Iran’s Oil as a Blessing and a Curse*

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In mid-2008—the 100th anniversary of commercial oil discovery in Iran—the country’s petroleum deposits, the price of its crude, its foreign exchange reserves, its annual oil export receipts, and its annual trade surplus all set historic records.¹ Iran also possessed the world’s second largest reservoir of natural gas. Such an immense fortune is understandably envied by the oilless developing countries that face the dual problems of insufficient funds

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for their economic development and rising energy costs. The fortune is also coveted by energy-dependent developed nations that have to pay rising costs for their import needs and face payments deficits. This review intends to argue, however, that natural energy wealth is not always an unmitigated bliss, and that there are costly downsides to such envied endowments.

**Iran’s Magnitude of Energy Bounty**

With more than a century of oil discovery and extraction in its history, Iran is the oldest oil-exporting country in the Persian Gulf region. And with continued discoveries of new oil fields, its current reserves have always exceeded domestic consumption and exports. As a founding member of the Organization of Petroleum Exporting Countries (OPEC), Iran has also enhanced its intra-group rank from the fourth largest producer in 1960 to the second largest producer in 2008. Iran’s current proven oil deposits in situ are estimated to be 520 billion barrels, or about 11.6 percent of the world’s known petroleum reserves. At the relatively conservative 24 to 27 percent recovery rate, the country’s estimated available reserves are at 138 billion barrels of crude—the world’s second largest behind Saudi Arabia. The extraordinary advantage of oil for the Iranian economy—apart from its deposit volume and rising price—is that its extraction cost is low and its sale proceeds contain huge profits. Given the average extraction cost of Iran’s various qualities of crude at the well-head to be about $4.35, the $73 per barrel average price of Iranian oil in 2007 would include some $68.65 of pure profit or “value-added.”

A similar—and perhaps rosier—picture relates to natural gas. In addition to its vast oil deposits, Iran is also endowed with mammoth reserves of gas. The volume of free and associated natural gas is estimated at about 50.1 trillion cubic meters (tcm) of which 59 percent, or 30 tcm, is considered recoverable—constituting 15.5 percent of the world’s reserves and the second largest source after Russia. Furthermore, energy experts believe that Iran still has vast deposits of gas to be discovered and that more than 60 percent of the proven natural gas reserves have not yet been developed. With such immense deposits of oil and gas, Iran is now truly a global energy superpower. Several

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2 This compares highly favorably with World Trade Organization’s estimated average added value in manufacturing to be about five percent. See www.donya-e-eqtesad.com (9 April 2008).
promising new on-shore and off-shore oil fields, considerable coal deposits, and an ambitious nuclear energy program enhance this status even further.

**Sustainability Prospects**

Threatening this superpower position, however, are a number of formidable, yet surmountable challenges. First, many of Iran’s oil fields are old and suffering from a depletion rate of five to 10 percent a year because of reservoir damage during the 1980-1988 Iran–Iraq war, poor maintenance, and gradual exhaustion.4 Second, due to the highly subsidized domestic energy prices, Iran has one of the world’s highest fuel consumption rates. Because of the inexpensive energy prices inside Iran—often below delivered costs—per capita energy use in Iran is estimated to be 15 times that of Japan, 10 times that of the European Union, and eight times that of the United States.5 It is also rising at nearly 10 percent a year for gasoline and 6 percent for all fuel products—twice the world’s average, and nearly four times the country’s rate of population growth. Third, the minimum of $1.8 to $2 billion of new investments a year which are needed to maintain production capacity and make up for reservoir decline, in addition to the $9 to $10 billion a year required to increase production capacity, have been held-back by several factors. These include insufficient yearly investment estimated at no more than $3 billion,6 the reluctance of many major international oil companies to invest in Iran due to the unattractiveness of its “buy-back” contract requirements, U.S. sanctions, and various domestic political impediments.

Fourth, due to increased demand for natural gas from households, factories and automobiles, there have been insufficient supplies for re-injection into aging oil fields to maintain well pressure or supply contracted gas exports. Fifth, gas-guzzling old cars on the roads, inefficient household appliances wasting over 50 percent of thermal energy use, and an estimated 65 percent

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3See “Iran Oil and Gas,” *Middle East Economic Digest*, 45:5 (5 February 2001).
6See Robin Pagnamenta, “Iran supply problems add to fears of oil hitting $200 a barrel,” *Times Online* (7 May 2008); http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article3882663.ece
power transmission losses tend to nullify yearly additions to capacity. Sixth, and finally, some 15 percent of available fuel products are smuggled out to neighboring countries due to their higher prices and more rational foreign exchange rates.

