38 Hooshang Amirahmadi, "An Evaluation of Iran's First Development Plan and Challenges Facing the Second Plan," *Iran Nameh*, Vol. XIII, Nos. 1 & 2, Winter 2005.

Rafsanjani's privatization plans were also not carried out. Although the quality of some administrators improved, governmental and quasi-governmental bureaucracies remained intact, and even managed to expand their size and influence. They continued to antagonize entrepreneurs, undermine privatization plans, and detract from economic development and job creation. Subsidy rationalization and exchange rate unification were postponed, and needed foreign direct investment (FDI) outside the oil and gas industry remained miniscule.³⁹ Crucially, the Revolutionary Guards, who had been kept in the barracks during the Khomeini period, were allowed, indeed encouraged, to enter the economic domain,⁴⁰ placing yet another (and even more formidable) hurdle to the promotion of efficiency and the ability of Iranians to fulfill their economic rights.

On the positive side, education, literacy, healthcare, and infrastructure expanded, the country became more interconnected, and some modern amenities (electricity, piped water, paved roads) were introduced to the countryside. In retrospect, Rafsanjani's most significant achievement was his decision to launch a substantial expansion of the Islamic Azad University System,⁴¹ which

39 See Jahangir Amuzegar, *Iran's Economy Under the Islamic Republic*, 1997.

40 See Ali Ansari, "The Revolution Will Be Mercantitized," *The National Interest*, February 11, 2010, <http://nationalinterest.org/article/the-revolution-will-be-mercantitized-3332>.

41 "The Battle Over Islamic Azad University," *Foreignpolicy.com*, July 12,

now educates more than half of the nation's college students.

2010, http://mideast.foreignpolicy.com/articles/2010/07/12/the_battle_over_islamic_azad_university.

The Khatami Period

1997-2005





Neither the US nor any other country imposed additional sanctions on Iran during the presidency of Mohammad Khatami. In fact, responding to Khatami's call for dialogue in 1998, along with his attempts at promoting the rule of law, greater pluralism, accountability at home, and moderation of Iran's policies abroad, the Clinton administration provided Iran with limited sanctions relief. In 1999, the US ban on the export of American medical products (contingent upon OFAC licensing), agricultural commodities, and certain civilian aircraft parts to Iran was lifted,⁴² and in 2000 the

42 See Nikolay A. Kazhanov, "US Economic Sanctions Against Iran Undermined By External Factors," *Middle East Policy*, Volume 18, No. 3, Fall 2011.

import of Iranian carpets, pistachios, and caviar into the US was legalized. Although Iran did not immediately reciprocate, limited interactions between the two countries continued. These interactions reached their apogee in the aftermath of the terrorist attacks on the US on September 11, 2001, during the nascent presidency of George W. Bush, when the two countries cooperated in bringing about the ouster of the Taliban in Afghanistan.

Even after President Bush's 2002 "axis of evil" speech and the discovery later that year that Iran had not divulged the existence of its nuclear program to the IAEA for 18 years, no additional sanctions were imposed on the Islamic Republic. The Khatami administration managed to deftly handle the nuclear revelation by negotiating with European powers, and agreeing to temporarily suspend Iran's uranium enrichment efforts as a confidence-building gesture.

Khatami's moderate domestic and international stance, along with America's decision to refrain from imposing ILSA, even enabled Iran to boost its oil and gas production. The added production expanded Iran's access to hard currency and raised the revenues with which to finance its expenditures. Between 1997 and 2005, non-American oil majors, such as Total, Shell, Petronas, and Gazprom, invested hundreds of millions of dollars in Iran's hydrocarbons industry.⁴³

43 Richard Sabatini, "Economic Sanctions: Pressuring Iran's Nuclear Program," 2010.

The most pivotal factor accounting for the decline in the value of the rial has been the sanctions.

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Nevertheless, during Khatami's presidency the US succeeded in denying Iran a once-in-a-lifetime opportunity by effectively preventing the landlocked Caspian Basin countries from transporting their oil and gas resources to world markets through pipelines transiting Iranian territory—even though Iran provided the most geographically logical and economically efficient means of doing



so. The US also barred these countries from engaging in oil swaps with Tehran, thereby denying transit fees and construction benefits to Iran. Writing in 2004, Hossein Askari concluded, "Iran's discounted total economic losses from delayed Caspian oil exploitation could be in the range of \$7-24 billion (assuming a \$20 average price for a barrel of oil and depending on Iran's share of Caspian oil resources) and in the range of one billion dollars annually for all other sanctions related losses (largely reduced foreign direct investment, transit fees, and oil swaps)."⁴⁴

Nonetheless, Khatami's better macro-economic

⁴⁴ Hossein Askari, "Iran's Economic Policy Dilemma," 2004, p. 660.

management, along with greater moderation at home and abroad, helped to marginally improve the standard of living and cultural rights of the Iranian people through sustained economic growth, job creation, and reductions of restrictions on freedoms of expression and association. Significantly, it also helped to mildly remedy the structural defects of the Iranian economy. In his second term, Khatami managed to achieve a unified exchange rate, implemented a relatively liberal FDI law, expedited the speed of privatization, strengthened the manufacturing base, marginally improved the quality of bureaucratic administration, reduced foreign debt to low and manageable levels, and created an oil stabilization fund (OSF) to insulate the country from fluctuations in the price of oil and fund loans to the private sector as a means of diversifying the economy and promoting entrepreneurship.⁴⁵ He even managed to partially reverse the brain drain, as skilled Iranian expatriates gradually began to return. Some even repatriated a portion of their assets, although their preferred mode of investment was speculation in real estate, rather than committing funds to the more complicated and cumbersome manufacturing sector.⁴⁶

These policies produced an average economic growth rate of 5.8 percent between 2000 and 2003. In spite

45 Ibid, p. 664.

46 International Campaign for Human Rights in Iran interview with a businessman, who invested in Iran during the Khatami period but withdrew in the nascent phase of the Ahmadinejad administration. The individual does not wish to divulge his identity.

of the contraction of the oil sector between 2002 and 2003, the nation's rate of economic growth reached 6.8 and 6.5 percent for 2003-2004.⁴⁷ Due to the population explosion, however, the unemployment rate, particularly among the young, continued to remain high, hovering around 16 percent between 2000 and 2002, but declining to 15.7 because of the rates of growth.⁴⁸ This progress, however, was limited and reversible, as overall the economy remained oil-dependent, state-dominated, largely closed, and uncompetitive, with low value added and relatively insignificant non-hydrocarbon exports and low levels of FDI flowing to the non-oil sectors of the economy. The nuclear issue, moreover, remained unresolved.

47 Hossein Askari, "Iran's Economic Policy Dilemma," 2004, p. 655.

48 Ibid, p. 657.



The Ahmadinejad Period

2005–Present



Even before the imposition of the 2012 sanctions, however, the sanctions regime against Iran had already become less targeted and more multilateral, comprehensive, and costly. The enormous quantities of petro-dollars flowing directly into the coffers of the Iranian government because of rising oil prices, however, provided the regime with a cushion that enabled it to tolerate both the additional costs associated with sanctions and the severe mismanagement of the Iranian economy. The US's decision to tighten sanctions on Iran was prompted by the Ahmadinejad administration's decision to restart Iran's enrichment program in 2005 and his bellicose utterances about Israel. Thereafter, IAEA's referral of the Iranian nuclear dossier to the United Nations

Security Council (UNSC), Iran's refusal to heed the Council's demand that it halt its enrichment-related and processing activities, and the Council's passage of several resolutions against Iran led to the emergence of a pattern.

This pattern entailed the US adopting much tougher sanctions on its own to supplement the Security Council sanctions, and prodding its allies to further increase the economic isolation of Iran and adopt more stringent sanctions of their own. For the most part, these efforts paid off, especially with the EU, Canada, Australia, Japan, South Korea, and the UAE—though not with Russia, China, and India. These more stringent and multilateral sanctions increased the costs that sanctions were inflicting on Iran, though they did not as yet affect Iran's revenue streams.

A brief scrutiny of the nature and rising costs of the US, UN, and EU sanctions on Iran between 2005 and 2011, along with greater details of Ahmadinejad's far more damaging domestic economic policies will now follow.

Iran's nuclear dossier was referred to the UNSC in February 2006, when the report of then-Director General of the UN's International Atomic Energy Agency (IAEA) Mohammad El-Baradei found Iran to be in non-compliance with its safeguard operations and raised concerns about the potential military dimensions of Iran's nuclear program. In March 2006, the president of the Security Council called upon Iran to suspend its enrichment activities. Iran's refusal to comply with this demand resulted in the adoption of Resolution

1696 by the Security Council in July 2006. In addition to calling upon Iran to suspend its enrichment and reprocessing activities, the resolution urged the country to reconsider the construction of a heavy water research reactor. It also granted Iran a month to desist from its objectionable behavior or otherwise face the possibility of economic and diplomatic sanctions.⁴⁹

Having disregarded the demands of the Security Council, Iran was for the first time confronted with a UNSC sanctions resolution in December 2006. Resolution 1737 blocked “the import or export of sensitive nuclear material and equipment and froze the financial assets of persons or entities supporting its proliferation sensitive nuclear activities or the development nuclear-weapon delivery systems.”⁵⁰ Additionally, the resolution called upon Iran to suspend all of its enrichment and reprocessing activities. Iran’s unwillingness to abide by the Council’s demands prompted the UNSC to adopt another resolution against the Islamic Republic in March 2007: apart from banning Iran’s arms exports, Resolution 1747 placed travel restrictions on and froze the assets of more individuals suspected of being involved in the country’s proliferation activities.⁵¹

With the Islamic Republic’s continued defiance of the

49 Richard Sabatini, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” NTI-Monterey Institute of International Studies, 2010.

50 Ibid.

51 Ibid.

UNSC, the Council adopted two additional resolutions against Iran, Resolution 1803, passed in March 2008, and Resolution 1929, adopted in June 2010. Resolution 1803 expanded prohibitions of exports to Iran to include not just nuclear-specific material but also dual-use technology. It also further expanded the list of proscribed individuals and entities involved in Iran's nuclear and missile programs. Significantly, the resolution provided for an expansion of monitoring of Iranian banks suspected of being involved in financing proliferation activities, and inspection of "cargo to and from Iran of aircraft and vessels owned or operated by Iran Air Cargo and Islamic Republic of Iran Shipping Line, provided 'reasonable grounds' existed to believe that the aircraft or vessel was transporting prohibited goods."⁵² Resolution 1929, meanwhile, once again expanded the number of individuals and entities involved in Iran's nuclear program that are subjected to sanctions. It also banned the export of heavy and combat conventional weapons to Iran and prohibited the country from engaging in "any activities related to ballistic missiles. The resolution also call[ed] upon states to prevent the provision of financial services or insurance to [Iran] if there [were] reasonable grounds to believe that such services could contribute to Iran's nuclear or missile programs."⁵³ By departing from precedent and granting states the right to monitor Iran's shipping, financial, and banking activities, both

⁵² Quoted in *ibid.*

⁵³ *Ibid.*

resolutions provided the US and its partners with the basis for imposing far more stringent prohibitions against Iran's financial and shipping sectors as well as the provision of banking, finance, insurance, and shipping services to the Islamic Republic—thereby increasing Iran's transaction costs.

Even before the adoption of these sanctions, however, the US had already started to receive greater cooperation from its allies and partners in imposing additional costs on Tehran. In 2005, President George W. Bush issued Executive Order 13382, “to freeze the assets of proliferators of WMD and their supporters and isolate them financially. Eight Iranian entities and external organizations believed to be supporting Iranian WMD programs were designated under the executive order and sanctioned.”⁵⁴ In 2006, the US adopted the Iran Freedom Support Act, offering financial assistance to Iranian dissidents inside and outside the Islamic Republic and to media outlets seeking to bring about the peaceful transformation and democratization of the Iranian regime.⁵⁵ Also in 2006, the US passed the Iran, North Korea, and Syria Nonproliferation Act, providing “for penalties on entities and individuals for the transfer to or acquisition from since January 1, 1999 . . . of equipment and technology controlled under multilateral control lists.”⁵⁶ Thereafter, in 2007, the US singled out

54 Ibid.

55 See Nicholas A. Kozhanov, 2011

56 Quoted in Richard Sabatini, 2010.

the Iranian Revolutionary Guard Corps, which had come to dominate an increasing proportion of the Iranian economy, as a proliferator of weapons of mass destruction.⁵⁷

Most importantly in terms of inflicting increasing costs on the Iranian economy, “in 2007, as questions about Iran’s nuclear program grew, the Treasury Department under George W. Bush deployed a new strategy: blacklisting Iranian banks one by one, forcing foreign banks to decide whether to do business with Iran or the vastly larger US economy. . . . Treasury officials traveled the globe, carrying reams of financial intelligence. They spoke ‘the language of risks’ to bankers and governments, [Daniel] Glaser [Assistant Secretary of Treasury for Terrorist Financing] said, seeking to persuade them to make Iran a financial pariah.”⁵⁸ This “strategy . . . prove[d] unexpectedly effective in isolating Iran and increasing the costs of doing business for Iranian entities. The country’s former nuclear negotiator, Hassan Rowhani . . . estimated [in December 2008] that these new financial restrictions [had] added costs ranging from 10 to 30 percent to the cost of imports,”⁵⁹ which were subsequently passed on to Iranian consumers and industries.

57 Ibid.

58 Arshad Mohammed, Justya Pawlak, and Warren Strobel, “Special Report: Inside the West’s Economic War with Iran,” Reuters, December 28, 2012.

