

LETTER FROM TEHRAN

THE RATIONALIST

A dissident economist's attempts to reform the revolution.

BY LAURA SECOR

Not long ago, I visited the office of a financial consulting firm on a quiet dead-end street just north of the commercial center of Tehran. Several flights up, amid bare but light-filled rooms with worn nineteen-fifties-era office furniture, I met Mohammad Tabibian, Iran's foremost free-market economist and—though he is virtually unknown in the West—one of the country's most important reformers.

In the strange, tumultuous story of Iran's thirty-year-old Islamic Republic, the battle over free speech has captured the world's imagination, but the debate over free markets goes just as deep. Since the revolution, most industries in Iran have been owned either by the state or by enormous Islamic foundations that are

connected to the ruling oligarchy and exempt from government oversight and taxation. While the Iranian government points to rapid economic growth, inefficiencies are rampant, and the traffic in exports, other than petroleum products, is anemic. Even traditional Iranian products like carpets have done poorly on the international market in recent years. (Between 1979 and 2003, the value of Iranian carpet exports dropped by more than half.) Iran's economy is sustained almost entirely by oil, which accounts for eighty-five per cent of all government revenues, and in the past five years this money has kept the country afloat as the price of crude reached record highs. Now that oil prices have fallen steeply, a crisis looms.

Since the early eighties, Tabibian

and other trained economists have advised the government to dismantle trade barriers, drop price controls, and force companies such as Iran Khodro—the troubled state-backed automaker—to compete or perish. But the government, in its various incarnations, has not listened. The current President, Mahmoud Ahmadinejad, who was elected in 2005 on a promise to distribute Iran's oil wealth downward, has shrugged off expert economic advice in favor of grandiose gestures toward the poor. Upon taking office, he promiscuously handed out grants and subsidies; when these were not approved by the state budget office, he simply ordered the banks to issue more currency. He injected billions in oil revenues directly into the economy, dipping into the country's savings to do so. Liquidity increased by nearly forty per cent in the space of a year. Iranians, lacking incentives for investment, used this cash to buy imports, which buried local industries and sent prices soaring. Already on the rise worldwide, inflation in Iran skyrocketed. Within a year of Ahmadinejad's election, the inflation rate was the fourth highest in the world, after



"They called us traitors," Mohammad Tabibian says. "We had all kinds of problems." Photograph by Thomas Dworzak.

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Zimbabwe, Uzbekistan, and Burma; by the summer of 2008, it topped twenty-eight per cent. Meanwhile, Ahmadinejad slashed interest rates, a move that encouraged lending, pushed the country's fragile banking sector to the edge of ruin, and contributed to a surreal housing bubble in Iran's cities. For each of the past two years in Tehran, real-estate prices have more than doubled.

Tabibian, who was trained at Duke University, has little patience for economic policies driven by demagoguery. "You can't find the things we are doing in Iran anywhere in the world," Tabibian said. In 2006, he says, he became the first professor to be purged by the regime from Iran's educational system. Other academics have been fired for demanding democracy or human rights; Tabibian was "retired" for supporting free enterprise. Critics have argued that his proposals undermine Iran's revolutionary principles, but Tabibian remains steadfast in his belief that a free market can co-exist with social ideals.

A solidly built man of sixty, with a round face and a trim gray mustache, Tabibian speaks fluent English with a lucidity and a directness that is startling in a culture marked by allusiveness and elaborate courtesy. In Iran the spectrum of economic thought, Tabibian joked, "runs from left to left." The economic populism of so-called conservatives, like Ahmadinejad, is not fundamentally different from that of reform-minded leftists: both factions talk of redistributing Iran's wealth, not of restructuring its economy. "The right elsewhere normally has to have a deep commitment to orthodox market principles," Tabibian explained. "That's not true here. Conservatives in Iran want the government to interfere in economics, to give them certain privileges in importing, exporting, banking, credit, government contracts, purchases. They are not free-market people at all. They are more like mercantilists." Tabibian's own thinking lies off this map entirely: he believes that markets are more trustworthy than the governments that try to control them and that the liberalization of Iran's economy is a necessary precondition for political freedom.

Free-market ideas—anathema at the time of the revolution—are finally becoming mainstream in Iran, Tabibian says, as the Islamic regime has repeatedly

failed to find workable alternatives. This is happening, of course, at a time when the rest of the world is in retreat from the excesses of the unregulated market. Tabibian told me that he was not bothered by the negative example unfolding in the West. "We are on two different sides of the spectrum," he said. "You need more regulation and government intervention in financial markets to avoid moral hazard; we need less regulation and less government intervention to avoid moral hazard. You need, maybe, to increase public spending; we need to reduce public spending. You need to reduce the rate of interest; we need to increase it."