For all these reasons, a recent crop of alarmist forecasts warn that Iran will cease to be an oil exporter by 2012, 2015, or 2020. The nub of these arguments is that, with extravagant energy subsidies, demand for fuel products has been artificially boosted while the Islamic republic’s defiant stand on uranium enrichment—and corresponding UN and U.S. sanctions—have reduced the government’s ability to obtain up-to-date technology (including enhanced recovery techniques) in order to increase supply.

Questioning the validity and relevance of these pessimistic projections, however, is the fact that in recent years, for each barrel of crude oil extracted, 1.32 barrels of oil have been added to Iran’s total reserves through new discoveries or improved recovery methods. Iran’s average daily crude production in mid-2008 stood at 4.1 million barrels, of which nearly 1.5 mb/d (million barrels per day) was exported. Iran’s Fourth Economic Development plan (2005–2010)—setting targets for public expenditure and investment—calls for an increase of oil production capacity to 5.6 mb/d, and a rise further to 7 mb/d by 2020. Although both goals appear elusive at this time for a variety of financial, economic, and diplomatic reasons, the current average output capacity of 4.3 mb/d could be raised toward the Fourth Plan goal under a proper and rational energy policy, financed by domestic funds. In other words, under a reasonably efficient output maintenance program, and through the pursuit of a rational energy policy, Iran would be assured of a plentiful and fairly cheap supply of oil for decades to come. Even without substantial new oil discoveries, Iran’s deposits at the current rate of consumption are projected to last for another 70 years.

8Statement by the Chairman of the National Iranian Oil Company, reported in Hamshahrionline (12 March 2003) in http://www.hamshahrinet; see also statement by the latter’s Director of Oil Exploration in Hamshahrionline (22 September 2007).
9Statement by the Minister of Petroleum, reported in Jomhour Eslami (28 April 2007) in http://jomhourieslami.com/1386
A similar scenario looks likely to hold for natural gas. In early 2008, Iran consumed a record 470 million cubic meters of gas a day—all for domestic use. A small 3.5 bcm (billion cubic meters) of gas imported from Turkmenistan for use in the Northern provinces nearly equaled Iran’s own 4 bcm gas exports to Turkey.\(^\text{10}\) Natural gas provides 60 percent of the country’s current use, meeting the needs of 630 cities and nearly 75 percent of the population. Power stations, households and commercial enterprises, and the industrial sector receive roughly similar shares of the total (27–34 percent each), and the balance of 7.5 percent constitutes export and gas injection into the oil fields. It is expected that rising prices and more efficient use will reduce the annual rate of consumption growth from the current 12 percent to about 4 percent in the next 15 years. In 2007, some 8.4 bcm was also still flared due to technical or financial difficulties of collecting them. In the Islamic republic’s “20 Year Perspective” approved by the Majlis (national parliament) and the Supreme Leader, Iran is projected to become the world’s third largest natural gas producer by 2024—based on current proven reserves and the potential for finding new fields. Annual production is to rise from 130 bcm in 2007 to 475 bcm by then. According to energy expert Narsi Ghorban, taking into consideration all the potential gas use, Iran could still be a major gas consumer and exporter for most of the 21st century—even with no new gas fields to be discovered.\(^\text{11}\) By another estimate, Iran can enjoy 300 years of gas availability under efficient exploitation.\(^\text{12}\)

**Oil’s Major Blessings**

Oil wealth has not only been the mainstay of the Iranian economy, but also the principal source of its economic, technological, and socio-cultural development. This unrequited bounty, making the country the world’s fourth largest crude producer and OPEC’s second largest petroleum exporter, has enabled the Islamic republic to wield enormous geopolitical, cultural and economic clout. While the “oil industry,” as such, has by no means the largest

\(^\text{10}\) Statement by the managing director of Iranian National Gas Company, quoted in “Economics of Gas,” *Iran Economics* (May 2008).