59 Suzanne Maloney, “Sanctioning Iran: If Only It Were So Simple,” *Washington Quarterly*, January 2010, p. 139.

Starting in 2007, the international isolation and subsequent costs imposed upon the Islamic Republic increased further as the EU began to go beyond UN sanctions and impose additional sanctions of its own. On the basis of Common Positions 2007/140 and 2007/246, the EU prohibited individuals associated with Iran's nuclear program from traveling in the EU, banned all nuclear and missile trade with and all conventional weapons export to Iran, froze the accounts of all individuals and entities associated with Iran's missile and nuclear programs, and prohibited the extension of grants, financial assistance, and concessional loans to Iran.⁶⁰

In 2008, the EU added more Iranian individuals and entities to the list of those who were to be prohibited from traveling in the EU and whose assets were to be frozen. Moreover, Common Position 2008/652 urged caution upon EU members in facilitating trade with Iran through financial support and requested that they carefully monitor the interactions of European financial institutions with suspicious Iranian banks.⁶¹

Iran's transaction costs increased substantially in the summer of 2010 when, after the passage of UNSC Resolution 1929, both the US and the EU, as well as the "coalition of the willing" (Canada, Australia, Japan, South Korea, and Norway), supplemented the UN


⁶⁰ See Sabatini, 2010.

⁶¹ Ibid.

Small and medium-sized companies, particularly those in the private sector that are bereft of connections to centers of power, have been hardest hit.

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resolution by adopting more stringent sanctions of their own. Resolution 1929's reference to "the potential connection between Iran's revenues derived from its energy sector and the funding of Iran's proliferation-sensitive nuclear activities"⁶² prompted both the US Congress and the European Commission to act. Shortly thereafter, the passage of the Comprehensive Iran



Sanctions Accountability and Divestment Act (CISADA) closed the loopholes of the Iran-Libya Sanctions Act and added a number of extraterritorial sanctions to it. The law "directs the president to impose sanctions on any person (meaning any individual, organization, or institution) that makes an investment of \$20 million or more in Iran's petroleum industry. Similarly, the legislation requires that the president sanction any person that provides Iran with goods, services, technology, or information with a fair market value of \$1 million or more for the maintenance or expansion of Iran's production of refined products. In addition, the [law] would apply US sanctions to any individual or organization that exports more than \$1 million worth

62 Quoted in Kozhanov, 2011.

of gasoline [(at the time Iran was importing 40 percent of its refined petroleum)] to Iran, or provides \$1 million worth of goods or services that could contribute to Iran's ability to import gasoline."⁶³ In the meantime, "a week after the UN vote, the EU announced its own sanctions: restrictions on banking, insurance, and shipping; visa bans and asset freezes of Islamic Revolutionary Guard; and measures to ban investment in the oil and gas sectors as well as transfers of related technology."⁶⁴

Although in the aggregate these measures substantially increased Iran's transaction costs, which were passed on to Iranian citizens, the rise in the price of oil, as well as the ability of the central bank of Iran to take over the activities that had hitherto been conducted by Iran's commercial banks, still allowed the Islamic Republic to tolerate and mitigate the impact of sanctions.

However, there can be no doubt that the preconditions for the continuing decline in purchasing power and standard of living presently afflicting the overwhelming majority of the Iranian population were set in motion by the economic, foreign, and nuclear policies enacted during Ahmadinejad's presidency.⁶⁵ Moreover, at least

63 Sabatini, 2010.

64 Meghan L. O'Sullivan, "Iran and the Great Sanctions Debate," *Washington Quarterly*, October 2010.

65 In the words Ali Mazrouie, a reformist member and the Deputy Head of the Commission on Planning and Budget in the 6th Majlis (2000-2004),

during the first six-and-a-half years of his presidency, Ahmadinejad was able to carry out these policies with the backing of Iran's Supreme Leader, Ayatollah Seyyed Ali Khamenei.

Paradoxically, when Ahmadinejad and those affiliated with him in the ruling establishment began to display greater flexibility in their willingness to resolve the nuclear issue (in order to bring about the lessening of sanctions and improve their prospects of holding on to the presidency after Ahmadinejad's tenure in office ended in 2013), they were reined in by Iran's Supreme Leader, who has the final say on all foreign and domestic policies.⁶⁶ Nevertheless, in addition to exacerbating the worst structural flaws in Iran's political economy, the policies and postures adopted during the Ahmadinejad presidency⁶⁷ also contributed to the imposition of, and

"Since coming to power, the [Ahmadinejad] government has undermined the planning and decision making apparatus. It has never believed and continues to denigrate the value of expertise, causing the country's economy to be placed on the wrong track. Plus, the government's incorrect foreign policies themselves have brought on the sanctions." See "Reasons Behind Price Rises in Iran: Sanctions or the Government's Economic Policies," *Radiofarda*, July 27, 2012.

66 See David E. Sanger, Steven Erlanger, and Robert F. Worth, "Tehran Rejects Nuclear Accord, Officials Report," *New York Times*, October 29, 2009.

67 In foreign policy, the president's repeated public expressions of skepticism about the veracity of the Holocaust as well as his frequent exhortations that Israel must be wiped off the pages of time, along with Iran's decision, in contravention of the repeated demands of the International Atomic Energy Agency (IAEA) and the United Nations Security Council, to expand rather than halt its enrichment activities, have been instrumental in the imposition of

made the country much more vulnerable to, what has been variously referred to as the most far-reaching and punitive sanctions in history.⁶⁸

Ironically, Ahmadinejad was elected to his first term in office in 2005 by campaigning on a platform that stressed the need to return the revolution to its roots through the promotion of policies designed to enhance social justice and bring about decent standards of living for all. Ahmadinejad argued that he had stood for office in order to return the revolution to its true path: improvement of the plight of the dispossessed and the underprivileged. Instead of promoting inclusive growth and social justice, he argued, the revolution had resulted in the maximization of wealth and power in the hands of the well connected few. He promised to combat poverty and bring about the eradication of entrenched inequality through the creation of gainful employment, promotion of transparency, obliteration of corruption,

more comprehensive sanctions against the Islamic Republic.

68 See the transcript of the Third 2012 Presidential Debate Between President Barack Obama and Former Governor Mitt Romney, <http://abcnews.go.com/Politics/OTUS/presidential-debate-full-transcript/story?id=17538888#.UI8c82CGYfl>, as well as the transcript of the 2012 Vice Presidential debate between Vice President Joe Biden and Rep. Paul Ryan, <http://www.npr.org/2012/10/11/162754053/transcript-biden-ryan-vice-presidential-debate>. See also Muhammad Sahimi and Eskandar Sadeghi-Boroujerdi, "The Unfolding Human Catastrophe in Iran: Sanctions Imposed on Iran's Banks and Financial Institutions Could Lead to a Humanitarian Crisis," *Aljazeera*, October 28, 2012.

and expansion of equity.⁶⁹ His most famous campaign slogan touted the necessity of giving all Iranian citizens a stake in the country's oil wealth by helping to put the nation's oil earnings on their dining tables.⁷⁰

In reality, the converse has happened. President Ahmadinejad has pursued the achievement of his populist objectives through ill-conceived, ad hoc fiscal and monetary policies. These policies have fueled galloping inflation and stagnation, raised the number of bankruptcies and layoffs, and produced unprecedented levels of unemployment, along with heightening disparities in wealth and income. They have also made the country more dependent on oil income and imports, while expanding and consolidating the control and ownership of the government and the security and coercive apparatus, especially the Iranian Revolutionary Guard Corps (IRGC), over the Iranian economy.⁷¹ Indeed,

69 According to Transparency International, the level of corruption in Iran has increased during the presidency of Ahmadinejad. Iran's corruption ranking declined by 13 steps in 2012 to reach 133/174. In 2005, Iran ranked 88/158. See Transparency International's Corruption Perceptions Index 2012, <http://www.transparency.org/cpi2012/results>, and 2005, http://archive.transparency.org/policy_research/surveys_indices/cpi/2005.

70 See Djavad Salehi-Isfahani, "Poor Policy, Not Sanctions, Weakens Iran's Economy," Interview with the *Council on Foreign Relations*, March 26, 2009, <http://www.cfr.org/iran/poor-policy-not-sanctions-weakens-irans-economy/p18937>.

71 The IRGC has since expanded and consolidated its hold over the Iranian economy, particularly during the presidency of Mahmoud Ahmadinejad, by establishing commercial monopolies and garnering up to \$25 billion in no-bid petroleum contracts. See "South Pars Hostage To Sanctions," *BBC Persian*, July

in recent years, the IRGC has increased its hold over the service, manufacturing, and especially the commercial sectors of the economy, with its enterprises estimated to account for roughly 30 percent of the Iranian economy. As with the bonyads, it does not pay taxes.⁷² Enjoying extensive access to the cheapest exchange rates, security and governmental organizations have been able to monopolize many industries. In the meantime, “Poverty—which by different estimates still afflicts some 9 to 15 million individuals, or about 13 to 20 percent of the population—has remained intact or even worsened. By a recent estimate, the Gini coefficient of income—a zero to one scale of a country’s income distribution—deteriorated in three years [2005-2008] from 0.43 to 0.58.”⁷³

Against the advice of virtually all of the nation’s economists and seasoned managers, most of whom

2, 2012. See also Philip McCrum, “Iran: Reckless or Rational? Ahmadinejad Five Years On,” *ISN ETH Zurich*, June 5, 2010, http://relooney.fatcow.com/SI_Peter-Iran/000-Iran_22.pdf.

72 See “Feeling the Pinch: Iran’s Embattled Importers,” *Tehran Bureau*, July 19, 2012, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/07/xxx-feeling-the-pinch-irans-embattled-importers.html>. See also Mark Gregory, “Expanding Business Empire of Iran’s Revolutionary Guards,” *BBC News*, July 26, 2010, <http://www.bbc.co.uk/news/world-middle-east-10743580>; Ali Alfoneh, “The Revolutionary Guards’ Looting of Iran’s Economy,” *American Enterprise Institute*, June 23, 2010, <http://www.aei.org/article/foreign-and-defense-policy/regional/middle-east-and-north-africa/the-revolutionary-guards-looting-of-irans-economy/>.

73 Jahangir Amuzegar, “Iran’s Oil as a Blessing and a Curse,” *Brown Journal of World Affairs*, 2008.

he sacked during the nascent period of his presidency, Ahmadinejad has injected almost all of Iran's oil earnings during his tenure in office (\$531 billion— amounting to about 47% of the total revenues the nation has earned from the sale of hydrocarbons since oil was discovered in Iran in 1908)⁷⁴ into the economy.

In so doing, he has also increased the allocation of cash requisitions to charitable, governmental, security, and religious organizations, increased the availability of cheap credit to unqualified and fictitious entrepreneurs and home buyers, and lavished petro-dollars on provincial developmental and infrastructural projects, most of which still await completion. According to an Iranian daily, roughly nine months prior to the termination of his tenure in office, Ahmadinejad's government had succeeded in completing only 28 percent of the developmental projects he had promised to undertake in the course of his provincial tours during the last seven years.⁷⁵

Although the beneficiary of the highest oil prices in history, his government has also consistently run

74 These figures are based on the calculations of Akbar Torkan, former Iranian Deputy Minister of Oil and Minister of Defense. They appear in a report presented by Torkan to the Center for Strategic Research, which operates under the auspices of the Council for the Discernment of the Regime's Interests (Expediency Council), headed by former President Akbar Hashemi Rafsanjani. See Kaveh Omidvar, "What Has Ahmadinejad Done with Half of Iran's Oil Income in the Course of the Last One Hundred Years," *BBC Persian*, October 26, 2012.

75 See *Maghreb*, November 10, 2012.

Since the 2012 sanctions, the number of bankruptcies, layoffs, plan closures, and delayed salaries has substantially increased.

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budget deficits, which it has sought to cover through an expansionary monetary policy, further augmenting inflation. During Ahmadinejad's first term the government's current and development budgets rose by more than ten percent per annum, "but due to a highly inefficient use of new income, the massive windfalls did not result in lowering double digit unemployment or reduce poverty."⁷⁶ To



give the impression that he had fulfilled his promise of combating unemployment, Ahmadinejad changed the definition and measurement of employment to count housewives and individuals who had worked at least one hour in the previous month as employed.⁷⁷ In the aggregate, the Ahmadinejad administration's expansionary fiscal and monetary policies have resulted in the expansion of liquidity by about 600 percent in the last seven years.⁷⁸

76 Jahangir Amuzegar, "Iran's Oil as a Blessing and a Curse," 2008.

77 Cited in footnote 36 of Jahangir Amuzegar, "Iran's 20-Year Economic Perspective: Promises and Pitfalls," 2009.

78 See Kaveh Omidvar, "Why Is the Price of Buying Dollars in Iran Increasing

As the nation's leading economists had warned, the injection of massive amounts of money into the economy without a corresponding rise in production has given rise to runaway inflation. However, instead of authorizing the central bank to raise deposit rates in order to absorb excessive liquidity and channel it to productive endeavors, the president consistently intervened to force the bank to reduce the cost of credit below the rate of inflation because of his ideological opposition to high interest rates as well as his desire to spark economic growth and job creation by making it easier for aspiring entrepreneurs to borrow money.⁷⁹ He thereby encouraged speculative endeavors, such as investments in hard currency, gold, and art pieces, as well as the formation of property bubbles, which put affordable housing further out of the reach of a significant proportion of first-time home buyers, particularly those residing in urban areas.

Meanwhile, during the first seven years of his presidency, the president's preferred mode of combating inflation was to draw upon the country's continuously expanding petro-dollars in order to keep the price of the rial, the nation's currency, far above what the persistently double-digit rates of domestic

By the Day," *BBC Persian*, October 1, 2012.