Tabibian, who was born in 1948, grew up in an impoverished town outside Isfahan, in central Iran. At that time, under Shah Mohammad Reza Pahlavi, Tabibian recalls, "poverty was a rule, well-

TRUE LOVE

Your sickness made me
a little sick, it's
true—I still
feel it
Mayakovsky got down
on his knees
and declared
his love
to his last
mistress
a few hours after
he'd met her
Remember me
at the hotel
in Paris,
on my knees
in the lift?
We're all the same
men of too much passion
and a little talent—
some a little more
than others
We fool ourselves
into thinking
we're strong
then complain
the rest of our lives
crippled by
the consequences

—Barry Gifford

being an exception." Tabibian and his family were among the exceptions: they owned considerable property. His parents were schoolteachers, who died in a car accident when Tabibian was sixteen.

"I had the chance to look at our surroundings without the preoccupation of day-to-day livelihood and the obscure view that comes with the pain and suffering of being poor," Tabibian said. "Some of my classmates died of ordinary disease, and many vividly suffered from malnutrition. The quality of housing in most neighborhoods was disastrous. This always preoccupied my mind. The common morality then in that town was that if the rich give part of their wealth to the poor, then the poor will be helped out. Many days and nights, in my imagination and daydreaming, I distributed the wealth of my family to the poor in the neighborhood. Always my calcula-

tion came to the same conclusion: that such an imaginary scheme, even if it happens, makes us poor and the neighborhood not much better off."

One day, on his way to school, Tabibian noticed in a bookstore window a thick new book for sale titled "Economics." It was a word he had never heard before. Tabibian asked his literature teacher what it meant. "He said it meant using your money wisely," Tabibian told me. "I thought the phrase he expressed was more often true by default. Everybody knows how to use their money wisely if they've got some." When he went home that night, Tabibian put the question to his father, who said he wasn't sure but he thought that economics had something to do with the creation of wealth.

The next day, Tabibian went to the bookstore and pulled the book from the shelf. "It was full of graphs, tables, formulas, and lengthy arguments," he said. "I noticed that the subject of creation and distribution of wealth is no simple matter. I thought, That is what I need to learn."

Tabibian later realized that the book was a translation of the 1948 introductory-economics textbook by the American neo-classical economist Paul Samuelson. By then, Tabibian was majoring in the subject at Shiraz University. He went into the field, he told me, "hoping that someday I would help find solutions for the misery and deprivation of many around me."

Tabibian shared this ambition with the generation of Iranian intellectuals, students, and other revolutionaries who toppled the Shah, in 1979. At that time, Tabibian was studying for his Ph.D. in economics at Duke. He was a devout Muslim and a member of the Islamic Students Association, which united Iranian expatriates across Europe and North America. The revolution was a powerful tug: expatriate scholars were pulled back into Iran, which they found in a heady state of utopian promise and practical disorder. "All projects were stopped," Tabibian recalls. "The factories were closed. The ministries were in chaos. The systems in the old administration were not there anymore. Everybody was engaged in revolutionary activities, slogans, and shouting."

Someone had to keep the economy and the basic structures of the state from

collapsing, and that job fell to the students returning from abroad. Iranian students from M.I.T. took over the Ministry of Science; those from Stanford and the University of California system ran the Central Bank; those from North Carolina took over the Planning and Budget Organization, or P.B.O. "It was based on previous relationships," Tabibian told me. "You collected other friends who knew each other from abroad." For Tabibian, the key connection was to Mohammad Taghi Banki—a graduate of North Carolina State University and the head of the P.B.O. Banki hired Tabibian as the director of the agency's Macro Economy Bureau in 1981, at a moment when the P.B.O. was charged with the awesome task of drawing up an economic agenda for the world's first revolutionary Islamic state.

Founded in 1948, in the first years of the Shah Mohammad Reza Pahlavi's rule, the P.B.O.—a brain trust of technocrats—was a branch of the government that the government never fully trusted. The Shah came to find it politically unreliable and unresponsive to top-down control. Under the Islamic Republic, the same uneasiness was compounded by a structural problem: it was the P.B.O.'s job to convert idealistic talk of building an earthly paradise into revenues and expenditures, budgets and five-year plans. One of the agency's recent directors, Farhad Rahbar, put it this way: "The duty of the budget office is to allocate limited resources to unlimited demands. That is why nobody is satisfied with it."

Post-revolutionary Iran was infused with leftist ideology, in particular the work of a radical egalitarian Islamist thinker, Ali Shariati, without whose Marxist-Leninist reading of Shiite theology the revolution might never have taken place. ("Shariati was a confused person," Tabibian said bluntly. "His were an emotional type of arguments, provocative and revolutionary. But he had no clear idea about economics or

politics. Unintentionally, he did a lot of disservice to this country.") Ayatollah Ruhollah Khomeini, the revolution's charismatic leader, was far from a leftist, but, breathing the same air, he arrived at a religious populism that made frequent reference to the righteous struggle of the oppressed against the ruling class. Although Islamists elsewhere had begun to develop a field of "Islamic economics," no comparable literature existed in Iran.