share of national product, it is the largest source of the government budget and the main engine of Iran’s economic growth. Oil export receipts provide some 59 percent of the 2008–2009 budget revenue directly, and nearly 70 percent indirectly through taxes on imports and other activities financed by oil money. Furthermore, foreign exchange earnings from oil are vital to the maintenance of all other economic sectors. Iran’s non-energy exports can at best finance only four months of required imports. Agriculture depends on oil-financed imports not only for machinery and “luxury” goods (foreign cars, red meat, and exotic fruits), but also for such staples as wheat, barley, corn, sugar, rice, and potatoes. The national food supply is reportedly dependent on imports—depending on annual rainfall and other conditions—for an estimated 10 to 25 percent of domestic aggregate demand. Iran’s industry needs imports of raw materials and semi-processed goods—estimated to be anywhere from 25 to 60 percent of its inputs. And the services sector perennially shows a negative trade balance.

The windfalls, breaking a hundred-year record—and rising five times between 1999 and 2007 from $16 billion to more than $79 billion—have given the Islamic regime a unique role in deciding the Middle East’s security, stability, and welfare. Also, Iran has adopted an intransigent (boasted as “independent”) policy vis-à-vis the West in general and Washington and Jerusalem in particular. In addition to helping the beleaguered Ahmadinejad’s government produce a helpful GDP growth, fight spiraling inflation, and fill various economic potholes, the oil bounty has also been instrumental in strengthening the Islamic republic’s global political position. The Tehran government has persistently explained and defended its growing presence and involvements in Iraq, Afghanistan, Lebanon, and the Gaza Strip as constructive, morally justified, and humanitarian—refuting the charges of aggressions, military adventurism, and political offenses as reported in the Western press. However, it is obvious that none of these engagements

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13After declaring Iran self-sufficient in wheat production and even readiness for exports in 2006, the government has recently issued a permit for the importation of 2 million tons of wheat in 2008 along with another ton of barley and unspecified quantities of meat, cooking oil, and fruits. See www.jeslami.com/1387 (16 April 2008).

would have taken place if the Islamic republic lacked sufficient financial means. Equally impossible would have been Iran’s ability to further its nuclear power ambitions—for whatever purpose the development may be.

Another manifestation of Tehran’s so-called “independent” foreign policy position, backed by the oil fortune, has been its ability to adopt a clearly hardening position vis-à-vis the European mediators and successfully mitigate the impact of UN and U.S. sanctions. Claiming that the Islamic republic was engaged in enriching uranium and producing plutonium in order to make nuclear weapons, the UN Security Council, under Washington’s leadership, has imposed three rounds of resolutions against Iran between 2006 and 2008—Resolution 1727, Resolution 1747, and Resolution 1803—all targeting the country’s most sensitive nuclear activities.¹⁵ The toughest measures in these resolutions include a travel ban on certain Iranian individuals along with the freezing of assets linked to nuclear proliferation, restrictions on the trade of dual-use items involved in weapons development, an embargo on Iranian arms exports, inspections of suspicious and prohibited cargo, and restricting training of Iranian nationals in nuclear activities.

The Islamic regime, in turn, has insisted that its nuclear program is for peaceful generation of energy, within its rights granted by the Nonproliferation Treaty, and in accordance with Islamic law that prohibits nuclear armament. Tehran’s decision to continue its uranium enrichment program, and President Ahmadinejad’s boast about tripling the number of nuclear centrifuges,¹⁶ can be traced almost directly to the oil bounty.¹⁷ If Iran lacked the oil money and a lucrative market prospect, it could not relay on the tacit but continued support of two of the UN Security Council’s veto-powered members—Russia and China. Beijing’s growing energy needs and oil-financed exports to Iran, Moscow’s actual and potential ties to the Islamic republic’s arms purchases and ambitious nuclear energy program, and the European Union’s increasing interest in Iran’s oil (and

¹⁵For a glance at the body of these resolutions, see “UN Adds Third Layer to Iran Sanctions,” The Washington Post (4 March 2008) http://www.washingtonpost.com/wp-dyn/content/article/2008/03/03/AR2008030302816.html
especially gas reserves) all collectively combined to undermine the prospects for harder-hitting resolutions. The country’s expanded nuclear program (and the prospects of additional nuclear reactors besides the current Russian-built Bushehr plant) are all based on oil-financed purchases from abroad. As a cogent editorial has pointed out, sanctions so far imposed on the Tehran government have lacked real economic bite because “all of the key players—except the United States—have strong economic reasons not to put the squeeze on Iran.”