79 "In the space of 12 months in 2007 and 2008, two successive governors of Iran's central bank resigned in protest at Ahmadinejad's enforcement of lower 'profit rates' (rates of interest that comply with Islamic law)." Philip McCrum, "Iran: Reckless or Rational? Ahmadinejad Five Years On," *ISN ETH Zurich*, June 5, 2010, http://relooney.fatcow.com/SI_Peter-Iran/000-Iran_22.pdf.

inflation warranted. The artificially inflated rial, in turn, was used, in conjunction with the drastic lowering of tariffs on imports, to pave the way for ever-expanding and comparatively cheap consumer goods, primary products, and industrial inputs into the country. While the relatively inexpensive goods did keep inflation rates lower than they would otherwise have been, they also proved to be highly inimical to the profitability and sustenance of domestic manufacturing units, many of which found it increasingly difficult to compete with cheap and plentiful (frequently Chinese-made) imports.

In effect, during these years, Iran's official state policy was to encourage imports and discourage exports. In the ensuing competition between domestic manufacturers (both those that produced for the domestic market and those who sought to export their products) and importers (the most formidable of whom were the IRGC and other entities/individuals aligned with the regime), the importers emerged as the clear victors. As far back as October 2009, the head of the industries commission of Iran's Chamber of Commerce declared that as much as half of the nation's manufacturing units were stagnant and teetering on the edge of bankruptcy, while only 30 percent were at or close to productive capacity.⁸⁰ As a result of Ahmadinejad's policies, therefore, by the time the 2012 sanctions were imposed by the US and the EU, Iranian "companies that might have helped produce goods to replace those blocked by [sanctions]

⁸⁰ See "Half of Iran's Manufacturing Plants Are on the Verge of Closure," *BBC Persian*, October 2, 2009.

[had] long since gone out of business, as owners shifted their wealth to speculation, building and selling properties, foreign currency or raw materials.”⁸¹

In addition to weakening the nation’s industrial base, these policies made Iran ever more dependent on imports. According to Mohammad Khatami, Iran’s president from 1997 to 2005, the net value of Iran’s imports tripled during the presidency of Mahmoud Ahmadinejad.⁸² Furthermore, only 17 percent of these imports have been in the form of capital goods that have the capacity for improving the country’s productivity in the long run.⁸³ The rest have been composed of consumer and primary goods, used for the most part to combat inflationary pressures unleashed by the president’s policies and to facilitate consumption.

Another component of Ahmadinejad’s policies that significantly contributed to the rise in liquidity,

81 Thomas Erdbrink, “Already Plagued By Inflation, Iran Is Bracing for Worse,” *New York Times*, July 1, 2012.

82 *BBC Persian*, October 22, 2012. Echoing the declarations of Mohammad Khatami, Saeed Laylaz, an independent Iranian economist and journalist based in Tehran, in a telephone interview conducted on August 2, 2012, told the International Campaign for Human Rights in Iran that “in the course of the last seven years, we [the policies of the Iranian government] have helped to magnify the impact of the sanctions. . . . Our imports today are two to three-and-a-half times what they were seven years ago, indicating that we have become far more dependent on imports, which the sanctions are now targeting.”

83 *Ibid.*

unemployment, and inflation levels, and substantially undermined Iran's already limited productive capacity prior to 2012, was the subsidy rationalization program. The adoption of targeted subsidies was supposed to incrementally terminate indiscriminate subsidies on a host of basic food items, energy, and utilities which, in addition to being regressive (since they bestowed the most benefit on the affluent who consume more) and wasteful, consumed up to one-third of the nation's GDP. To compensate the need for price increases, the government was to provide cash stipends to those households whose monthly incomes were below the threshold of relative poverty—as calculated by the government.

Contrary to the original plan to gradually phase out the subsidies over a five-year period, the Ahmadinejad administration chose to initiate the program in December 2010 by excising more than half the total value of all subsidies overnight. To compensate, the administration provided monthly cash stipends of what at the time was worth approximately \$45 to virtually all of Iran's citizens, regardless of their age and income level. Critics of the president charged that this move was in line with the president's proclivity towards patronage and populism, designed to curry favor with the masses and pave the way for Ahmadinejad to anoint his chief confidant, Esfandiar Rahim Mashaei, as Iran's next president. Whatever the reason, this move, by further increasing liquidity and exacerbating the existing inflationary pressures, contributed significantly to the increase in prices prior to the imposition of the 2012 sanctions.

Moreover, the Ahmadinejad administration also neglected to fulfill another component of the targeted subsidies law. The law, as passed by the Parliament, had specifically enjoined the government to provide 30 percent of the savings from the phasing out of subsidies to the nation's industries so that they could cope with rising energy and utilities costs and invest in modern and energy-efficient machinery. The modernization of the nation's manufacturing and industrial base was imperative, as "the bulk of the [Iranian] economy (agriculture, industry, and transportation) operates at mid-20th century technological standards. An average Iranian farm or industrial plant uses several times more energy, more workers, more material and more hours to produce a final product than a similar entity in the West."⁸⁴

As a result, even before the 2012 sanctions, many of the nation's industrial units, especially the small and medium-sized ones operating in the private sector, had found it exceedingly difficult to cope. Virtually overnight, for example, the price of diesel fuel increased some sixteen-fold. Thus, on the eve of the imposition of the 2012 sanctions, large numbers of industrial plants had gone out of business and laid off their workers. Many more were either operating at a fraction of their capacity, teetering on the edge of bankruptcy, or unable to pay their workers' salaries in a timely manner.

84 Jahangir Amuzegar, "Iran's 20-Year Economic Perspective: Promises and Pitfalls," 2009.

About a month prior to the imposition of the US and EU sanctions in July 2012, the Iranian central bank placed the rate of annual inflation at 21 percent, while independent economists in the country estimated it to be hovering around 50 percent. According to an officially sanctioned Islamic workers' council⁸⁵ representing Iranian contract workers, "dozens of factories across Iran, in sectors ranging from dairy to steel, had shut down and over 100,000 workers had been laid off" in the year before the severe tightening of sanctions.⁸⁶

At the same time, an increasing number of factory owners were reaching the conclusion that closing their plants, salvaging what they could through the sale of the plant's land and machinery, and investing the proceeds in speculative endeavors such as real estate development would be far more profitable than attempting to continue the increasingly arduous, if not impossible, task of keeping their factories open.⁸⁷ Indeed, all of the nation's macro-economic indicators were already malfunctioning. In January 2012, the Iran

85 Even though sanctioned by the constitution of the Islamic Republic, all post-revolutions governments in Iran, except the initial provisional government, have prohibited the formation and functioning of independent trade unions. Only officially recognized Islamic workers' councils are allowed to function unimpeded.

86 Farnaz Fassihi, "Inside Iran, Signs Grow Sanctions Are Hurting Economy," *Wall Street Journal*, May 22, 2012.

87 International Campaign for Human Rights in Iran telephone interview with an Iranian factory owner on August 15, 2012. Due to the interviewee's request, his identity will not be divulged.

Census Center put the urban unemployment rate at 12.5 percent. Independent economists, however, maintained that it was probably twice as high, and that youth unemployment was closer to 50 percent. Crucially, a sizable proportion of domestic manufacturing firms that could have potentially produced substitutes for imports whose costs were about to increase geometrically due to sanctions either had already gone, or were about to go, out of business.

Thus, the “toughest sanctions in history”⁸⁸ were imposed on Iran precisely at a time when the country’s self-inflicted wounds, particularly its severely weakened industrial sector and its much greater dependence on both petro-dollars and imports,⁸⁹ had made it far more

88 As described by Vice President Joe Biden. See “Biden Touts Iran Sanctions As Ryan Voices Doubts,” AP, October 11, 2012. Interestingly, three months before Biden’s utterances, at a time when the bulk of Iranian officials had as yet not begun to acknowledge the devastating impact of sanctions, President Ahmadinejad concurred that “the sanctions imposed on our country are the most severe and strictest sanctions ever imposed on a country.” See Thomas Erdbrink and Rick Gladstone, “Iran’s President Says Sanctions Are Toughest Yet,” *New York Times*, July 3, 2012.

89 A list put out by the deputy to the Office of Planning and Strategic Supervision of the Presidency on how Iran’s hard currency earnings had been utilized between 2005 and 2010 states that the value of goods and services imported into the country increased every year, rising from \$56 billion to \$94 billion. This figure, however, which is based on officially sanctioned imports, does not include the goods that had been smuggled into the country, valued at \$18-\$20 billion per annum. See “Sanctions, Foreign Commerce, and Struggles Within the Regime,” *Radiofarda*, November 9, 2012. In the meantime, in a best case scenario, Iran’s non-hydrocarbon exports (excluding oil, gas, and petrochemicals) is unlikely to be more than \$20 billion per year, a sum that is insufficient to pay for the nation’s requisite imports. See

vulnerable to the new sanctions, ensuring that their impact would be substantially magnified.

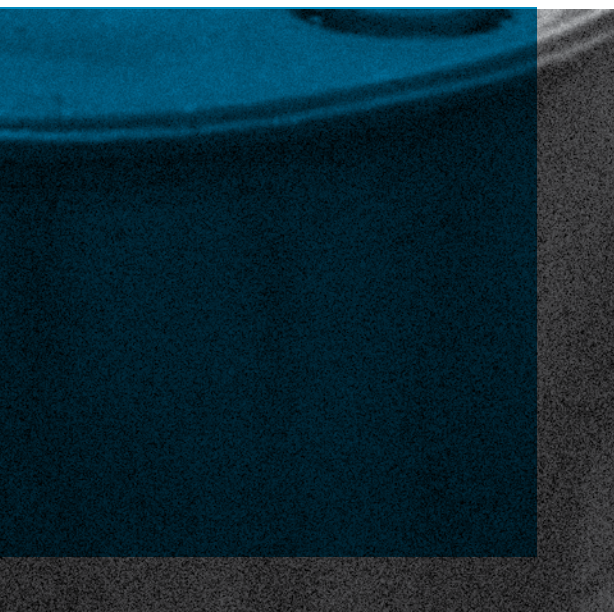
It can be seen, then, that the strengthening of sanctions in 2012 could scarcely have occurred at a more vulnerable moment for Iranians. Yet what makes the most recent round of American and European Union sanctions far more inimical than previous rounds to the ability of ordinary Iranians to fulfill their economic and social rights to decent living standards is the current sanctions' success in substantially reducing the revenue streams of the Iranian state while simultaneously increasing the costs associated with Iran's ability to export and import. Higher operating and transaction costs, combined with a sudden decline in resources, have now severely limited the government's ability to keep the economic system afloat by compensating for the burdens that Iran's increasingly inefficient institutions and policies have imposed upon the nation.

Fereydoun Khavand, "Resistance Economy Or A Shot in the Dark," *Radiofarda*, August 1, 2012.



Crippling Sanctions

US President Obama signed the most consequential component of the sanctions into law on December 31, 2011. The National Defense Authorization Act, which had earlier been passed by both houses of Congress, enjoins the US government to sanction financial institutions of any nation that help to facilitate payment transactions for the sale of Iranian oil by paying the central bank of Iran. Transgressors will be barred from the US financial system, and will face major penalties in the US for violating this secondary US boycott. The administration has the discretion to provide temporary exemptions, at six-month intervals, to purchasers of Iranian oil, who can demonstrate significant reductions in their oil purchases from Iran within each of the allotted six months. In light of the fact that Iran's other



banks had previously been (or were subsequently) blacklisted—and since “over 35 percent of international transactions are in dollars, [with] many of them . . . not involv[ing] American firms,”⁹⁰ this law provides the US government with a tremendous amount of leeway in gradually choking off Iran’s primary source of expenditure and hard currency.

The impact of the National Defense Authorization Act was amplified by the almost simultaneous decision on the part of the European Union to impose a total EU-wide embargo on the purchase of Iranian oil, as well as a freezing of the assets of the Iranian central bank. The decision to ban the purchase of Iranian oil, accompanied by the resolve to desist from insuring Iranian oil shipments, was made on January 23, 2012, by the 27 member states of the EU, and started being fully implemented on July 1, 2012.⁹¹ In addition, on January 23, effective immediately, the EU froze the assets of the Iranian central bank. It also imposed a blanket prohibition on the trade in gold as well as other precious metals with Iran’s central bank (and other public institutions).⁹²

Although EU member states imported roughly one-

90 “Dollar Power,” *Economist*, June 23 2012. See also Kevin Baxter, “Starving Tehran of Cash,” *Middle East Economic Digest*, January 13, 2012.

91 “Q & A: Iran Sanctions,” *BBC News*, October 16, 2012, <http://www.bbc.co.uk/news/world-middle-east-15983302>.

92 *Ibid.*

fifth of Iran's total exports, their decision to switch to alternative sources of petroleum, along with America's sanctioning of Iran's central bank, has proved quite harmful to the economic interests of the Islamic Republic—and even more inimical to the socio-economic well-being of the Iranian people. As a result of the joint US/EU sanctions, not only has Iran not been able to find alternative customers for the oil that it previously sold to the EU, but its other major customers, including China (which had taken roughly 20% of Iran's oil exports), India (40%), South Korea (38%), and Turkey (20%), have all cut back on their purchases of Iranian oil in order to gain reprieves from the US sanctions law.⁹³ Moreover, they are likely to continue to diminish their reliance on Iranian oil in order not to run afoul of American sanctions. At the same time, they are also likely to demand discounts for the diminished volume of imports from Iran.

Furthermore, the decision on the part of the EU to prohibit its companies from providing maritime insurance for Iranian oil shipments has imposed additional costs on the nation, particularly in light of the fact that European insurance companies (most of which are based in London) underwrite more than 90 percent of global petroleum shipments.⁹⁴ In fact, even before

93 Margaret McQuaile, "Iranian Oil Sanctions," *Platts*, December 6, 2012, <http://www.platts.com/newsfeature/2012/iran/index>.