In 1982, Tabibian and a colleague travelled to East Germany, in search of ideas. "I went with an open mind," Tabibian told me. "It was mostly an academic trip, to see how things worked in Communist countries, neither to condemn nor to sympathize. Naturally, if I found something useful, I'd be happy to learn about it."

In East Germany, the Iranians took a two-month course in economic planning, and they visited factories and farms. What they saw, Tabibian told me, was shocking in its dysfunction—a foreshadowing of the system's imminent collapse. "Iran had good relations with the Soviet bloc, because we were in a revolutionary situation, and we could scrutinize their systems a bit more clearly, without much censorship," Tabibian says. "Even American economists had no clear idea at that time that it was so lousy. Nothing was working." Upon his return, Tabibian wrote a report for the Iranian government: concluding that a command economy could not lead to growth, because it offered no incentive for innovation.

The new Iranian constitution, however, outlined an economy controlled largely by the state, partly by cooperatives owned by the public, and marginally by a private sector that would include the traditional merchant class of the bazaar. It was a fractured vision, and each of these power centers fought for control. Much of the country's wealth and industry ended up in the hands of a few giant, semi-private foundations that were opaque to the public and controlled by powerful clerics. Tabibian recalls, "There was a mix of rational and revolutionary attitudes and emotions—pushing, pulling, disputing, arguing."

Nothing illustrated this disconnect, Tabibian says, as clearly as the Islamic Republic's attitude toward prostitution. What should the state do about the "spe-



cial ladies" who, under the Shah, populated the red-light districts of Iranian cities? He recalled that in Tehran the authorities resolved to pay salaries to the prostitutes so that they would cease their work and reform their lives. "And, at the same time, you'd hear in the news about women being stoned!" Tabibian marvelled. "The revolutionary court said to execute prostitutes. Nobody talked about the hundreds who were suddenly on the government payroll, doing nothing."

As Tabibian and his colleagues at the P.B.O. devised the country's first post-revolutionary development plan, Khomeini wanted the bureaucrats to discuss their ideas with the clergy in the holy city of Qom. Tabibian and his colleagues dutifully visited the seminary town, which is on the edge of a salt-marsh desert. "It was the first time I saw how the senior clergy lived, and it was very simple," Tabibian told me. "They are scholars of divinity, stricter than the average priests in the West. And they were nice people, gentle people, very concerned about morality and things to come from the other life." Their economic prescriptions, however, were vanishingly vague: society should be prosperous, people should not be greedy.

"We had to go back again to our textbooks, to read more deeply and more carefully," Tabibian recalls. "There was no way out except for using the experience of the world so far: the principles of competition, property, trade with the world, openness. The core of what the P.B.O. wrote in its plans, the sources were liberal ideas."

Yet Tabibian and like-minded technocrats found that these conclusions could not gain traction in Iran. During the nineteen-eighties, Mohsen Sazegara, who currently lives in Washington, D.C., ran Iran's largest conglomerate of state-owned heavy industries. He recalls that the ideological pressure on industry was for self-sufficiency: Iran's industries were not to look outside the country for parts, technology, labor, or capital. Sazegara was a committed revolutionary who had accompanied Khomeini on the plane that brought him back to Iran from his exile in Paris. But it did not take Sazegara long to conclude that a self-sufficient Iranian automobile industry, say, would harm the Iranian economy more than it would the economies of its

Western rivals. "I raised this question after a while: 'Why should we go and make a car in this country? It's not feasible, because the market is very small with respect to designing a new car, and we are not able to export them to other countries,'" Sazegara recalls. "But nobody cared. We invested millions of dollars, not only in heavy industries but in other branches of industrialization, and today many of those investments are bankrupt." By the end of his tenure, Sazegara, along with Tabibian, advocated privatization and participation in the global economy.

Djavad Salehi-Isfahani, an economist at Virginia Tech and a Brookings scholar, had returned to Iran after the revolution and worked in the Central Bank, where the regime had only one clear priority: to abolish the interest rate, which was deemed "un-Islamic." And yet, no matter which policy the Central Bank pursued, interest quickly reappeared. A bank branch in Tehran would place a red car on its roof and announce that all depositors would be entered into a lottery for that car—a strategy that allowed the bank to pay a variable rate of return on its deposits. Bankers even found ayatollahs who would issue fatwas in support of their schemes—at least until other, more powerful ayatollahs denounced them.