Supremely confident of the world’s needs for Iranian oil and gas, the Islamic republic’s high officials have scoffed at the UN resolutions and belittled a bag of sanctions unilaterally imposed by Washington on Iran’s banking and financial network. Tehran has taken a defiant position toward all the UN resolutions, calling them “legally defective and politically coercive.” This unfounded confidence has led President Ahmadinejad and his first deputy to call UN mandates a worthless piece of paper, and the Petroleum Minister termed sanctions as an “old and worn out tool that belongs to the decades of [the] 1950s and 1960s.” Citing the presence of 500 companies from 30 countries at Iran’s 13th oil, gas, and petrochemical exhibition on 20 April 2008, the minister expressed confidence that the country can withstand current sanctions. The Deputy Oil Minister, confirming that all the world’s major commercial banks have officially restricted their transactions with Iran, indicated that these banks are all professionally astute enough to know how to continue business “indirectly.” Reports also show that banks in the Persian Gulf region, China, and other parts of Asia have continued their normal transactions, and even filled the gaps left by the reluctance of Western banks.

Curiously enough, despite repeated and vigorous denials by Iranian officials regarding the sanctions’ effectiveness, Iran’s Minister of Foreign Affairs, in a recent 20-page letter to the UN Secretary General, reserved the country’s “right to resort to legal action to seek redress” for “all the damages they have

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inflicted.”23 There is no doubt, however, that the restrictive measures so far imposed by the UN—and particularly those imposed by the United States—on Iran24 have substantially raised foreign trade’s transaction costs, restricted access to overseas finance, and disrupted other commercial operations (e.g., merchant marine).25 Even the January 2008 report by the U.S. Governmental Accountability Office, indicating that Washington’s sanctions against Iran have been ineffective since the county has been able to attract $20 billion of foreign investment in its energy sector since 2003,26 refers only to the (dubious) investment figures and does not address the facts that sanctions have had a visibly negative effect on the Iranian economy.27 Yet, there is no doubt that rising oil prices have insulated the economy from various sanctions to a large extent.28

The Oil Curse

Off setting the manifold blessings of the oil wealth is an inherent curse that manifests itself in various economic, political, and socio-cultural arenas. Iran’s political economy is the first major casualty. The oil windfall directly and immediately increases monetary resources in the government’s hands. And in essentially non-democratic regimes like the Islamic republic, more money leads directly to greater state power. With larger resources at the government’s disposal, the size of the public sector automatically increases, and the free-market private sector is correspondingly reduced. Simultaneously, as the necessity of exacting funds from the public in the form of taxes and levies correspondingly diminishes, the state’s discretionary and often arbitrary power increases. Thus, any trend toward a participatory democracy is undermined.

25The head of an Iranian shipping line reports that due to foreign parties’ refusal to carry cargo on Iranian flag ships, he has decided to remove the flag and sail under a “free” flag. http://emruz.biz (24 April 2008). See also estimates by an influential Majlis deputy in www.sarmayeh.net (18 May 2008).
The sheer volume and sudden explosion of unrequited income also creates a thorny allocation problem. A misplaced conviction that the shortage of capital is the main cause of underdevelopment, unemployment, poverty, and other age-old socioeconomic afflictions pushes state planners to follow an expeditious and maximalist approach to spending. Political pressures to spend the manna as fast as possible in order to eradicate scourges of poverty, disease, and deprivation, in turn, results in several unintended yet harmful consequences. This approach inevitably ignores rational cost-benefit analyses of development projects and invariably leads to a good deal of waste, fraud, and corruption.29

The Ahmadinejad administration’s performance in the last three years vividly attests to the latest manifestation of this phenomenon. From 2005 to 2008, the average annual price of Iranian crude rose from $50.7 per barrel to $92, and within three years, Iran earned $194 billion from exports of oil and another $26 billion from foreign sales of oil products—a combined $220 billion, equal to 16 years of oil receipts from 1988 to 2004. This also meant earning the entire 60-months projection of oil receipts in the Fourth Plan (2005–2010) in only 17 months. By some economists’ projection, each $10 increase in the daily price of crude oil, if properly used, should have increased real annual GDP by 1 percent.30 Yet, Iran’s GDP growth rate of 4.8 percent in 2004 rose to 5.7 percent in 2005, 6.3 percent in 2006, and 5.8 percent in 2007—much below that estimation of 9 percent and also short of the 8 percent targeted in the Fourth Development Plan.31