94 See "Is Sanctioning Maritime Insurance the Most Painful Sanction Against Iran?," *BBC Persian*, July 2, 2012.

the imposition of the 2012 sanctions, an increasing number of insurance and shipping companies, and not just those catering to the oil industry, had decided to go beyond the letter of the law and abandon the Iranian market. In all likelihood this reflected the fear that, given the increasing domination of the Iranian economy by the state's security apparatus, continued transactions with Iran would sooner or later cause them to conduct business with individuals and entities blacklisted by the US and its EU partners and expose them to penalties. Before entirely terminating services to Iran in 2012, the world's largest shipping company, Maersk, which delivered mostly food products to Iran, stopped calling on Iran's three largest ports in 2011 because the Iranian company that had been entrusted with the task of managing these ports was purported to be affiliated with the IRGC.⁹⁵ The dwindling numbers of secondary shipping companies that are still willing to transport cargo of any type to and from Iran charge at least three times the amount that they used to prior to the imposition of the 2012 sanctions.⁹⁶ These costs have been highly destructive for importers and exporters, and are subsequently passed on to the Iranian people.

The objective behind the comprehensive US/EU sanctions was to initiate the process of choking off Iran's

95 See "Why Are Iran Sanctions Affecting Foodstuff?," *BBC Persian*, June 30, 2011.

96 International Campaign for Human Rights in Iran interview with an Iranian exporter, who does not wish to divulge his identity.

The closure of an ever-larger number of operations will result in the impoverishment of ever-larger segments of the working population.

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main revenue stream, while expanding the imposition of costs on the Iranian economy, in order to compel Iran to abide by UNSC resolutions on Tehran's nuclear program. To this end, other costly sanctions were imposed on Iran in 2012. The timing could not have been worse for Iran, because increased oil production in the US, Iraq, Saudi Arabia, and Libya was able to compensate for the loss of Iran's oil.



Perhaps the most costly of these was the March 2012 EU Council decision to refrain from providing services to virtually all of Iran's banks, including the central bank of Iran.⁹⁷ In the words of an informed economist, "The closing down of Iran's access to the SWIFT system was significant. This may have done more damage to Iran's ability to do business internationally than many of the other sanctions combined. The sanctions focused on persons and banks are good politics, but have historically not been effective. Closing the country from

97 "Global Financial Service Cuts Off Iran," *Iran Primer*, March 15, 2012, <http://iranprimer.usip.org/blog/2012/mar/15/global-financial-service-cuts-iran>. See also "Dollar Power: America Is Using the Dollar To Hurt Iran. Will It Work?," *Economist*, June 23, 2012.

a major clearinghouse is like slamming a large financial door in their faces.”⁹⁸

In August 2012, the US passed the Iran Threat Reduction and Syria Human Rights Act, which placed virtually all of Iran’s transportation, energy, and financial sectors under US sanctions.⁹⁹ Meanwhile, in October 2012, the EU imposed an additional set of sanctions against Iran. Following the lead of the US, “the measures prohibit any transactions with Iranian banks and financial institutions unless specifically authorized or exempted, such as for humanitarian purposes. The import, purchase, and transport of natural gas from Iran was also banned, as was the construction of Iranian oil tankers and cargo vessels.”¹⁰⁰ The EU also banned the export of base metals, particularly steel, which directly affected Iran’s shipbuilding and transportation industries. The resulting 100 percent increase in the price of steel in Iran inflicted a severe blow to the country’s construction industry, which employs a large number of workers.¹⁰¹

In its most recent round of US sanctions against Iran,

98 Paul Sullivan, “Panic In Tehran,” Lobe Log, October 4, 2012, <http://www.lobelog.com/panic-in-tehran/>.

99 See “2012 Iran Sanctions Report,” PAAIA, August 2012, pp. 6-8. See also “Russia Slams New US Sanctions,” *Associated Press*, August 13, 2012.

100 “Q & A: Iran Sanctions,” *BBC News*, October 16, 2012, <http://www.bbc.co.uk/news/world-middle-east-15983302>.

101 See “The EU ‘Broke the Back of the Construction Industry in Iran’ in One Month,” *Radiofarda*, November 12, 2012.

passed by the Congress and signed into law by President Obama as part of a defense spending bill at the beginning of 2013, the US has intentionally extended sanctions to crucial Iranian industries, including the construction sector. In the words of executive director of the Foundation for the Defense of Democracy Mark Dubowitz, as quoted in the *Washington Post*, “This is effectively blocking whole sectors of the Iranian economy. . . . The goal is to create a chilling effect on all non-humanitarian commercial trade with Iran.”¹⁰² In addition to prohibiting foreign companies from conducting interactions with Iranian shipping, energy, and financial firms, the law seeks to undermine Iran’s ability to barter its oil for precious metals. Scheduled to come into effect within 180 days after its passage, the law is, as Mohammad Hossein Ashrafi, a member of the National Security and Foreign Policy Commission of the Iranian Majlis said, as reported by Radiozamaneh, an important step in the seemingly inexorable direction of transforming US sanctions into an “oil in exchange for food” program.¹⁰³ Once fully implemented, the sanctions will bar foreign countries and entities from enabling Iran to use the proceeds from the sale of its oil for non-essential/humanitarian (as deemed by the US) products and commodities. According to the Christian Science


102 Joby Warrick, “New Iran Sanctions Target Industry in Bid For Deal Curbing Nuclear Program,” *Washington Post*, January 6, 2012, http://articles.washingtonpost.com/2013-01-06/world/36208214_1_new-iran-nuclear-program-mark-dubowitz.

103 See Iran’s MP Says US Sanctions Reaching Critical Stage,” *Radiozamaneh*, January 6, 2013.

Fulfilling such basic rights as food and shelter, let alone healthcare, has become even more challenging for the increasing ranks of unemployed workers.

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Monitor, Undersecretary for Terrorism and Financial Intelligence David Cohen said that the US Treasury began implementing sanctions on February 6, 2013, with the objective of causing “Tehran’s oil revenues to become ‘shackled’ within any country buying oil from Iran.”¹⁰⁴ Moreover, the law also targets the nation’s highly labor-intensive automotive and construction industries



by preventing Iran from importing steel, coal, and aluminum. As such, these sanctions cap the trend of transforming targeted and “smart” sanctions aimed at the regime and its ruling elite into a comprehensive embargo against the country and its inhabitants.

As reported in *Iran Primer*, David Cohen observed on July 31, 2012, that “one of the collateral benefits of the financial sanctions that we have imposed is that it is increasingly difficult for Iran today to make payments in the international financial system. That makes it difficult

104 Roshanak Taghavi, “As IAEA Arrives In Tehran, Iran Braces For Full Force of US Sanctions,” *Christian Science Monitor*, January 15, 2013.

for Iran to procure material for its nuclear program.”¹⁰⁵ The sanctions, however, have also made it prohibitively expensive for Iran to acquire the financial, banking, and insurance services it requires for the conduct of its non-nuclear related trade and commerce.

Thus the inordinate costs that the post-2012 sanctions impose on Iran, combined with their ability to cut the country’s primary source of income and foreign exchange earnings by more than half, make them qualitatively different from the sanctions that came before 2012. Unlike the previous rounds of sanctions, the new round has in relatively short order managed to exact a severe toll on the livelihoods of the Iranian people, as Iran is now largely bereft of the ability to mitigate the impact of its faulty policies and the costs of the previous sanctions. Indeed, these sanctions have turned a worsening economic condition into a critical one, bringing about a rapid and precipitous plunge in the standard of living of all wage earners. Inflation and unemployment have become severely exacerbated, and access to healthcare and education has been significantly harmed.

105 “Part II: US Assesses New Sanctions,” *Iran Primer*, August 1, 2012.



Consequences for the Iranian Economy



The most important arena in which the interplay between sanctions and internal vulnerabilities has undermined the Iranian economy is the currency exchange market. The value of the Iranian currency, which had been kept at the rate of some 10,000 rials to the US dollar for the previous 10 years, began its precipitous decline in December 2011. The initial impetus for the decline was the decision by the Dubai-based Noor Islamic bank, which had up to then reportedly been responsible for clearing upwards of 60 percent of Iran's oil earnings, to submit to the request

In the course of the previous year the nutritional value and balance of the consumption basket of the vast majority of Iranians has plummeted.

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of the US Treasury Department to terminate its relationship with Iran.¹⁰⁶ Thereafter the plunge in the value of the rial continued and gathered momentum, particularly in the aftermath of the tightening of US and EU sanctions in the course of 2012. The value of the Iranian currency reached its nadir against the dollar in October 2012, trading at some 42,000 rials to the US dollar on Tehran's



open/black market. Various governmental measures subsequently stemmed and temporarily reversed the decline, restoring the value of the rial to 28,000 to the dollar. In the face of escalating sanctions and lack of confidence in the prospects for resolving Iran's nuclear dispute, however, the decline in the value of the Iranian currency has since resumed, with each dollar trading for 36,000 rials by December 2012.¹⁰⁷

The most pivotal factor accounting for the decline in

106 See Amir Paivar, "Iran Currency Crisis: Sanctions Detonate Unstable Rial," *BBC News*, October 2, 2012.

107 Ibid. See also Dominic Dudley, "Tehran's Brinkmanship," *Middle East Economic Digest*, March 16, 2012; "Rising Price of the Dollar Exacerbated Inflationary Pressures," *VOA Persian*, December 27, 2012.

the value of the rial has been the sanctions, which have severely restricted the capacity of the government to draw on its hydrocarbon earnings (which amounted to \$115 billion in 2011)¹⁰⁸ to prop up the value of the rial. With its foreign exchange earnings halved, unable to transfer its oil earnings back to Iran, and its access to its dwindling foreign currency reserves diminished, the Iranian government has found it increasingly difficult to supply the requisite funds for supporting its currency.¹⁰⁹

To be sure, Ahmadinejad's policies, which created rising demand for dollars and other forms of hard currency in Iran, compounded the problem. By raising the liquidity rate (the number of rials in circulation) by almost 600 percent in the course of the last seven years through his expansionary fiscal and monetary policies, as well as by allocating monthly cash handouts to 60 million Iranians as part of his subsidy rationalization plan, Ahmadinejad helped to spawn an "avalanche" of cash in search of safe areas for investment.¹¹⁰ With the political, economic, and business climate in the country deteriorating, the

108 See "OPEC's 1st Report In 2013: Reduction In Iran's Production," *Radiofarda*, January 16, 2013.

109 See Jahangir Amuzegar, "Economic Crisis In Iran," *Carnegie Endowment: International Economics Bulletin*, May 3, 2012. See also Kaveh Omidvar, "What Is the Impact of the Rise in the Value of the Dollar On People's Lives?," *BBC Persian*, October 2, 2012.

110 See Kaveh Omidvar, "What Is the Impact of the Rise in the Value of the Dollar On People's Lives," *BBC Persian*, October 2, 2012. See also Thomas Erdbrink, "Strict New Procedures for Iran Currency," *New York Times*, October 8, 2012.

value of the rial decreasing, and bank deposit rates kept well below the rate of inflation, this avalanche has gone after relatively safe investments that are likely to preserve their value, such as gold, real estate, art pieces, and especially hard currency. As with any other commodity, the outstripping of supply with demand has brought about an extreme rise in the value of hard currency.¹¹¹

In the meantime, the government's ad hoc policies for slowing the slide in the value of the rial have included the following: "[Restricting] open market foreign exchange trading, devalu[ing] the official rate of the rial by almost 50 percent, limiting the availability of foreign exchange at the official rate [(12,260 rials to each dollar)] to imports of essential foods and pharmaceuticals," although subsequently the government did not allocate the requisite funds for the import of medicines, "and setting multiple rates [based upon their level of necessity] for other imports; bann[ing] the import of a long list of luxury goods," although in practice, the government allowed such imports for those who were well-connected; "requir[ing] exporters to sell their foreign exchange to importers at official rather than free market rates; and restrict[ing] the export of over 50 items, including wheat, grains, sugar, vegetable oil, automobile tires,

111 See Mark Gregory, "Iranian Rial: Mahmoud Ahmadinejad Blames Slide On 'Enemies,'" *BBC News*, October 2, 2012. See also Amir Paivar, "Iran Currency Crisis: Sanctions Detonate Unstable Rial," *BBC News*, October 2, 2012.

Women and children are most likely to bear the brunt of the economic and social impact of sanctions.

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paper, and a variety of metals and petrochemical building blocks.”¹¹²

Such measures, however, along with the arrest and imprisonment of a number of currency dealers, have at best temporarily slowed the decline in the value of the rial. They have also failed to provide most of the hard currency that importers require to supply the nation’s requisite imports.



According to Mohammad Nahavandian, who heads the Iranian Chamber of Commerce, the requirement that Iran’s non-oil exporters (who accounted for only 10 percent of the country’s exports last year)¹¹³ sell their hard currency earnings to importers at the Currency Exchange Center has been able to cover only 10 to 20 percent of the importers’ need for hard currency.¹¹⁴

112 Shaul Bakkash, “Iran’s Nuclear Program: A Shift In the Winds?” *Iran Primer*, November 27, 2012.

113 Kaveh Omidvar, “What Is the Impact of the Rise in the Value of the Dollar On People’s Lives,” *BBC Persian*, October 2, 2012.

114 See Yeganeh Torbati, “Iran Rial Plunges As Western Sanctions Bite,” *Reuters*, October 1, 2012.

Moreover, with the nation dependent on imports for a significant proportion of the raw materials for its industries, the government's failure to allocate the most favorable foreign exchange rate of 12,260 rials to the dollar for industrial inputs and capital goods has further fueled inflation.

The tripling of the value of the dollar in one year, along with ever increasing transaction costs, has brought about a drastic rise in the price of essential and non-essential imports, upon which the country had become increasingly dependent during the presidency of Ahmadinejad. According to the Iranian Customs Authority, of the \$62 billion (legal) imports that entered the country last year, 72 percent consisted of primary material and inputs, 17 percent were devoted to capital goods, and roughly 21 percent were comprised of consumer goods.¹¹⁵ The decline in the value of the rial, therefore, has been destructive for producers and consumers alike, causing a decline in the economic status of all wage earners, impoverishment of ever-larger segments of the population, and the concentration of wealth into fewer hands.