At the same time that Tabibian and his colleagues were struggling to implement liberal economic policies, other scholars and officials sought Islamic or socialist solutions to the country's problems. Parliament endlessly debated, but never approved, the P.B.O.'s development plan. The economists who argued for opening up the economy were accused of seeking to sell the revolutionary state to the capitalist West. "They called us traitors," Tabibian said. "We had all kinds of problems."

By 1983, Tabibian had concluded that the resistance to liberal economic ideas was overwhelming. He returned to Isfahan, where he spent the rest of the first post-revolutionary decade at a university, training young economists. Sazegara recalls that during those years he would fly to Isfahan and back in a single day, just to seek Tabibian's counsel. "He is the best economist in Iran," Sazegara said.

The Islamic Republic, convulsed with

political violence, weathered international sanctions, diplomatic isolation, and an eight-year war with Iraq. The economy staggered into a profound recession. By 1988, the country's gross domestic product per capita was half what it had been in 1976. "Reversals of fortune of this magnitude in such a short period are rare in modern history," Salehi-Isfahani wrote in a recent article for the *Journal of Economic Inequality*. Industry and entrepreneurship withered. The ranks of self-employed service workers, like taxi-drivers and peddlers, swelled. By the war's end, in 1988, the Tehran-based economist and political analyst Saeed Laylaz told me, "Iran was a bankrupt country. No infrastructure, empty warehouses, empty stomachs, empty refrigerators, empty houses—empty everything."

Khomeini had promised his country social justice and "the rule of the oppressed." But he had also dismissively proclaimed that Iran did not have a revolution in order to lower the price of melons. "We were led to believe that there was a plan," Salehi-Isfahani says. "There wasn't. And that's how someone like Tabibian could enter and revolutionize their thinking."

In 1989, Khomeini died, and the Soviet Union was on the verge of collapse. A more liberal economic plan finally seemed politically feasible. Iran's new President, Ali Akbar Hashemi Rafsanjani, reached out to the economists and industrialists who had been stymied for the past decade, and offered them the opportunity to clean up the country's contradictory goals and policies, scale back its inefficiencies, and lift the government's heavy hand.

At the time of Rafsanjani's election, Tabibian was a visiting scholar at Stanford. He got a call from another economist friend, Massoud Roghani Zanjani, who was then the head of the P.B.O. Tabibian recalls, "He said that the new President has a passion for the development of the country, and that his agenda is to adopt a more market-friendly reform program." Tabibian returned to Iran in 1991, becoming a deputy director of the P.B.O. He helped implement a radical plan for the country's postwar reconstruction—one that called for privatization, floating Iran's exchange rate, and eliminating price controls and subsidies. Salehi-

Isfahani told me, with a degree of awe, "It was not like one of the economic plans under Lenin that changed things maybe thirty per cent. It was a hundred-and-eighty-degree turn. They got rid of all the remaining rationing everywhere."

The economic-reform program became the signature of Rafsanjani's Presidency. One Iranian journalist in exile told me that Tabibian was "Rafsanjani's brain." Yet Tabibian's ideas were once again undercut by politics: Rafsanjani was widely believed to be floridly corrupt, bestowing favors on friends and relatives and undermining the public trust. Moreover, revolutionary idealism still permeated Iranian politics. The watchwords of the revolution had been social justice and independence from the imperial West. Many Iranians were convinced that Tabibian's reforms would curry favor with the West while inflicting pain upon the poor. This feeling persisted, even though the Rafsanjani administration protected key entitlements, such as subsidized food and medicine. As Salehi-Isfahani explained, "If you free up the price of bread, you hurt the poor. If you free up the price of steel, I'm not sure the poor are hurt."

As the price of oil rose, poverty declined, and the Islamic Republic made good on many of its promises, bringing electricity, safe water, health care, and education to the hinterlands. But at the same time the rich grew richer—conspicuously so, as the opening of the market made foreign luxury goods available in Iran for the first time since the revolution. New cars from Japan, Germany, and Korea, the sort that used to belong only to diplomats, became common in north Tehran. These visible inequities, combined with Rafsanjani's personal enrichment, made many Iranians resentful.

Tabibian had placed himself in a precarious position. For the good of his reform program, he had to make it clear to Iranians that bringing their economy into the global system had nothing to do with pressures or blandishments from the World Bank or the International Monetary Fund, which promoted similar policies throughout the developing world. As Salehi-Isfahani recalls, "The World Bank misunderstood, and thought that Tabibian had seen the light. But he said, 'Don't come near me.' He did not want his program to be contaminated. He said to

me, 'They just give us a bad name in front of the people.'"