At the same time, the government’s annual current and development budgets steadily went up by more than 10 percent a year in real terms in tandem with the rising oil prices and mushrooming oil revenues.32 But due to a highly inefficient use of new income, the massive windfalls did not result in lowering double-digit unemployment or reduce poverty. In fact, plagued by an ineffective and

29For some examples in the Iranian case see www.jeslami.com/1387 (12 April 2008).
30Projection by a former head of Iran’s Planning and Budget Organization, as reported in Hamshahri Online (10 May 2008) in www.hamshahrionline.ir
32President Ahmadinejad declares with pride that during two and a half years of his administration some 99,000 new development projects were launched, and 49,000 of them came to fruition. BBC Monitoring International Reports (6 May 2008).
poorly administered tax system, and a non-transparent management of the new wealth, the oil benefits have not been equitably distributed among various social strata. Furthermore, poverty—which by different official 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, with one signifying totally uneven income distribution—in the three years deteriorated from 0.43 to 0.58. Meanwhile, despite a 50 percent increase in imports (and reportedly turning Iran from a net food exporter to a net food importer) during the period, the official consumer price index which sat at 10.8 percent in August 2005 (when Mr. Ahmadinejad took office) rose to 26 percent in June 2008—resulting in the highest rate in the region and fifth highest in the world.

In a tried-and-true fashion, the Iranian economy thus became afflicted with the so-called Dutch Disease, whereby a doubling of petrodollar-financed imports to $52.6 billion in 2007 (plus a reported $6 billion of smuggled items) failed to stem the inflationary tide. Also, by increasing the share of consumer goods in total annual imports from 12 percent to 20 percent in three years, the influx of petrodollars helped depress significant segments of domestic industry and agriculture. Instead of trying to cope with this combination of inflation and stagnation in an economically rational manner, however, the statist-oriented Ahmadinejad’s government took the opposite path. By openly repudiating the efficacy of what he called “decaying capitalist remedies,” the president aggravated the government’s already daunting task. On the one hand, due to his administration’s highly expansionary fiscal and monetary policies, total liquidity increased from 24.6 percent in 2003 to 41.5 percent a year in 2007 (i.e., Rls 650 trillion in 2005 to Rls 1,400 trillion in 2007). A steady double-digit addition to

33 www.payvand.com/news (3 April 2008); See a special report, and also a statement by a high planning official reported in www.sarmayeh.net (5 May and 28 May 2008).
34 www.hamshahrionline.ir (22 May 2008).
39 Speech before a clerical gathering in Hamadan, reported in http://emruz.biz (24 April 2008).
the annual current budgets, on-the-spot approval of ad hoc development projects during the cabinet’s nationwide tours, wholesale payments of government employees’ delayed salary and pension obligations, generous low-cost loans to young couples for marriage and housing needs, and repeated extractions from the Oil Stabilization Fund to pay for budget deficits all added fuel to the fire.

At the same time, the president bought into the simplistic and irrational belief that high interest rates are the main cause of soaring inflation. Ignoring every economist’s warnings, he personally ordered the reductions of banking interest rates from 24 percent to 16 percent first, and then to 12 percent. Annual inflation subsequently went up from 12 percent to over 19 percent. Despite this evidence, and the experts’ argument that interest payments on average accounted for only 5 percent of total cost of goods, the president stubbornly again ordered another cut to 10 percent for some economic sectors in 2008. The unintended consequence of lowering interest rates below inflation rates was to encourage rent-seeking transactions and the diversion of liquidity from the formal to the informal money market in the bazaar, fetching staggering rates of up to 56 percent!40 “Not surprisingly, the Central Bank’s 15 percent per year long-term bonds (called participation papers” to conform to Islam’s edict against interest) were all subsequently returned for cash as soon as the inflation rate surpassed the interest rate.41

The other result of the president’s bias was that some of the major economic liberalization policies painstakingly put in place during the Khatami administration—measures such as price decontrol, banking deregulation, trade liberalization, subsidies’ proper target orientation, and a hesitant but cautious demarche toward an eventual free-market economy—were thwarted. The impact has been particularly pronounced in the practical neglect of the “privatization” program advocated by the Supreme Leader as a means of combining rapid economic growth with Islamic social justice.42 Due largely to these reversals, recent World Bank reports on conditions of doing business show Iran’s rank steadily declining from 113 among 175 nations in 2005 to 119 in 2006, 131 in 2007, and 135 in 2008.43