In January 2013, the Baztab Emrooz website, affiliated with Secretary of the Expediency Council Mohsen Rezaie, put the annual inflation rate at 110 percent (roughly four times the official 27 percent figure put

115 Kaveh Omidvar, "What Is the Impact of the Rise in the Value of the Dollar On People's Lives," *BBC Persian*, October 2, 2012.

out by the Iranian central bank).¹¹⁶ Rezaie, meanwhile, in an interview with the Fars News Agency (which is affiliated with the IRGC), claimed that the purchasing power of the Iranian people had halved in the course of the previous year,¹¹⁷ and Fatollah Hosseini, a Majlis representative, claimed that the unemployment rate in his province of Kermanshah had surpassed 30 percent, with the situation being more or less identical for the provinces of Fars, Lorestan, Alborz, and Gillan.¹¹⁸

116 "Inflation In Iran Is 110 Percent," *VOA Persian*, January 10, 2012.

117 *Fars News*, January 9, 2012.

118 "Simultaneous Difference Between the Government and the Majles Over Unemployment Rate: 30 Percent," *VOA Persian*, January 12, 2003.

Manufacturing, Blue Collar Workers, and the Urban Poor





Perhaps nowhere are the results of the combined impact of sanctions and policies more plainly seen than in the dismal decline in the nation's manufacturing sector, and, with it, the condition of Iran's roughly 15 million workers,¹¹⁹ along with their families and

119 There are 10 million workers whose working conditions are subject to the labor law in Iran. See Behrooz Karouni, "Workers Confronting Absence of Job Security and Non Payment of Wages," *Radiofarda*, November 21, 2012. Apart from these 10 million, there are an additional 5 million daily wage earners. Members of this group receive compensation solely for the days during which they work, and are not entitled to any of the benefits of the labor law, including insurance, bonuses, and overtime. Daily wage earners are essentially bereft of legal protection, and are for the most part employed in construction, services, and the underground economy. See Behrooz Karouni, "Workers' Job Security Has Become Endangered," *Radiofarda*, September 8, 2012.

dependents. Since the conditions of the bulk of the nation's workers are ultimately dependent on the performance of the manufacturing sector, we turn first to the impact that sanctions are exerting on Iran's industrial base.

As discussed earlier, most of Iran's manufacturing units had already become severely weakened due to the accumulated impact of government economic policies. The addition of the 2012 sanctions reduced access to and substantially raised the cost of the hard currency that manufacturers require for the purchase of indispensable inputs, raw material, spare parts, machinery, and capital goods. At the same time, by imposing restrictions on and increasing financial, transportation, and insurance costs to unprecedented levels, sanctions increased the operating costs of manufacturing units.

As Nigel Kushner, an attorney specializing in sanctions based in London, said in a *Wall Street Journal* interview, "even legal business activities become extremely difficult in such a tight web of restrictions."¹²⁰ In the same article, David Cohen, US Undersecretary of the Treasury, agreed, but blames the Iranian government for its failure to clarify its nuclear intentions: "I don't doubt there are businessmen in Iran who are facing difficulty in importing goods because of constricted financial channels in Iran . . . [but] that is an issue that the

120 Quoted in Benoit Faucon, "In Iran, Private Sector Feels Squeeze of Sanctions," *Wall Street Journal*, August 2, 2012.

Iranian government has brought on its own people.”¹²¹ Regardless of who bears responsibility, businesses which are still operating and are in need of imports have to resort to unconventional means, such as switching from banks to sarafis (traditional money dealers), or going to Dubai with cash in hand.¹²²

As one Iranian who owns an electrical contracting company noted in an interview with insideIRAN, the impact of sanctions is clear if one looks at the web portal of Iran’s national database of tender information, which tracks all international business transactions. Five interactions a day have now become about two a month.¹²³

While all manufacturing units have suffered, small and medium-sized companies, particularly those in the private sector that are bereft of connections to centers of power, have been hardest hit. Meanwhile, the problems faced by manufacturers have become compounded by the extreme reluctance on the part of domestic banks to provide them with needed loans for sustaining their operations. Having been forced by the

121 Ibid.

122 Jay Newton-Small, “One Nation Under Sanctions,” *Time*, September 13, 2012, <http://www.time.com/time/magazine/article/0,9171,2124407,00.html>.

123 Ehsan Mehrabi, “Report From Tehran: How Sanctions Hurt the Lives of Ordinary Iranians,” insideIRAN.org, July 26, 2012, <http://www.insideiran.org/news/report-from-iran-how-sanctions-hurt-the-lives-of-the-ordinary-iranians/>.

government to engage in loose lending (frequently to shady enterprises), Iranian banks have become saddled with a ten-fold increase in their non-performing loans during the past seven-and-a-half years.¹²⁴ As a result, banks have become far more cautious in extending additional loans. Concomitantly, as the government has grown short of cash, it has resorted to delaying payments to its contractors and sub-contractors in the manufacturing sector.¹²⁵

The combined impact of mismanagement and sanctions has thus been devastating for manufacturers. Since the imposition of the 2012 sanctions, the number of bankruptcies, layoffs, plant closures, and delayed payments of salaries has substantially increased. In an interview with *BBC TV* on September 30, 2012, Mehrdad Emadi, an economist and advisor to the EU, stated that the rate of bankruptcy in Iran has tripled since three years ago, and that 40 percent of males in large cities have lost their jobs in the course of the previous twelve

124 See "Tenfold Growth in the Bank's Non-Performing Loans During Ahmadinejad's Government," *Arman* (Newspaper), December 22, 2010. On the reluctance of Iranian banks to extend loans, see the comments of Siamak Taheri, a journalist in Tehran, to the effect that "industry's access to liquidity has plummeted, and in spite of the promise of officials, the government has not helped. Therefore, workers' salaries and benefits have not been paid." See Behrooz Karouni, "Non-Payment of Pending Salaries: problems of Daily Life and Prospects for Perpetuating the Life of Workers," *Radiofarda*, October 24, 2012.

125 See Thomas Erdbrink, "Already Plagued By Inflation, Iran Is Bracing For Worse," *New York Times*, July 1, 2012.

The purchasing power of everyone's wages is believed to have halved in the course of the past year.

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months.¹²⁶ In January 2013, a manager of an Iranian manufacturer of insulation sheets for rooftops told the *Wall Street Journal*, "From the owner to the line worker, no one is safe. . . . Our country is facing an economic disaster."¹²⁷

Voicing the same sentiment, a businessman identified by his first name, Alireza, told Tehranbureau in late 2012 that "factories have been shutting down for some time now, unemployment is higher than ever. . . . [The question is] if there is enough time to save the economy from total collapse."¹²⁸



While all industries have suffered, and those still open

126 "How Iranian Value Loss Has Affected Economy," *BBC TV*, September 30, 2012, <http://www.bbc.co.uk/news/business-19776472>.

127 Quoted in Farnaz Fassihi and Jay Solomon, "In Iran's Factories and Shops Tighter Sanctions Exact Toll," *Wall Street Journal*, January 4, 2013.

128 See "Government In A Fog As Recession Looms . . . Or Has It Arrived?" Tehran Bureau, November 29, 2012, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/11/dispatch-government-fumbles-as-recession-looms-or-has-it-arrived.html>.

are operating at 40-50 percent of capacity,¹²⁹ the textile, shoe manufacturing, petrochemical and food processing industries have been hardest hit.¹³⁰

Manufacturing conditions have deteriorated so much that even the nation's once formidable automotive industry, which had experienced a five-fold increase in production during the previous decade,¹³¹ has stumbled badly. According to the *Wall Street Journal*, Iranian reports show that the country's automotive industry, "the region's largest with manufacturing plants from Afghanistan to Ukraine posted 60 to 80 percent production declines last year, leading to hundreds of thousands losing their jobs . . . [and] many manufacturers of spare parts are working at 40 percent capacity because of a shortage of cash and lack of raw materials, according to a statement by the industry's union leaders."¹³² The importance of the automotive

129 See "The Demise of Iranian Industry Is Near," *VOA Persian*, December 29, 2012. The report quotes Behrooz Nemat, a member of the Industry and Mines Commission of the Iranian Majlis, to the effect that Iranian industries operate at below 40 percent of their capacity.

130 International Campaign for Human Rights in Iran interview with Dr. Fereydoun Khavand, professor and commentator on economic issues based in Paris, on July 28, 2012. See also "Sanctions Show Importance of China for Iran's economy," *Economist Intelligence Unit*, July 24, 2012.

131 Djavad Salehi-Isfahani, "With Friends Like These: How the Sanctions Might Hurt America's Potential Allies Inside Iran," *Foreign Policy*, October 14, 2012, http://www.foreignpolicy.com/articles/2012/10/12/with_friends_like_these.

132 Farnaz Fassihi and Jay Solomon, "In Iran's Factories and Shops Tighter

industry for Iran's economy cannot be overstated. As reported by *Radiofarda*, Aziz Akbarian, Deputy Head of the Commission on Industries and Mines in the Iranian Parliament, noted that about 2 million workers were directly or indirectly working for the automotive industry prior to the closures and layoffs.¹³³ The crisis in the automotive industry has significantly exacerbated unemployment and poverty rates.

As difficult as the conditions confronting manufacturing in general and the automotive industry in particular are in Iran, they will worsen if Western countries and Iran fail to find a mutually acceptable solution to the Islamic Republic's nuclear program. The rapid depletion and eventual exhaustion of the country's foreign currency reserves¹³⁴ will largely choke off the capital goods and industrial inputs that the Iranian industrial sector

Sanctions Exact Toll," *Wall Street Journal*, January 4, 2013.

133 See Behrooz Karouni, "Job Security of Workers Endangered," *Radiofarda*, September 8, 2012.

134 Iran's foreign currency reserves have been variously estimated to have stood at between \$60-\$110 billion in 2012. See Mark Dubowitz, "Battle Rial," *Foreign Policy*, June 28, 2012. See also Yeganeh Torbati, "Iran Rial Plunges As Western Sanctions Bite," Reuters, October 1, 2012, <http://www.reuters.com/article/2012/10/01/us-iran-currency-drop-idUSBRE89014620121001>. Torbati, quoting IMF officials, puts the value of Iran's foreign reserves at \$106 billion at the end of 2011. Jahangir Amuzegar, "Economic Crisis in Iran," *Carnegie Endowment: International Economics Bulletin*, May 3, 2012, puts the figure at \$90 billion. It should be noted that because of Western sanctions, Iran is no longer able to access part of its reserves. See Djavad Salehi-Isfahani, "With Friends Like These: How the Sanctions Might Hurt America's Potential Allies Inside Iran," *Foreign Policy*, October 14, 2012.

requires in order to sustain its operations. This will result in the closure of an ever-larger number of plants and operations, and the impoverishment of ever-larger segments of the working population.

Already, the decline in manufacturing has brought about a commensurate plunge in the standard of living of blue-collar workers. According to the Majlis News Agency, which operates under the auspices of the Iranian Parliament, 67 percent of the nation's manufacturing units are on the verge of closure.¹³⁵ Thus far, 30,000 Iranian workers have signed three separate letters of complaint (10,000 signatories per letter) addressed to the Iranian Minister of Labor and Welfare, Abdolreza Sheikholeslami. In the letters, the workers complain about the deteriorating living conditions, the frequent lack of timely payment of wages, layoffs, temporary contracts, job insecurity, and salaries that are well below the poverty line. They note the significant price increases in the course of the previous year, and ask for immediate across-the-board salary increases to compensate workers for the run-away inflation that has come about in part as a result of the subsidy rationalization program. Indeed, in light of the massive and continuing hikes in the rate of inflation, replacing subsidies with cash handouts has, instead of bringing about an upturn in the living standards of the urban poor, undermined them.¹³⁶

135 Majlis News Agency, January 13, 2012.

136 See "Letter of Another 10,000 Workers to the Minister of Labor Calling

The letters also noted that the minimum wage, which was set at 3,900,000 rials per month by the High Council for Labor at the beginning of the last Iranian year on March 21, 2012, is well below the poverty line. According to several of Iran's official news agencies, even at the time of the determination of the minimum wage for the last Iranian year, the poverty line was above 10,000,000 rials per month.¹³⁷ It has since gone higher. Meanwhile, in November 2012, the Mehr News Agency calculated that the cost of workers' consumption baskets had increased by 100 percent in the course of the previous year, while the value of their wages had plunged by 50 percent.¹³⁸ Moreover, the salary of roughly 80 percent of the 10 million workers eligible for the labor law is at or even below the minimum (monthly) wage of 3,900,000 rials,¹³⁹ and according to the Iranian Labour News Agency (ILNA), about 42 percent of workers do not even receive the

for a Rise In Worker's Salaries," *Radiofarda*, September 23, 2012. See also "Number of Signatories To the Complaint Letter to Minister of Labor Has Reached 30,000," *Radiofarda*, December 18, 2012. Also, "Complaint of 10,000 Iranian Workers Against Economic Conditions," *BBC Persian*, June 17, 2012.

137 See "Number of Signatories To the Complaint Letter to Minister of Labor Has Reached 30,000," *Radiofarda*, December 18, 2012.

138 As reported in Behrooz Karouni, "Workers Confronting Lack of Job Security and Non-Payment of Wages," *Radiofarda*, November 21, 2012.

139 Reported in Behrooz Karouni, "Non-Payment of Back Wages: The Issues of Daily Living and the Ability of Workers To Perpetuate Their Lives," *Radiofarda*, October 24, 2012.

The rate of inflation in Iran's medical sector was running at 350 percent in late 2012.