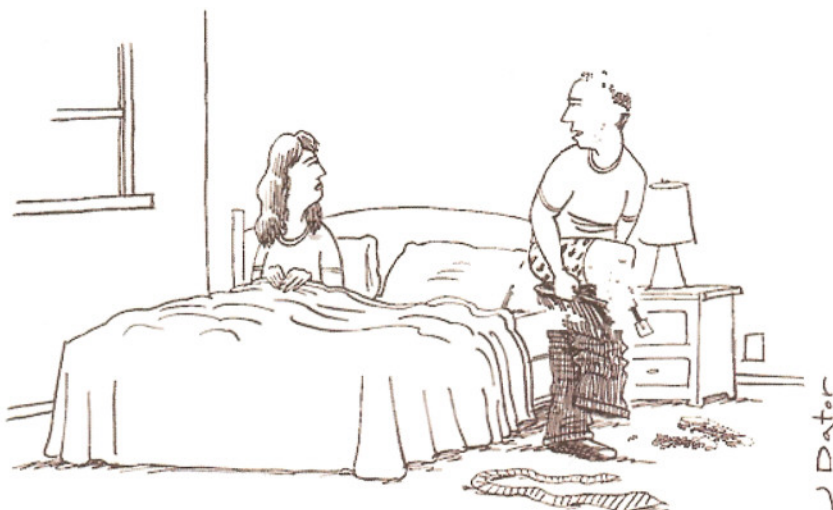
Tabibian had not become a politician. His manner was still tough and direct, if flecked with humor, and he remained motivated by the singular commitment of his school days. "I made it clear that I believed in a free-enterprise system, a competitive market, and private-property rights, not as a matter of taste but because it is the only form of economic organization that leads to the well-being of the people," he told me. He took this stance in a country where claiming that inflation was the result of bad monetary and fiscal policy—rather than of the conspiracies of infidel profit seekers—was considered anti-revolutionary. And so, he told himself, he had to patiently debunk competing hypotheses, harshly, if necessary, and without compromise, even "in the face of all ferment and revolutionary heat and passion and aversion from reason." He made himself available to explain economic theory to parliamentarians, clergymen, political activists, bureaucrats, and journalists. "This made enemies for me," he recalls. "But it was effective."

Meanwhile, for Rafsanjani, the reforms were a political catastrophe. The public recoiled at short-term shocks, such as the doubling of prices for gas, phone service, and public transportation, and at the cost of reconstructing the country after the war with Iraq. In 1993, the Rafsanjani administration bungled its effort to unify Iran's three foreign-exchange rates. Tabibian had long called

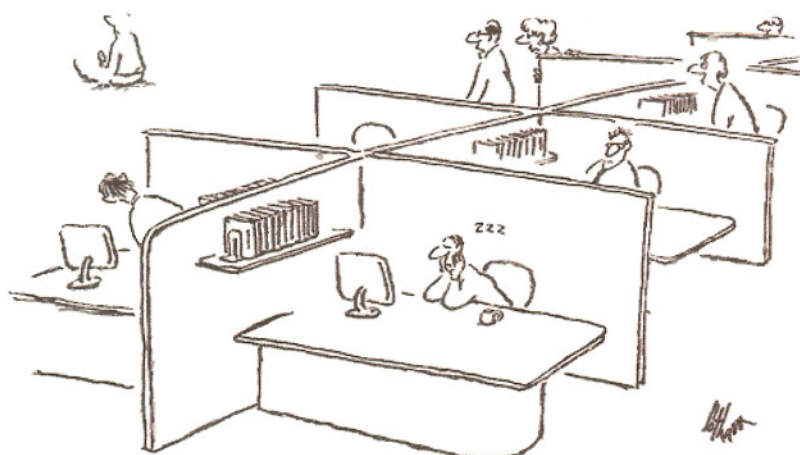
for a single exchange rate determined by the market, but the government chose instead to adopt an artificially low rate. As he recalls it, "The Central Bank was in no position to support and maintain this politically determined foreign-exchange rate, and it did not serve the economy." The resulting debt crisis depleted the reserves of the Central Bank in about a month. The government bailed out the borrowers, rescheduling and paying off debts it could not afford. From nearly every quarter—the students and the clerics, the left and the right—came an overwhelming backlash. Under pressure, Rafsanjani reimposed price controls and halted privatization.

Tabibian resigned from the P.B.O. It was not in his nature to protest the government, which he felt had the right to choose its own policy. But, he recalls, "as an expert, I did not agree with the twist, and I was bitter." Iran's most ambitious experiment with liberalization was over.

In 1997, Rafsanjani was handily defeated by a Presidential candidate from the left: Mohammad Khatami. The incoming President, who served two four-year terms, introduced a new openness in Iranian politics and culture, but in the arena of the economy his administration lacked a clear direction. He tentatively resumed the reform program Rafsanjani had abandoned, but he quickly terminated any policy that was not well received by the public. Meanwhile, higher oil prices gave the illusion of prosperity:



"Look, you seem nice, and I don't want to hurt your feelings, but I was really drunk when we met, got married, and bought this house."