42 For a report on privatization setbacks see www.hamshahrionline.ir/News (14 April 2008).
Politics and governance have been the second victim of the oil curse. The negative influence of the oil windfall on Iran’s internal and external politics is reflected in a movement away from an open society and participatory democracy toward statism and autocracy at home—in addition to a uselessly belligerent position abroad. In the absence of effective constitutional checks and balances, the oil wealth has led to authoritarianism in two inter-related fashions. First, by raising food and fuel subsidies, increasing welfare payments, and providing free or low-cost health and education to the masses—all financed by oil money—the government has been able to buy the rank-and-file’s tacit support of a non-democratic rule. Second, with the oil windfalls large enough to finance an increasing portion of fiscal budget and reduce the need for income and sales taxes to run the government, power-hungry political leaders have developed a penchant for arbitrary rule, often verging on arrogance and occasionally approaching megalomania.

The corrupting influence of the oil bounty on the Iranian polity in the last three years has been reflected by increasing violations of human rights, further encroachments on personal liberties, lack of immunity from unlawful search and seizure, capricious persecution of dissidents, a purge of free-thinking university professors and students, repression of ethnic and religious ministries, tightening up of social restrictions and Islamic moral code, assaults on press freedom,\(^4\) the closure of 22 websites, restricting parliamentary elections, vote tampering, disallowing labor unions, and clinging to an anti-feminist pathology.\(^5\) In the 2008 Index of Economic Freedom, published by the Heritage Foundation, the Islamic republic is ranked 151 among 157 rated countries in terms of overall freedoms.\(^6\)

\(^4\)According to a new report, in 2007 Iran banned a media outlet, newspaper, or journal every 36 hours. Twenty-three journalists were arrested and 42 were sentenced in the courts. See the “Media Banned Every 36 Hours in Iran,” International Journalists’ Network (10 May 2008) in http://www.ijnet.org/director.aspx?P=Article&ID=307631&LID=1

\(^5\)For a full text of these infringements see http://emruz.biz (18 May 2008).

The crucial role of the oil windfall in meeting the government’s law and order budgets (i.e., police, national defense, and nuclear ambitions) has left a significant residual for welfare expenditures (e.g., keeping one million basij, or paramilitary families, under one or more charitable umbrellas). It has also freed the Ahmadinejad administration from normal public scrutiny and accountability obligations. The Minister of Petroleum has admitted that, by order of the president, he has disregarded a statutory Majlis limit on the import of gasoline in 2007. Mr. Ahmadinejad has also taken a series of ad hoc and arbitrary decisions—disobeying Majlis statutes, making unplanned inroads into the Oil Stabilization Fund, abolishing various specialized national councils (including the former high-powered Money and Credit Council), turning the former Management and Plan Organization into a section of the office of the president, declaring national holidays out of the blue, and doing away with various civil societies.

At the same time, the widely propagandized assertion that any U.S. or Israeli attacks on Iranian nuclear installations would (among other horrifying calamities in the region) raise the price of oil to $200 a barrel—and therefore could not possibly happen—has had another adverse effect. It has emboldened President Ahmadinejad to go on an outlandish verbal rampage, sometimes verging on comical delirium. Thus, addressing a group of clerics in Khorasan province, he called Iran’s “self-reliant nuclearization” the “contemporary history’s greatest miracle.” In another speech in Hamadan city he called Iran “not only the superpower in the region” but “the superpower on the global scene.” And in a third harangue, he called Iran “the center of all global happenings” with two divine missions: one, to make Iran “a model of power, progress, and Godliness” for the world; and the other, “to change the whole global direction and management.” Then he topped the bravado by adding: “A movement has started for us to occupy ourselves with global responsibilities. God willing, Iran will be the axis of the leadership of this movement.” The net effects of these empty and risible statements have

49http://emruz.biz (23 April 2008).
50http://emruz.biz (10 April 2008).
made the Islamic republic increasingly isolated, and brought the country’s international credibility to its lowest ebb.