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minimum wage.¹⁴⁰ It should be noted that Article 41 of Iran's Labor Law maintains that the minimum wage should be set on the basis of the rate of inflation as well as the ability of a typical household to make ends meet.¹⁴¹



Concomitantly, workers' wages are being paid in an irregular and infrequent manner. Even before enforcement of

the US/EU sanctions in 2012, Nasrollah Daryabeygi, executive secretary of the Worker's House of the province of Mazandaran, told ILNA in April 2012 that some of the workers of the Mazandaran Textile Company had not been paid for 18 months.¹⁴² Around the same time, Aghayar Hosseini, director of the Workers' House in Khuzestan Province told Fars News Agency that a large proportion of the 400 workers of the Khuzestan Pipe-Building Company had not received

140 See Iranian Labour News Agency, <http://old.ilna.ir/indexEN.aspx>.

141 "Number of Signatories to the Complaint Letter to Minister of Labor Has Reached 30,000," *Radiofarda*, December 18, 2012.

142 "Workers Accumulated Demands On the Eve of Labor Day in Iran," *BBC Persian*, April 22, 2012.

their salaries for the past 25 months.¹⁴³ In November 2012 (after the implementation of sanctions), Khaneye Mellat News Agency reported that, in spite of pledges by Ahmadinejad and several of his ministers, workers of the Ghaem Shahr Teaxtile Company had not been paid for the past 27 months.¹⁴⁴ Also in November, various reports published in the nation's official news outlets and workers' websites claimed that a large number of factories in the provinces of Mazandaran, Kashan, Khuzestan, Tehran, Arak, Fars, Yazd, Ghazvin, East Azerbaijan, and other parts of Iran were either unable to pay their workers or refrained from doing so.¹⁴⁵ Siamak Taheri, a journalist based in Tehran, maintains, as quoted by Radiofarda, that the inability of workers to receive their wages in a consistent manner is their most important problem: "Now the workers' daily lives and their ability to survive is at stake. . . . [T]he simple task of eating with the miniscule salaries that the workers receive has become increasingly difficult."¹⁴⁶

The task of fulfilling such basic rights as food and shelter, let alone healthcare, has become even more challenging for the increasing ranks of unemployed

143 Ibid.

144 "Workers Confronting Lack of Job Security and Non-Payment of Wages," *Radiofarda*, November 21, 2012.

145 Behrooz Karouni, "Non-Payment of Back Wages: The Issues of Daily Living and the Ability of Workers To Perpetuate Their Lives," *Radiofarda*, October 24, 2012.

146 Quoted in Ibid.

workers. As early as April 2012, Faramarz Tofighy, a labor activist, told ILNA that “30 percent of workers employed in manufacturing plants [had] been fired since the start [of the Iranian new year on March 21, 2012].”¹⁴⁷ On December 1, 2012, the Rah-e Daneshjoo website quoted Fatollah Bayat, head of the union of contract workers, to the effect that not only is the condition of all workers deplorable, but that one million contract workers had been fired since the start of the Iranian new year.¹⁴⁸ In August 2012, Donya-e Eqtessad Newspaper published a report on the crisis affecting the nation’s industrial cities, quoting the deputy head of the Commission on Industries and Mines of the Chamber of Commerce of Tehran that “40 to 50 percent of the workers of the industrial city of Parand had been laid off in the current year.”¹⁴⁹ In the meantime, dairy, meat, and poultry, whose prices have risen astronomically in the course of the previous year, have disappeared from workers’ consumption baskets and, according to the Mehr News Agency, the 5 million workers who do not own their homes have to devote 50 to 100 percent of their income to rent each month.¹⁵⁰

147 Quoted in “Worker’s Accumulated Demands on the Eve of Labor Day in Iran,” *BBC Persian*, April 22, 2012.

148 “Firing of One Million Workers in Iran,” *VOA Persian*, December 1, 2012.

149 Donya-e Eqtessad, December 25, 2012.

150 “Convergence of Home Buyers to Tehran’s Peripheries,” *VOA Persian*, January 12, 2013.

In July 2012, a housewife from a working class section of Tehran complained to a Tehran bureau correspondent that the price of lamb had doubled in a year: “‘I can’t make abgoosht anymore,’ she [said,] referring to a simple lamb stew that is a Persian staple. ‘My family eats bread and beans.’”¹⁵¹ In a similar vein, a 45-year-old mother of two from a working class district in Tehran made the following statement to a *Wall Street Journal* reporter in telephone interview: “‘We’ve slowly scratched off milk, yogurt, cheese, and butter from our table. Prices are going up almost daily, and we can’t afford them.’”¹⁵² As reported in the *Financial Times*, Mohammad-Reza Esmaili, manager of the Dairy Industries Union, noted that the sale of dairy products has declined by 30% during the past year due to the increase in prices.¹⁵³ In the same article, Issa Kalantari, a former agriculture minister, noted that official figures from two years ago already suggested that about a third of Iran’s population could not afford to eat enough, and that this number had likely increased.¹⁵⁴ With the nation dependent on imports for about a quarter of its food

151 “Feeling the Pinch: Iran’s Embattled Importers,” Tehran Bureau, July 19, 2012, <http://www.pbs.org/wgbh/pages/frontline/tehranbureau/2012/07/xxx-feeling-the-pinch-irans-embattled-importers.html>.

152 Farnaz Fassihi and Jay Solomon, “In Iran’s Factories and Shops, Tighter Sanctions Exact Toll,” *Wall Street Journal*, January 4, 2013.

153 Najmeh Bozorgmehr, “Iran warned on food security,” *Financial Times*, April 3, 2013, <http://www.ft.com/intl/cms/s/0/809b63da-8fb9-11e2-9239-00144feabdc0.html>.

154 Ibid.

requirements,¹⁵⁵ food inflation will undergo yet another surge if the government decides to remove meat and rice from the list of food items eligible for receiving the cheapest rate of subsidized currency of 12,260 rials to the dollar, as is reportedly being considered.¹⁵⁶

Due to the deterioration in the quality of their diet, the workers' right to health is also being undermined and is likely to be damaged further with the passage of time. According to a leading nutrition expert at one of Iran's universities who was interviewed by the International Campaign for Human Rights in Iran (ICHRI), in the course of the previous year the nutritional value and balance of the consumption basket of the vast majority of Iranians has plummeted. This is especially true of the dispossessed, who are unable to afford meat, dairy, vegetables, and fruits. As a result, they compensate by relying almost exclusively on carbohydrates, which will degrade their health in the long run.¹⁵⁷

The decision on the part of the Islamic Republic to counter the impact of the US prohibition on the sale of refined petroleum to Iran by expanding the country's refining capacity through unconventional

155 Jahangir Amuzegar, "Economic Crisis In Iran," Carnegie Endowment: International Economics Bulletin, May 3, 2012.

156 See "Meat and Rice Lose Their Priority: Surge In Prices Is Again on the Way," *Radiofarda*, January 19, 2012.

157 International Campaign for Human Rights in Iran interview on September 28, 2012, with a nutritionist in Iran, who asked for anonymity.

means has resulted in the production of dangerous gasolines, which are detrimental to the health of all Iranians living in the nation's major cities. According to a report published by the Islamic Republic News Agency (IRNA), petroleum refined in Iran contains heavy substances that do not burn, and instead emerge out of the exhaust pipes of automobiles.¹⁵⁸ As reported in *Radiofarda*, Masoud Kashfi, a petroleum expert in Texas, maintains that Iranian refineries are not properly equipped to refine the heavy oil that is produced in Iran. The decision to do so has resulted in the production of gasolines, occasionally laden with lead, that are extremely harmful to the health of individuals.¹⁵⁹ The declines in environmental and food safety, caloric intake, and quality of diet have thus significantly degraded public health.

The combined effect of mismanagement and sanctions has been particularly disastrous for the poor. The rise in poverty and hunger rates has become so discernible that it is openly discussed in the officially sanctioned media. According to the *Mardomsalari* newspaper, Ayatollah Lotfollah Safi Golpayegani (a source of emulation who resides in the city of Qom) in late 2012 declared, "it is not fitting for an Islamic system to have so many poor, dependent, and unemployed [individuals]." He requested that "the people and

158 Hossein Ghavimi, "In Recent Years Highly Dangerous Gasolines Have Been Produced In Iran," *Radiofarda*, December 15, 2012.

159 Ibid.

performers of noble deeds” take the initiative into their own hands and “resolve people’s problems—without waiting for the officials [to do so].”¹⁶⁰

The same issue of *Mardomsalari* also reported on the number of hungry people in Iran. The report casts doubt on the official figure of 5 percent, or 3.75 million individuals, observing that “based on the reduction of people’s purchasing power and daily rises in prices of food in recent months, it can be postulated that the true figure is higher than five percent—and that with the continuation of current trends it would rise even further.” According to the newspaper, “if hunger is defined to include ‘malnutrition,’ then the statistics are quite worrisome.”¹⁶¹ This “in spite of the fact that the government and government officials maintain that we do not even have one hungry person in the country.” Neither the *Mardomsalari* newspaper nor other newspapers, agencies, or officials provide exact figures or estimates about the current rate of poverty.

Significant increases in the rate of poverty, hunger, and malnutrition are alarming because they engender other negative repercussions. A report on the impact of sanctions on women by the International Civil Society Action Network (ICAN) warned that women and children are most likely to bear the brunt of the economic and

160 Related in “Rise in the Number of the Hungry In Iran to 3.75 Million People,” *Radiofarda*, October 18, 2012.

161 Ibid.

social impact of sanctions. The report notes that women are being pushed out of the job market, and that growing unemployment will put a strain on families, which is likely to result in increased domestic violence.¹⁶² Perhaps the most pernicious repercussions are the withdrawal of children from schools and the promotion of child marriages and child labor, with the brunt of these practices being born by young girls. According to Sussan Tahmasebi of the ICAN, who has studied the impact of sanctions on Iran and Iraq, families that are under economic pressure are more likely to prioritize the education of their sons over their daughters. They are also more likely to try to reduce the economic burden on their families by marrying off their daughters at an early age. Furthermore, poverty and economic difficulties can prompt females (and—though less frequently—males) to engage in desperate actions, including prostitution, in order to make ends meet.¹⁶³

The continuation of current conditions will also result in the widening and re-emergence of the disparity between the literacy and educational levels of males and females. The re-emergence of a yawning gap, which the Islamic Republic had succeeded in narrowing in recent years, will strike a severe blow against gender equality, depressing the professional prospects of

162 “What the Women Say: Killing them Softly: The Stark Impact of Sanctions on the Lives of Ordinary Iranians,” International Civil Society Action Network, July 2012.

163 See Roya Karimi Majd, “Sanctions Are Not A Replacement For War, They Expedite It,” Interview with Sussan Tahmasebi, *Radiofarda*, July 29, 2012.

women for years to come.

Another consequence of the coalescence of mismanagement and sanctions has been the increasing polarization of Iranian society between the haves and the have-nots. Although the poor have suffered the most, the majority of the modern, professional, traditional, and entrepreneurial sectors of the middle class are also under pressure. In the words of a close observer of Iran's political economy interviewed by ICHRI, "the disparity of wealth and income has never been greater in the 34-year history of the Islamic Republic."¹⁶⁴ While those with access to capital, connections, and subsidized rates of foreign exchange have accumulated substantial fortunes, the lower echelons of the middle class have been or are on the verge of being wiped out, and those in the middle are struggling to make ends meet.

According to a Tehran-based businessman interviewed by ICHRI in September 2012, "smuggling has expanded by leaps and bounds. Products whose imports into the country have become officially prohibited are nonetheless brought using the most favorable rate of exchange. They enter the country without paying the slightest fees and customs duties and are subsequently easily distributed throughout the city."¹⁶⁵ Only those

164 International Campaign for Human Rights in Iran interview with an Iranian businessman, who does not wish to divulge his identity.

165 International Campaign for Human Rights in Iran interview with an

with their own homes or investments in real estate, hard currency, gold, and art pieces have managed to preserve, or even increase (not in the case of property, whose level of appreciation has not kept pace with the inflation rate) the value of their assets. Nevertheless, the purchasing power of everyone's wages is believed to have halved in the course of the past year. The situation has become so bad that, according to *Iran Primer*, a prominent member of the Iranian Majlis observed in November 2012, "in Iranian society today, people are either poor or rich. We no longer have a middle class of salary earners."¹⁶⁶ Further anecdotal evidence supporting the increasing stratification of wealth and privilege in Iran is found in the fact that Porsche "sold more cars in Tehran in 2011 than in any other city in the Middle East."¹⁶⁷

Iranian businessman on September 7, 2012.

166 Quoted in Shaul Bakhsh, "Iran's Nuclear Program: A Shift in the Winds?" *Iran Primer*, November 27, 2012.

167 "Iran and Sanctions: When Will It Ever End?" *Economist*, August 18, 2012.



**The
Professional
Middle Class,
Small Business
Owners, and
Bazaaris**



Signs of contraction in the size and standard of living of the middle class also abound. The rampant consumerism “of a year or so ago, before sanctions started to bite . . . [and] the middle class splurged on food and consumer goods,”¹⁶⁸ has disappeared. The price of imported consumer goods, which constituted 21 percent of imports, and which were for the most part consumed by the middle class, has increased by a factor of 2 to 3, and are increasingly out of reach. A 28-year-old journalist from Tehran interviewed by ICHRI asserts, “The price of electronic and digital goods has

168 Christopher de Bellaigue, “Sanctions Have Crippled Iran’s Economy, But They’re Not Working,” *New Republic*, November 12, 2012.

gone through the roof. . . . [M]any journalists are no longer able to [buy] personal computers. For example, an Apple laptop, which could previously be bought for 25 million rials, now costs more than 50 million.”¹⁶⁹ In another ICHRI interview, a 34-year-old information technology professional stated, “Iran’s negative rate of economic growth has resulted in the reduction of people’s purchasing power, and the decline in the value of our currency has resulted in the increase in the value of imports. For example, electronic goods, which used to be sold on the market with the value of \$1 dollar to 12,000 rials, are now sold at the value of \$1 dollar to 24,000 rials. The price of a Sony laptop that could previously be bought for 12 million rials has now doubled.”¹⁷⁰

The price of other consumer goods has similarly increased. A Tehran-based journalist interviewed by ICHRI noted that items such as basic toiletries “have become scarce and out of reach.”¹⁷¹ In another ICHRI interview, an economics reporter in Iran complained about the rise in the prices of clothing and shoes:

169 International Campaign for Human Rights in Iran Interview with a Tehran-based journalist on August 2, 2012. The journalist did not want his name to be used.