"We've got to try to coax him back into his enclosure."

poverty declined, inequality did not rise, and by 2005 the standard of living in Iran was the highest it had been since the mid-seventies. None of this, though, was a result of government strategy, which remained an ad-hoc affair.

The country's unemployment epidemic made clear that the economy still had festering troubles. Iran's population had doubled since 1979, and the revolution had made education available to more Iranians. But there was no role for these people in an economy that depended not on productive industries but on the dispensation of oil rents, which tended to create unskilled jobs. During Khatami's two terms, unemployment among illiterate men declined from seventeen per cent to eight per cent; among men with advanced degrees, it leaped from fifteen per cent to twenty-three per cent. (Among the most educated women, it was forty-three per cent.) The unemployment problem alienated Khatami's core constituency of educated young Iranians. Moreover, Khatami's penchant for lofty intellectual rhetoric signalled to many unemployed Iranians that he was out of touch.

Tabibian, after resigning from the P.B.O., withdrew to an institute that he had founded in the north of Tehran. Modelled on the graduate program in economics at Stanford, the institute, set in lush surroundings, was meant to lure Iran's finest students away from medicine and engineering and into the less presti-

gious field of economics. Salehi-Isfahani, who taught there one summer, recalls, "It had a gorgeous garden, trees, and it was full of very reasonable people." During Rafsanjani's second term, the institute received funding from the P.B.O. to analyze the national budget. But, in 2002, the left-leaning Khatami administration, uncomfortable with the institute's free-market orientation, cut off its funding, halted its research programs, and forbade it to admit students. Many faculty members left. Tabibian stayed, though he spent less and less time there.

Unemployment and inflation continued to dog the Iranian economy, and Khatami, embattled on other fronts, showed little will or aptitude for addressing Iran's systemic ills. In 2005, he was swept from power by the radical populist Mahmoud Ahmadinejad, who campaigned on the promise to end corruption and to deliver oil money to kitchen tables. His base saw him as the last hope for reclaiming the revolution for its foot soldiers: veterans of the war with Iraq; the armed young men of the Revolutionary Guards and the Basij militia, who felt snubbed by Rafsanjani's technocrats and Khatami's intellectuals; and the rural underclass, which survived on government subsidies and felt a kinship with Ahmadinejad, whose family migrated to Tehran from the village of Aradan.

Ahmadinejad didn't just campaign as a populist; he governed as one, doling out billions of dollars on his tours of the prov-

inces. He was assisted immeasurably by the continuing oil boom; in 2006, revenues were almost fifty billion dollars. But Ahmadinejad's policy of funneling this cash directly to his constituents backfired. The ensuing rise in inflation made food and housing—the two things nobody can do without—particularly expensive. The analyst Saeed Laylaz said of Iranians who rent their homes, "One night they slept, and they awoke in the morning and they realized that they were under the poverty line." Nearly seven hundred thousand urban Iranians fell into poverty in 2006. Inequality had worsened for the first time since the Rafsanjani reforms.

The economic frustration that Ahmadinejad tapped into with his 2005 campaign had turned strongly against him by 2008. In a parliamentary election last March, even Ahmadinejad's political allies could not run from his economic program fast enough. More than one member of the outgoing parliament, which had largely been controlled by Ahmadinejad's faction, told me that the job of the new parliament would be to force the President into accepting more sensible economic legislation.

In January, 2008, more than half of Iran's two hundred and ninety parliamentarians had signed a letter blaming Ahmadinejad's policies for rising unemployment and inflation. Mohammad Khoshchekreh, an economist at the University of Tehran, who was once a close political ally of Ahmadinejad, told me that the emerging consensus among scholars was that Iran should adopt a free-market economy with generous provisions for social security. "The government role should decrease, and part of it should be given to the private sector," he said. But, under Ahmadinejad, "the government takes control of everything." Hamid Reza Katuzian, a conservative member of parliament and another early supporter of Ahmadinejad's economic policies, said that the parliament should never have authorized the infusion of oil money directly into the economy. To resolve the unemployment and inflation problems, Katuzian said, Iran needed to renew its industrial base. It also needed an educational system that better matched its job market. "The problem is real—we cannot hide it," Katuzian told me. "We can all see it. Everyone is trying to solve it."

