

# Iran's Economic Morass: Mismanagement and Decline under the Islamic Republic

Mar 1, 1997



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In the latter half of the 1990s, the Iranian economy faces horrendous problems: economic mismanagement, high inflation, declining living standards, a growing gap (much of it fueled by pervasive corruption) between a wealthy minority and vast impoverished majority, high rates of unemployment, an inability to significantly increase oil production (concurrent with lower oil prices), stagnant per capita investment and GDP, serious problems in the manufacturing sector, and a heavy burden of foreign debt. As a result, the rate of annual economic growth in recent years (1993-96) has averaged 1.5 percent, well below the 3 percent annual growth in population.

In other words, per capita GDP has been declining since 1993, and projections for the remainder of the decade indicate a continuation of this trend. This implies deteriorating employment capacity and a further drop in living standards for the majority of Iranians; if, as anticipated, oil prices decline from the unusually high levels in 1996, Iran's economic troubles will be even worse.

In this Policy Paper, the final study in a three part series, distinguished Middle East economist Eliyahu Kanovsky presents a definitive assessment of the Iranian economy. Through detailed analysis of pre- and post-revolution economic data, Kanovsky examines Iran's largely unsuccessful efforts to diversify and privatize its mostly state-controlled—based almost exclusively on oil export revenues—in the midst of a long-term trend of declining world oil prices. Iran's Economic Morass chronicles how revolutionary ideology and political infighting have hampered the development of coherent economic policies, and how economic mismanagement has already sparked violent riots in several Iranian cities. Barring an unlikely increase in long-term oil prices, Kanovsky warns, the clerical regime appears incapable of undertaking fundamental reforms to prevent further deterioration.

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