The socio-psychological curse of the oil windfall is the creation of a petro-culture that turns hard work into sweet dreams. It undermines the rank-and-file’s self-reliance, creativity, and work ethic—making them increasingly reliant on the state for livelihood and dependent on government dole for welfare. It also diverts business talent and ingenuity from innovation and entrepreneurship to rent-seeking maneuvers and sweetheart deals. This culture, ephemeral and fleeting at first, becomes endemic as time goes by and easy oil receipts increase.

An outstanding manifestation of this mentality is the Iranian population’s addiction to low (and often below cost) prices for public goods and services, and their tacit threat of revolts against any cost/price adjustments. Currently, Islamic republic residents enjoy highly subsidized fuel, food, prescription drugs and public services (water, power, telephone, and transport means). The size of the government’s direct subsidies, monetary aid, and below-cost sales in the 2008 budget is about $25 billion. Yet, if the value of oil, gas, and fuel products consumed locally is calculated at delivered prices in the Persian Gulf, the notional subsidy would approach $100 billion—out of a GDP of less than $290 billion. Numerous attempts by reform-minded officials since the early 1990s to gradually raise local prices towards international levels have all come to naught. Even a clear legal mandate to this effect in the Fourth Plan (2005-2010) law, approved by the sixth Majlis, was countermanded by the seventh as a “new-year gift” to the people! Despite clear and universal recognition that many of these subsidies benefit mostly the top 10 to 20 percent of income earners, repeated attempts to rectify the situation have been blocked by a majority of Majlis deputies worried about their re-election chances.

Another clear reflection of this mindset is a propensity to avoid hard work, enjoy leisure, seek short-cuts, and rely on connections rather than creativity. Iranian workers and employees enjoy 25 official holidays

53Statements by the Minister of Finance, and Deputy Minister of Petroleum, reported in www.donya-e-eqtesad.com (6 April, 2008).
For a more detailed discussion of the issue see www.sarmayeh.net (29 April 2008 and 17 May 2008).
a year (compared to the world average of 13.5 days) in addition to weekly Fridays and part of Thursday. This brings the annual workdays to about 220 accompanied by low total factor productivity.\textsuperscript{55} The average productivity of the Iranian labor force is variously estimated to have been between 0.9 and 1.9 percent a year—exceeding that of capital productivity—in the last three years.\textsuperscript{56} As a result, the 2.2 percent annual increase in total factor productivity targeted in the Fourth Plan has so far been limited to only 1.3 percent.\textsuperscript{57}

Influenced by this mentality, even the laudable Islamic tradition of charitable qar-zol-hassaneh (QH, whereby affluent income savers volunteer to lend a part of their savings to the poor at zero interest rate) has lost its lofty goal and turned into plain greed. With state commercial banks accepting QH deposits and paying no interest to their depositors—but offering them a chance to participate in various multi-million rial annual bank lotteries—QH funds have increased faster than other long-term interest-bearing deposits. Moreover, they are offered by individuals who are neither rich nor devout, simply in the hope of winning lottery prizes.\textsuperscript{58}

The worst aspect of the petro-culture is the metamorphosis of the traditional and class-specific corruption into a systemic and institutionalized practice. The multifaceted aspects of this transformation relate to almost all aspects of people’s daily life and affect the conduct of nearly all businesses. As is well publicized, no significant transactions between ordinary citizens and public agencies in Iran take place without some illegal or extra-legal payments involved. On the people’s part, it covers giving and taking bribes for routine transactions. These include everything, from paying off a poorly paid policeman to fix a ticket all the way to bribing a “revolutionary court” judge to dismiss a case involving a violation of the Islamic moral code.\textsuperscript{59} A clear consequence of this conversion is also a change for the worst in the nature and conduct of daily businesses. Here, institutionalized corruption takes a number of different and more sophisticated forms. These range from a special ministerial permit for

\textsuperscript{55}For details see http://emruz.biz (7 January 2008).
\textsuperscript{56}See Iran Economics (May 2008). See also www.sarmayeh.net (23 May 2008).
\textsuperscript{57}http://www.jeslami.com/1378 (15 June 2008).
\textsuperscript{58}www.sarmayeh.net (26 April 2008).
\textsuperscript{59}These are, in essence, not really bribes, but “taxation without intermediation,” a salary supplement directly collected by state employees who are not paid enough by the government.
exclusive imports or exports of certain products;\textsuperscript{60} ad hoc changes in import tariffs known beforehand by only a few insiders;\textsuperscript{61} sale of products by state enterprises exclusively to certain favored agents at fixed low prices, enabling them to resell them in the free market at higher prices;\textsuperscript{62} and gigantic loans made by state banks to influential borrowers who become routinely delinquent in their repayment, with the banks at their virtual mercy.\textsuperscript{63}