Everyone, perhaps, except Ahmadine-

jad. As criticism mounted, he became obdurate. In 2005, he appointed Farhad Rahbar—a hard liner whose background was in intelligence—to head the P.B.O., which had been renamed the Management and Planning Organization, or M.P.O. One of Rahbar's first acts was to "retire" Tabibian from the institute he had founded. According to Tabibian, Ahmadinejad told Rahbar that the M.P.O. was filled with economic liberals who would "spray" him with their color, gradually seducing him with their heresies. These elements had to be resisted and purged, Rahbar was told.

Rahbar followed orders, forcing many experienced economists into retirement. But, like his predecessors, he faced a budget whose shortfalls could not be addressed with ideology alone. Rahbar started pressing Ahmadinejad to rein in the liquidity and embrace privatization. In due course, Rahbar, too, was fired. Through a mutual acquaintance, Tabibian sent him a message. "I told him, 'It's not the people who spray—it's the building.'"

In December, 2006, Ahmadinejad announced that he would disband the M.P.O.—the one government agency dedicated to solving Iran's economic problems. Bijan Khajepour, an economist who runs a business-consulting firm in Tehran, told me that Ahmadinejad was looking for a symbolic gesture that would tell the people he planned to stand up to the rich and powerful. "But he chose the wrong institution, because this was one of the longest-lasting establishments in Iran with at least some degree of study and planning," Khajepour said. "When you look at the department that replaced the M.P.O., it's called the Vice-Presidential Department for Strategic Planning and Control. That word—'control'—shows you what Ahmadinejad is about."

During the Rafsanjani era, many left-leaning student activists had bitterly protested the reforms that Tabibian pushed through. Yet, in 2006, when pro-democracy students demonstrated against Ahmadinejad, one of them waved a placard that read "Bring Back Tabibian."

Tehran's streets are dusty, dotted with buildings that are half built or half demolished, clanging with the wheelbarrows of work crews. The *joubs*—deep roadside gutters for the runoff from the

Alborz Mountains, to the north—are murky and littered. But under the Islamic Republic, Iran has become a modern country with few visible signs of squalor. All over the capital, commerce is brisk, from the upscale shopping malls in the north to the clogged passageways of the Grand Bazaar and the modest curbside shops of low-income quarters.

Even so, many Iranians are enraged by the state of their economy. Not only do they complain about high unemployment and income inequality; they are angered by the pervasive cronyism and political corruption that reward the ideological faithful. Three decades of populism have won the Islamic Republic the fealty of the rural underclass, but at the cost of rendering the educated middle class ineffective, unmotivated, and nearly irrelevant to the country's economy.

A retired police commander told me that officers who, like him, had been trained in police academies under the Shah had been displaced and passed over for promotions in favor of ideologues who showed more zeal for enforcing moral strictures and dress codes. One night, a young carpet dealer whom I had met in the Grand Bazaar—in theory, an ideological stronghold of the regime—traversed most of the sprawling, traffic-choked city to sit with me on a low retaining wall by the Tajrish River, a place where he felt he would not be overheard describing the repression and corruption of his workplace.

"There are people in the bazaar who also work with the government," he said. "They are carpet sellers, but they pay no tax—they can export for free. The other group, which does not agree with the government, has a lot of problems." After elections, he claimed, police came around to check *bazaaris'* identity documents for the stamp confirming that they'd voted. "If you did not vote, they decide you are in the group that disagrees, and they write down your address and everything. They can close your shop. What can we do?"

Sometimes, the carpet dealer said, people from the tax office went around the bazaar asking merchants about their contact with foreign tourists and businesspeople. "They look at information in our passport and they say, 'Why were you not in the war?' Then they want to know 'Why do these foreign people come to

your shop?'" he said. "But we have to have something to eat! You can't sell carpets to Iranians, because they have no money."

One Friday morning, outside a mosque in the working-class neighborhood of Narmak, where Ahmadinejad grew up, I met a young man who rented a narrow basement apartment. He had been trained as an electrical engineer with a specialty in jet engines, but he worked in a tire factory and had not been paid in five months. "Because of the wrong policies of Ahmadinejad, our factory's door is locked," he told me. "I have two engineering certificates, but unfortunately there is no place for technocrats in this country." He had voted for Ahmadinejad in 2005, but he had come to believe that the President's economic policies were "a hundred per cent wrong." He echoed the credo of Tabibian: "Economic freedom will come together with political freedom."

Young people in the run-down neighborhood of Naziabad, in south Tehran, told me that they saw no point in going to school. The best they could hope for, if they wanted to make money, was a life of crime. A neighborhood drug dealer said that he'd started selling methamphetamine and hashish because it was a lot more lucrative than the textile business, which he'd worked in previously; with prices rising ever higher, he needed the income. Even in Naziabad, commercial space was selling for twice as much as it had a year earlier, in 2007. A neighborhood barber, Mojtaba, told me that he'd raised his prices a hundred and thirty per cent, just to keep pace with inflation.