170 International Campaign for Human Rights in Iran telephone interview with a Tehran-based IT expert on July 28, 2012. The expert requested anonymity.

171 International Campaign for Human Rights in Iran interview with a Tehran-based journalist on August 2, 2012. The journalist asked that his name be withheld.

“Roughly three years ago, I bought a pair of shoes for my wedding for 2 million rials. Yesterday, I priced a virtually identical shoe. The salesman said it would cost at least 4.5 million rials. . . . It is unfair for us [ordinary people] to pay the price of the political squabbling between the two sides [Iran and the West].”¹⁷² The price of automobile spare parts and big-ticket items like automobiles and washers has also risen sharply. In an interview with the *BBC Persian Service* in October 2012, a taxi driver stated, “Setting aside the issue of eating, each gyration in the value of the dollar creates a correspondingly scary increase in the cost of spare parts. My car is my living. . . . If I am not able to maintain it, I won’t be able to buy bread.”¹⁷³ Meanwhile, Leila, a Tehran-based correspondent interviewed by ICHRI, notes the unprecedented rise in the price of a domestically manufactured car that she had pre-ordered: “I ordered a Persia [(name of the car)] from Iran-Khodro,” the nation’s largest automobile manufacturer. “But due to the sanctions and the scarcity of parts, not only did they delay delivering my car by three months, they also increased the price from 250 million rials to 360 million. Now we have no choice but to pay.”¹⁷⁴

172 International Campaign for Human Rights in Iran interview with a Tehran-based journalist on August 15, 2012. The reporter did not wish to divulge his name.


173 “The Unprecedented Rise in the Currency Rate: Listening to People’s Complaints,” *BBC Persian*, October 1, 2012.

174 International Campaign for Human Rights in Iran interview with a Tehran-

Iran's expulsion from SWIFT and other banking and financial sanctions are interfering with the transport of medicine and medical equipment into Iran.

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Iranians from the lower and middle echelons of the middle class, who do not own their homes, face an increasingly difficult struggle with the rise in the cost of rent and food, and the halving of their savings by inflation. According to the Statistical Center of Iran, residential rentals rose by some 60 percent in the second half of the Iranian year ending in March 20,



2012.¹⁷⁵ It is important to note that the statistics put out by the Iranian government are notorious for their misrepresentation of facts and are frequently criticized even by officials for presenting a rosy picture of the nation's social and economic indicators. In late August 2012, a housewife in Tehran told ICHRI in an interview that rent had risen by another 50 percent between March and August 2012.¹⁷⁶ In another ICHRI interview

based reporter, who wanted to be identified only by her first name, on September 2, 2012.

175 "Statistical Center: Residential Rentals In Iran Rose By 60 Percent In One Year," *Radiofarda*, September 13, 2012.

176 International Campaign for Human Rights in Iran interview with a 35-year-old middle-class housewife with a BA on August 26, 2012.

from Tehran, the owner of a small restaurant relayed that the rent for a modest 40-square-meter apartment had risen from 1.7 million rials per month (with a deposit of 60 million rials) three years ago to 2.55 million rials (with a 60-million-rial deposit) last year, to 5 million (with a 60-million deposit) this year.¹⁷⁷

At the same time, a large array of food items are either disappearing or being transformed into infrequently used luxury items. Lamenting the decline in her family's living standards, a 47-year-old housewife from Tehran told the BBC, "My husband is a physician, and his income is not bad. But . . . our family's consumption basket is becoming emptier by the day."¹⁷⁸ Rozhin, a 30-year-old homemaker, told the *Washington Post*, "Food has become like gold. . . . Now I can afford to buy meat only for my daughter."¹⁷⁹ Meanwhile, Nasrin, a 26-year-old from the largely middle-class city of Karaj, said in a *BBC Persian* interview, "I go out with my child. She sees fruits, and asks for them. But if I buy her fruit, I won't be able to cover my necessary expenses. Previously, we were able to afford one meal with meat or chicken per week. But now the situation is such that

177 International Campaign for Human Rights in Iran interview with a small restaurant owner in Tehran, who asked that his name be withheld, on August 17, 2012.

178 Ibid.

179 Najmeh Bozorgmehr, "In Iran, Isfahanis Shrug Off Risk of Attack," *Washington Post*, September 7, 2012.

we've had to give up meat."¹⁸⁰ Golnaz, who has worked as a government employee for the past 40 years in Arak, relayed in an ICHRI interview that she had stopped purchasing "unnecessary" goods, such as clothing, in order to be able to buy food. Even so, she finds chicken and meat "frighteningly expensive," and generally out of reach. Still, she considers herself more fortunate than some of her co-workers, who have had to "resort to eating plain pasta."¹⁸¹ At the same time, while the price of dairy products has risen inordinately in the course of last year, according to eyewitnesses in Iran interviewed by ICHRI, dairy producers, who are struggling to survive because they rely on imports for powdered milk and packaging, leave up to a third of their containers empty in order to economize.¹⁸²

Indeed, even state jobs no longer offer security. An IRGC official "admitted in an interview with the corps' own publication *Sobh-e Sadegh* that the government had been late in paying soldiers their wages."¹⁸³ According

180 "What Are the Iranian People Saying About Sanctions?," *BBC Persian*, July 3, 2012.

181 International Campaign for Human Rights in Iran interview with a government employee from Arak on September 27, 2012, who asked to be identified by her first name.

182 International Campaign for Human Rights in Iran interview with an entrepreneur in Iran, who requested that his name be withheld, on September 25, 2012.

183 Related by Thomas Erdbrink, "Already Plagued By Inflation, Iran Is Bracing For Worse," *New York Times*, July 1, 2012.

to the *Economist* magazine, “civil servants [and others on fixed salaries] have been reduced to moonlighting in menial jobs to make up for their shrinking buying power.”¹⁸⁴ In an interview with *BBC Persian*, Esfandiyyar from Tabriz remarked, “My income does not cover my expenses. I have therefore taken to working as a cabbie [as well]. These sanctions put greater pressure on the Iranian people, not the regime. It does not make a difference for the government whether there are sanctions or not. The US claims to be a proponent of human rights. How is it being a promoter of rights with all the pressures that are being imposed on the Iranian people?”¹⁸⁵

The decline in the living standard of middle-class Iranians has also exacerbated the plunge in the economic wherewithal of shopkeepers and merchants, who largely depend on this class for the purchase of their goods and services. In interviews with a reporter from the *Toronto Star* in January 2013, members of the grand bazaar in Isfahan noted that the substantial drop in discretionary spending has been devastating for the bazaar, as people were now refraining from buying such items as rugs, jewelry, and electronic goods. One jeweler told the *Star* reporter that his sales were two to three times smaller this year than the previous year, and that he would be compelled to close his shop if current

184 “Iran Sanctions: When Will It Ever End?” *Economist*, August 18, 2012.

185 “What Are the Iranian People Saying About Sanctions?” *BBC Persian*, July 3, 2012.

conditions prevailed.¹⁸⁶

Such sentiments apply to the bulk of the bazaari community throughout the country, particularly those with limited or no contact to the regime and thus without access to the most favorable subsidized rate of currency exchange. In a phone interview with ICHRI in the summer of 2012, a shop keeper in Tehran observed that his annual sales had dropped to a quarter of what they had been a year earlier.¹⁸⁷ In October 2012, one manufacturer who had just closed his factory captured the sentiments of the bazaari community regarding the fluctuations in the Iranian currency when he told the BBC, “We don’t even know how much we should sell the goods we have. If we want to sell them at the price of the free market, no one could afford to buy them.”¹⁸⁸

Shortly before these interviews, Tehran’s bazaar merchants, who represent a major force in the economy, staged a strike in September 2012. It ended only after security forces threatened to arrest merchant union leaders and revoke members’ licenses.¹⁸⁹ The

186 As reported in translation in “Sanctions Have Destroyed Isfahan’s Bazaar,” *Radiofarda*, January 29, 2013.

187 International Campaign for Human Rights in Iran interview with a Tehran shopkeeper, who requested that his name be withheld, on July 24, 2012.

188 Mark Gregory, “Iran Rial: Mahmoud Ahmadinejad Blames Slide on ‘Enemies,’” BBC, October 2, 2012.

189 Farnaz Fasshi and Jay Solomon, “In Iran’s Factories and Shops, Tighter Sanctions Exact Toll,” *Wall Street Journal*, January 4, 2013.

The government's failure to allocate a significant amount of hard currency at the lowest rate to the Ministry of Health contributed greatly to the health crisis in Iran

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bazaaris were enraged with the government's inaction regarding the decline in the value of the rial. Giving voice to their frustration, a prominent bazaar merchant with offices in Iran and Dubai made the following statement to the *Wall Street Journal* in January 2013: "The merchants and business people are caught between the clerics' fight with the West. . . . [W]e won't be able to survive."¹⁹⁰



Entrepreneurs and small business owners operating outside the bazaar appear to be similarly dejected. Speaking to ICHRI in September 2012, a hitherto successful importer of foodstuffs stated, "We can no longer use proper banking channels for the transfer of money, and going to sarafis," traditional money dealers who transfer money informally through contacts throughout the world, "has increased our costs. At any rate, our last experience with proper banking channels also proved to be highly disappointing. When we bought our goods on credit, the price of the dollar to the rial was 1 to 18,000. When we were ready to pay, the ratio

190 Ibid.

had increased to 22,000. Finally, the government's arbitrary decision to ban the import of 2,000 items into the country on the purported objective of promoting domestic producers proved to be devastating for our business, as 25-30 percent of our product line, on which we had spent an inordinate amount of advertising money, was suddenly wiped out."¹⁹¹

Similarly, an importer of petroleum and refining equipment interviewed by ICHRI, who asked to be identified only by his first name, Mohammad, noted that the plunge in the value of the rial and late payment on the part of the government had brought his once prosperous business to the verge of bankruptcy. He had placed a large number of orders to European, mainly Dutch, companies last year, when the price of the euro was 1 to 150,000 rials. Due to the sanctions, the products arrived 13 months late, by which time the price of each euro had risen to 340,000 rials. In spite of these changes, the government-owned Iranian oil company for which Mohammad was serving as a contractor refused to pay him on the basis of the new price of the euro, forcing him to cover the difference. Moreover, complaining about lack of funds, the oil company also did not pay him in a timely manner after the delivery of the goods. After having to lay off more than 60 percent of his employees, Mohammad stated in the interview, "The impact of the sanctions has

191 International Campaign for Human Rights in Iran interview on September 12, 2012, with an Iranian businesswoman, who asked that her name not be divulged.

increased hugely in the course of last year. . . . [The] government as well as those connected to it benefit from the current situation, while we the people suffer. The government covers its budgetary shortfall by selling petro-dollars at higher and higher prices, and those with connections get access to subsidized exchange rates, and make a killing by selling their imports at free market prices.”¹⁹²

Ehssan, a restaurant owner in an upscale neighborhood in Tehran, noted that after the imposition of sanctions and increase in the price of meat and poultry, the demand for his more expensive (and profitable) meat dishes plunged precipitously. In an interview with ICHRI, he said, “It was as though people had turned vegetarian overnight.”¹⁹³

Another hard-hit group, composed overwhelmingly of the offspring of the middle class, is the Iranian student population studying abroad. According to the *Wall Street Journal*, “Some 90,000 Iranian college students abroad are in limbo after the government cut the subsidized exchange rate it allowed for students’ tuition abroad. Many say they are abandoning their studies in the face of the rial devaluation. Yet they

192 International Campaign for Human Rights in Iran interview with an Iranian businessman on September 3, 2012.

193 International Campaign for Human Rights in Iran interview with an Iranian businessman, who has asked that his name not be revealed, on September 20, 2012.

Due to high expenses, a growing proportion of Iranians suffering from terminal and incurable diseases are choosing to stop treatment.

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have few prospects back home.”¹⁹⁴ Leila, a student in Tehran, told the BBC, “A year ago, I decided to continue my studies at a European university. I was planning to leave Iran in February. But I am faced with a huge leap in currency prices. It . . . made it impossible for me to continue my studies outside.”¹⁹⁵



Students inside the country are encountering

difficulties as well. Beginning with the start of the Iranian school year in 2012, the Islamic Azad University, which enrolls more than half of all Iranian college students, raised its tuition by 15 percent,¹⁹⁶ and further tuition increases are likely. Iranians are not able to pay for their subscriptions to scholarly journals published in the West, or to join Western-based trade associations, because Western banks refuse to transfer money into and out of Iran, and credit cards issued to Iranians

194 Farnaz Fassihi and Jay Solomon, “In Iran’s Factories and Shops, Tighter Sanctions Exact Toll,” *Wall Street Journal*, January 4, 2013.

195 Mark Gregory, “Iran Rial: Mahmoud Ahmadinejad Blames Slide on ‘Enemies,’” BBC, October 2, 2012.

196 *Maghreb* Newspaper, September 9, 2012.

outside Iran cannot be used if the address provided to the journal or association is inside Iran.¹⁹⁷ Largely due to such restrictions, Iranian universities are being cut off from networks that gather, classify, and offer access to a wide array of scholarly journals and articles over the Internet.¹⁹⁸

It has also become challenging for lower-middle-class primary and secondary students in Iran to pursue their education, as the devaluation of the Iranian currency has brought about an increase of roughly 100 percent in the price of notebooks and other reading and writing materials. Indeed, due to persistent rises in the cost of paper and publishing, along with the need to devote one's income to the purchase of absolute necessities, the purchase of books, journals, and magazines is becoming out of the reach for the majority of Iranians.¹⁹⁹

197 International Campaign for Human Rights in Iran interview with a 33-year-old Iranian engineer on September 19, 2012.

198 "Sanctions Make It More Difficult for Students to Access Scientific Sites," *BBC Persian TV*, January 25, 2013, http://www.bbc.co.uk/persian/world/2013/01/130125_i93_elzvir.shtml.