Where the size of some commercial contracts (for example, the development of domestic oil or gas fields) runs into hundreds of millions or even billions of dollars, the middlemen’s commissions, called “success fees,” would be neither a pittance, nor embedded in poverty and sheer necessity.\textsuperscript{64} Millions of dollars are reportedly paid to well-connected officials facilitating deals. In a piece where the Berlin-based Transparency International ranked the Islamic republic among the “highly corrupt,” a Norwegian official whose oil company was fined for bribery is quoted as euphemistically saying: “There was a clear understanding that companies that are active in Iran are expected to contribute to the society one way or another.” An Iranian middleman who had facilitated a $1.8 billion oil deal also claims that “doing business in Iran without paying someone is impossible.”\textsuperscript{65} According to Transparency International’s latest report, the Islamic republic’s corruption rank among 179 countries deteriorated from 78 in the year 2003 to 105 in 2006, and 131 in 2007.\textsuperscript{66}

Stung by this deteriorating reputation, the Majlis’ watch-dog Commission 90, invoking the Supreme Leader’s 8-point anti-corruption order of 2001, issued a report in early 2008 highlighting the details of 53 of the most significant cases out of a total of 400 confidential files. The report found flagrant wrongdoings by state officials in seven categories: real estate, banking and insurance, industry, oil, education, judiciary, and auto manufacturing.\textsuperscript{67} Despite a statute passed by

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\item \textsuperscript{60}www.donya-e-eqtesad (6 May 2008).
\item \textsuperscript{61}www.donya-e-eqtesad (11 December 2007).
\item \textsuperscript{62}http://jomhurieslami.com/1386 (12 December 2007).
\item \textsuperscript{63}www.iran.emrooz.net (14 May 2008). According to this report, the state banks’ nonperforming loans rose from Rls 35,000 billion to Rls 150,000 billion between the end of 2004 and the end of 2007.
\item \textsuperscript{64}See the statement by the head of Majlis Research Center in www.sarmayeh.net (23 May 2008).
\item \textsuperscript{65}Kambiz Foroohar, “Rafsanjanis are Iran’s Power Brokers for Investors,” Bloomberg Market Stories (21 April 2004).
\item \textsuperscript{66}Transparency International, Global Corruption Report 2007 (New York: Cambridge University, Press, 2007).
\item \textsuperscript{67}http://emruz.biz (30 May 2008).
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the Majlis in 2006 to identify individual suspects, and against protests from several deputies, the Commission 90 reporter refused to name names, arguing that that the head of the judiciary had forbidden such revelations before any conviction by a court. Currently, the debate continues between the president, who blames most of his failures on oil and banking “mafi as,” and his critics, who ask him to identify these sources.

Some Crude Realities

Despite its gigantic energy reserves and its privileged position in the region, the Islamic republic is not in an enviable position. The country’s economy is woefully mismanaged: it is not only fraught with thorny problems of double-digit inflation, high unemployment, and sub-par growth, but also vulnerable to unpredictable oil price downfalls and serious universal sanctions. And, ironically enough, its future self-sufficiency in either fuel products or natural gas is questionable. Iran still needs the world markets much more than the latter needs Iran’s oil and gas. The world could cope without Iran’s energy exports through national strategic reserves, the use of excess capacity in other oil-rich countries, further energy-saving devices, use of alternative sources, and, if need be, higher prices. However, Iran’s desperate need for oil export revenues to finance its essential imports (including refined oil products) and pay for ordinary government expenditures disallows even a fairly temporary interruption. Without oil as its lifeblood, Iran’s economy would come to a standstill in a very short time.

Undue confidence in large energy reserves as a dominant force has also led the Islamic republic to defy the international community on the matter of uranium enrichment at its own peril. It has also tempted President Ahmadinejad to engage in such empty boasts as calling Iran “a powerhouse on the global level” capable of providing a “global plan to handle world problems”—thus making the Islamic republic the subject of worldwide ridicule. Heretical as it may sound, one may wonder whether endowment with more irrigation water and vastly more arable land, instead of oil and gas, would have led to a better social, economic, and political situation for Iran.

69 Iran Times International (13 June 2008 and