

# Can We Trust How Iran Would Spend Funds From a Nuclear Deal?

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**T**he deadline in the Iran nuclear negotiations has just been extended. But if an agreement is ultimately reached, Tehran is expected to receive a substantial financial windfall. Critics have argued that an influx of funds will permit Iran to expand its destabilizing regional activities. The Obama administration has argued that Iran will use the funds primarily for domestic needs. Who is correct?

An estimated \$100 billion to \$140 billion in Iranian foreign exchange reserves are being held in escrow in banks overseas (primarily oil revenues that U.S. sanctions block from being repatriated to Iran). It is not clear how much of these funds would be made available to Iran under a nuclear agreement, or when. U.S. officials have reportedly indicated that Iran would receive \$30 billion to \$50 billion after completing initial steps to comply with an agreement (deactivating centrifuges in excess of those it is permitted to operate, reducing its stockpile of enriched uranium, and converting its heavy-water reactor). That work could take six months or more.

In his most recent budget, Iranian President Hasan Rouhani proposed government expenditures of approximately \$300 billion. While some domestic programs were increased—health-care spending rose 59%—so were security expenditures. Saeed Ghasseminejad and Emanuele Ottolenghi of the Foundation for Defense of Democracies noted that funding was up 48% for the Islamic Revolutionary Guard Corps and 40% for the Ministry of Intelligence and Security; overall defense spending, which amounts to 3% of Iran’s gross domestic product, rose 33%. These figures likely understate Iran’s security spending; as the Congressional Research Service recently noted, the Revolutionary Guard Corps spends “significant amounts of unbudgeted funds on arms, technology, support to pro-Iranian movements, and other functions.”

The Obama administration’s position assumes that while Iran was willing to substantially increase security spending when sanctions were in effect it will not do so in the wake of a deal, when economic conditions would improve. This thinking is likely based on the notion that in the wake of a deal Iran will feel pressure to satisfy public expectations that the deal will yield tangible benefits and spend more at home.

But there are good reasons to think this will not be the case. Iran’s security spending is driven by more than tensions over its nuclear program. The Revolutionary Guards are heavily engaged in Syria, Iraq, Yemen, and Afghanistan;

none of these conflicts will end if an Iran deal is reached—and the situations may get worse. To the extent that a deal is seen as a “win” for pragmatists led by President Rouhani, Iran’s supreme leader, Ayatollah Ali Khamenei, may want to placate hard-liners by boosting his financial support to the security apparatus they dominate. Iran’s security spending goes to both foreign endeavors and monitoring its own people, an imperative that is likely to grow if the deal permits greater economic and diplomatic openness to the outside world.

Iran may also choose not to use all of its unfrozen assets domestically for macroeconomic reasons: A quick influx of cash could put pressure on prices and the value of its currency. For this reason, economist Bijan Khajepour has written, Iran may decide not to repatriate much of its unfrozen funds.

The Obama administration has also argued that unfreezing Iran’s assets will not lead to an increase in its destabilizing regional activities because “the cost of Iran’s support for terrorism and regional interventions is relatively small.” This conflates two very distinct activities. It is arguably correct that the cost of individual terrorist acts is small; this is one reason that terrorism is so widespread and difficult to prevent.

There is, however, little reason to believe that Iran’s sponsorship of terrorist organizations and efforts to coopt or subvert governments (see: Syria, Lebanon, Yemen, and Iraq) is inexpensive. Consider that Iran’s declared military budget is \$12 billion to \$15 billion. Iranian annual support for Syria’s Assad regime was recently estimated at \$6 billion to \$15 billion. Iran’s funding of Hezbollah has been estimated at \$200 million per year, though that may have increased with the organization’s heavy losses in Syria. Iran also funds Shiite militias in Iraq, and it sponsors groups in Gaza, Yemen, and elsewhere.

In short, Iran is likely to spend any financial windfall from a nuclear agreement on both domestic and foreign priorities—as it has done in good economic times and bad. The two are not mutually exclusive, and Iran is not likely to reorder its priorities. The agreement terms reportedly under discussion provide Iran with substantial economic relief while demanding precisely nothing from it regarding its sponsorship of terrorism and destabilizing regional behavior. Good policymaking demands that the benefit of any nuclear agreement be weighed against this cost, rather than pretending it does not exist.

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