199 International Campaign for Human Rights in Iran interview with an Iranian bookstore owner, who does not want to divulge his identity, on September 30, 2012.

Medicine and Healthcare





Crucially, the combination of sanctions and mismanagement has also reduced the availability and quality of medication and medical devices, and increased the cost of receiving treatment, especially for life-threatening and incurable ailments. As a result, the quality and accessibility of healthcare has plummeted.

According to a letter signed by the presidents of all of Iran's medical universities addressed to Behrooz Moradi, Ahmadinejad's deputy for planning, the rate of inflation in Iran's medical sector was running at 350 percent in late 2012.²⁰⁰ At roughly the same time, the head of the

200 "Medical School Chancellors Write Letter of Protest to Vice President:

The Iranian people have become unable to pursue their basic economic and social rights to employment, food, shelter, healthcare, and employment.

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Majlis' Health Committee, Hossein Ali Shahriari, referred in a *Radiofarda* report to the "catastrophic" conditions in the pharmaceuticals market, drawing his colleagues' attention to reports of exorbitant prices, the dearth or disappearance of a large number of medications, and the long and useless lines in pharmacies and the black market.²⁰¹

Several factors account for this state of affairs. According to an informed pharmacist in Iran, roughly 97 percent of the nation's requisite annual medication is produced

Cost of finished goods for medicine and medical consumables has risen by 350%," Fararu Website, <http://fararu.com/fa/news/131917/%D9%82%DB%8C%D9%85%D8%AA-%D8%AA%D9%85%D8%A7%D9%85-%D8%B4%D8%AF%D9%87-%D8%AF%D8%A7%D8%B1%D9%88-%D9%88-%D9%85%D9%84%D8%B2%D9%88%D9%85%D8%A7%D8%AA-%D9%85%D8%B5%D8%B1%D9%81%DB%8C-%D9%BE%D8%B2%D8%B4%DA%A9%DB%8C-%D8%AA%D8%A7-350-%D8%AF%D8%B1%D8%B5%D8%AF-%D8%A7%D9%81%D8%B2%D8%A7%DB%8C%D8%B4-%DB%8C%D8%A7%D9%81%D8%AA%D9%87-%D8%A7%D8%B3%D8%AA>.

201 Fahimeh Kheyr Heydari, "The Catastrophe of Medicine In Iran," *Radiofarda*, December 1, 2012.

internally by Iranian pharmaceutical companies.²⁰² However, Iranian pharmaceutical companies are dependent on imported ingredients for 80 percent of the raw materials they utilize to manufacture their products.²⁰³ While Iranian pharmaceutical companies are able to produce “the generic versions of brand-named pharmaceuticals,” they are unable to manufacture “the most advanced drugs that have come to the market over the past 10 to 15 years that deal with a variety of serious illnesses, simply because their generic versions are not yet available.”²⁰⁴ The drugs that Iran imports, therefore, are used to treat life-threatening and incurable diseases, such as a variety of cancers, AIDS, hemophilia, thalassaemia, multiple sclerosis, and heart and kidney disease. According to the statistics put out by the Iranian Ministry of Health, there are presently six million patients in Iran who are afflicted with such diseases.²⁰⁵ Moreover, Iran is dependent on imports for virtually the entire stock of its medical equipment and machinery.

202 International Campaign for Human Rights in Iran interview with an Iranian pharmacist on October 1, 2012.

203 “90 Drugs Cannot Be Found On the Iranian Market: The Inhumane Impact of Sanctions and the Exchange Rate On Iran’s Pharmaceutical Market,” *Tejarat News*, October 13, 2012.

204 Muhammad Sahimi and Eskandar Sadeghi-Boroujerdi, “The Unfolding Human Catastrophe In Iran,” *Aljazeera*, October 28, 2012.

205 “Challenges of Importing Medicine Into Iran,” *VOA Persian*, December 17, 2012.

US and EU officials say the sanctions are not meant to harm the general population. The *Wall Street Journal* cites David Cohen, US Undersecretary of Treasury, as saying, “Sanctions do not cover the importation of food, medicine, or medical devices. . . . This has been a long-standing policy of the US.” In the same article, a spokesperson for Catherine Ashton, the EU Foreign Affairs Commissioner, is quoted as saying, “Our sanctions are targeted with relevant exemptions to minimize, as much as possible, unintended consequences on the population.”²⁰⁶ However, with such an overdependence on imports, sanctions have played a critical role in the increased unavailability of medicine, as well as the rise in the prices of medication and healthcare in Iran, with direct consequences for the Iranian population.

Indeed, officials at NGOs and Western pharmaceutical companies, ranging from UN Secretary General Ban Ki-moon to a spokesperson for Roche, have asserted that Iran’s expulsion from SWIFT plus a plethora of other banking and financial sanctions are interfering with the transport of medicine and medical equipment into Iran. According to Ban Ki-moon, as quoted in *Al-Monitor*, “there is a shortage of drugs used to treat cancer, heart and respiratory conditions and multiple sclerosis, among other conditions because foreign drug companies can no longer figure out how to get paid

206 Benoit Faucon, “In Iran, Private Sector Feels Squeeze of Sanctions,” *Wall Street Journal*, August 2, 2012.

through the international financial system.”²⁰⁷ Valiollah Seif, managing director of a private bank in Iran that has not yet been sanctioned by the US, stated in another *Al-Monitor* article, “there exists no banking channel for payments to pharmaceutical suppliers in Europe and America. The most vital drugs for cancer and other severe diseases are now being denied to the Iranian population by European manufacturers due to the lack of appropriate banking channels.”²⁰⁸

Adding credence to these claims, research by the *BBC Persian Service* indicates that the level of exports to Iran by European pharmaceutical companies had declined by 30 percent in the five months leading to January 2013. Moreover, the pharmaceutical giant Roche has told the BBC that the opening of letters of credit (LCs) or even cash payments have become exceedingly difficult, resulting in long delays in transporting medicine to Iran.²⁰⁹

While sanctions have impeded Iran’s ability to access critical medical supplies, the role of internal factors in contributing to the unfolding health crisis in Iran should not be overlooked. According to the Health Commission of the Iranian Majlis, the subsidy rationalization

207 See Barbara Slavin, “US Looks to Renew Iran Talks After the November Elections,” *Al-Monitor*, October 8, 2012.

208 See Barbara Slavin, “Iranian Charity and Banker Say US Sanctions Hurting Patients,” *Al-Monitor*, August 15, 2012.

209 Fariba Sahraiee, “Sanctions and Medication, An Incurable Pain,” *BBC Persian*, January 19, 2013.

program, the government's failure to allocate to the healthcare sector its share of the savings from the subsidies reform program, and the government's failure to allocate a significant amount of hard currency at the lowest subsidized rate to the Ministry of Health, have all contributed greatly to the health crisis in Iran.²¹⁰ As with other industries, the pharmaceutical sector in Iran was not compensated for the rise in energy and utilities costs that resulted from the rationalization of subsidies. Moreover, the pharmaceutical industry, like other sectors, is having great difficulty receiving loans from Iranian banks.²¹¹

The most egregious internal factor contributing to the dearth of medicine and medical supplies was summed up by the former minister of health in the Ahmadinejad administration, Marzieh Vahid Dastjerdi, who publicly said before she was abruptly relieved of her post, "Our problem is transfer of money out of the country and also internally the problem of funds allocation from the central bank. We circumvent the external problems through unconventional means (establishing companies in third countries such as Turkey, using their banking system to transfer funds, having goods delivered to Turkey, re-exporting to Iran, and passing the additional costs to Iranian customers and patients). But we cannot

210 Fahimeh Khezr Heydari, "The Catastrophe of Medicine in Iran," *Radiofarda*, December 1, 2012.

211 "The Government's 750 Trillion Rial Debt To Medicine Distribution Companies," *Radiofarda*, September 23, 2012.

circumvent the issue of fund allocation from the central bank.”²¹² Dastjerdi went on to say that the central bank had allocated only a third of the \$2.5 billion needed by Iranian importers of medicine for the Iranian year beginning on March 21, 2012, and that this money had only been released after September.²¹³ Thereafter, Hassan Tamini, Deputy Head of the Health Commission in the Majlis, stated that “due to the reduction of the primary [imported] ingredients of medicine, domestic pharmaceutical companies have encountered difficulties manufacturing their products. . . . It is unclear why the central bank remains uninterested in resolving this issue.”²¹⁴ At the same time, the *Arman* newspaper revealed that the government had also not allocated \$650 million for the import of essential medical equipment.²¹⁵ To clarify that these neglects were not due to lack of resources, Hossein Ali Shahriari, Head of the Majlis Health Committee, and Ahmad Tavakoli, former Head of the Research Unit of the Majlis, revealed that the subsidized funds that should have been allocated to the Ministry of Health had instead been spent on the import of shovel handles, saddles, and

212 “Challenges of Importing Medicine Into Iran,” *VOA Persian*, December 17, 2012.

213 *Ibid.*

214 “The Government’s \$2 Billion Debt For Importing Medicine,” *Radiofarda*, October 29, 2012.

215 *Ibid.*

luxury cars, including Porsches and Maseratis.²¹⁶

Also undermining the Iranian people's right to healthcare is the response of Iranian insurance companies to the health crisis. Because of the increase in the price of medication and medical equipment, all insurance companies, public and private, have passed on an increasing share of the cost of treatment and medicine to the patients themselves.²¹⁷ Estimates and figures vary, but according to the Ministry of Health, patients now have to pay between 50 and 70 percent of the cost of treatment.²¹⁸ The representative of Lankroud to the Majlis, meanwhile, has asserted that 80 percent of healthcare expenses have fallen on the shoulders of patients.²¹⁹ Regardless of which figure is correct, all of the above figures represent a severe health crisis for the Iranian population. In August 2011, before the problems confronting the Iranian healthcare industry had reached their present state, Massoud Javanbakht, a member of the Physician's Association of Iran, asserted that

216 See "Tenfold Increase In Bank's Non-Performing Loans, Sources of Emulation Worry About Start of Social Revolts," *Radiofarda*, December 30, 2012. See also "Rumors About Sacking of the Health Minister, Revelations About Allocation of Medicine Funds To Saddles," *Radiofarda*, December 15, 2012.

217 "Sanctions That Transform Medicine Into Gold," *BBC Persian*, July 27, 2012.

218 "Challenges of Importing Medicine Into Iran," *VOA Persian*, December 17, 2012.

219 Fahimeh Kheyr Heydari, "The Catastrophe of Medicine in Iran," *Radiofarda*, December 1, 2012.

only 25 percent of Iran's 75 million population were capable of paying the heavy expenses of hospitalization.²²⁰

Indeed, due to high expenses, a growing proportion of Iranians suffering from terminal and incurable diseases are choosing to stop treatment. In December 2012, Hossein Ali Shahriari, the chair of the Majlis' Health Committee, claimed that the cost of one phase of cancer treatment had risen from 500-600 million rials to 2 billion rials in the course of one year—"telling [in effect] the majority of these patients to go and die."²²¹ A cancer patient confided to a *BBC Persian* reporter, "I would rather die, and not impose so much burden on my family."²²²



Employment is increasingly difficult to sustain, and access to basic necessities—including food and medicine—exceedingly challenging.

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220 "Head of Iran's Physician's Order: Inflation In the Health Sector Is More Than 40 Percent," *Radiofarda*, July 11, 2012.

221 "Challenges of Importing Medicine Into Iran," *VOA Persian*, December 17, 2012.

222 "Sanctions That Transform Medicine Into Gold," *BBC Persian*, July 27, 2012.



Conclusion

The purpose of this study is to alert the international community to the mounting costs inflicted on the Iranian population by the current sanctions regime. To be sure, as the study has shown, regime policies have contributed significantly to the economic hardships of the Iranian people. Indeed, during the bulk of the existence of the Islamic Republic, poor government policies and inefficient and corrupt institutions far outweighed the impact of sanctions in impeding economic growth, producing a dysfunctional and vulnerable economy, and undermining the economic well-being of Iranians. Moreover, the Iranian government's continued economic mismanagement, which reflects either a willful exacerbation of the sanctions' effects for political gain or the result of



managerial incompetence, has magnified the impact of the 2012 sanctions. Yet the fact remains that sanctions have now combined with regime policies to cause a severe deterioration in the living conditions of Iranians. Increasingly, the Iranian people have become unable to pursue their basic economic and social rights to employment, food, shelter, healthcare, and employment.

Inflicting harm on the citizens of Iran was not the stated aim of the international community; rather, sanctions were to target the government of Iran for its noncompliance with UNSC resolutions regarding its nuclear program. Yet as this study has argued, Iranians from almost all walks of life are facing a growing crisis: gainful employment is becoming increasingly difficult to sustain, and access to the basic necessities of life—including food and medicine—is becoming exceedingly challenging. For some, it is now impossible. The Iranian people bear no responsibility for the policies enacted by the Iranian government. The International Campaign for Human Rights in Iran calls on all parties to re-assess their policies in light of the economic harm being imposed on the Iranian people. The government of Iran should end the needless policies that only worsen the crisis in access to medicines, foods, and other critical imports, and the international community must recognize the growing humanitarian crisis in Iran and recalibrate the current sanction regime in order to impose more effectively targeted sanctions that penalize the government of Iran, and not its people.

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