Tabibian told me that such stories were typical: "We have very high unemployment among educated young people. That is one of the failures of the government. And real-estate speculation has a drastic effect on income distribution. People without property are in an extremely difficult situation."

At a cramped real-estate brokerage, whose neon sign cast a harsh light inside, a samovar steamed in one corner and two middle-aged real-estate agents sat behind green desks, with a map of Tehran tacked to the wall behind them. All over the city, the proprietor informed me, real-estate prices were twice as high as they had been a year ago. "Before Ahmadinejad, there was a steady market you could forecast," he said. "Since Ahmadinejad, the prices

have gone up two or three times." The economy was flush with cash, and Iranians needed to find safe places to invest it; since domestic industries were imperilled by the flood of imports, the obvious alternative was real estate.

"They sell their place for a hundred thousand dollars and buy a new place for eighty thousand," the real-estate agent explained. "We have a bad economic situation at the moment—a sick economy with poor management. Thirty per cent of the people have family money. They sell their property, buy something cheaper, and spend the difference." And the other seventy per cent? The real-estate agent laughed. "We have a stadium over here," he said. "They go and hang themselves."

Last April, Ahmadinejad gave a speech in Qom addressing Iran's economic woes. Iranians should be grateful, he proclaimed, for twenty-two-per-cent inflation. Foreign powers wanted Iran to suffer seventy-per-cent inflation, but his administration had fended off their schemes. Still, he could not deny the persistence of corruption and other economic problems. These problems, he said, were the fault of sinister elements within his own cabinet. His economic and finance minister, Davoud Danesh-Jafari, who had opposed Ahmadinejad's slashing of interest rates and expansion of the money supply, was compelled to resign.

Danesh-Jafari was not the only target. The first governor of the Central Bank under Ahmadinejad was forced out for opposing the lowering of interest rates. The second, Tahmaseb Mazaheri, grew increasingly vocal against the President's policies, telling foreign reporters in June that Iran was flirting with hyperinflation if it did not raise its interest rate. When Ahmadinejad still refused to listen, the Central Bank did an extraordinary thing: it simply withheld credit. For the first time since Ahmadinejad took office, inflation started to decline, falling from twenty-nine per cent in July to twenty-four per cent by October. Mazaheri was also forced out, but the credit freeze is likely to remain quietly in place until the next Presidential election, in June.

Under its most recent development plan, Iran has adopted a privatization program, but it is unlikely to unfold in a

straightforward way. Iranian industries have been protected with state money for so long that no one knows what they are actually worth, and Iranian labor law makes it impossible for new owners to streamline bloated workforces. The most likely buyers of state-backed companies, analysts told me, are those favored by the government: Revolutionary Guards, Islamic foundations. Consequently, privatization will at first permit an armed and unaccountable oligarchy to amass still more wealth.

And yet, in the long run, the program may be transformative. Even if none of the state's oil or telecommunications companies, for instance, ever reach the private sector, the new law permits entrepreneurs to start new companies in those industries. Bijan Khajepour, the consultant, is hopeful. "We have had a very long culture of private-sector activity in this country," Khajepour told me. "It's not like those Communist states that collapsed and they didn't have any."

A dynamic private sector might seem like something the Iranian government would be eager to cultivate, in order to halt the deterioration of its economy. But, because the government has oil revenues, it doesn't depend on taxes, and so it doesn't depend on a productive class or a productive economy for its survival. Rather, the people depend on the government.

Sanctions multiply that effect, Tabibian told me. Because of the American embargo, which prohibits U.S. companies from extracting or refining Iranian oil, the capacity of Iran's oil industry has been limited. Without the embargo, he said, "Iran could supply a lot more oil and gas to the market." Meanwhile, Iranian middle-class experts could work for American firms, instead of emigrating or becoming employees of the state.

Iran's middle class is something of a paradox. "People are complaining all the time," Tabibian said. "They show you their pay stub and tell you their rent is twice as much. They don't tell you what

they actually earn. They get paid more than their salary—there are bonuses, overtime, bonuses for Eid and other national festivals. Inflation is the result of spending, so there have to be people who spend money. They overspend. Expenditures run ahead of production. There are families in very bad condition, but look at the indicators—car ownership, having modern appliances."

Even if Iran's middle class is finding ways to live decently, it contributes little to the economy. Khajepour's research has shown that many middle-class Iranians live on unsustainable and ultimately unproductive sources of income: remittances from relatives abroad, second jobs, brokering deals between third parties, selling off family property. It's a precarious existence for the class that would normally stand at the core of a healthy economy. And that is no accident.

Salchi-Isfahani explained, "An unproductive middle class can be tamed. You don't really need them, so you say, 'Go to hell—if you don't even come out of your houses, nothing happens.' But if they're all engineers, or exporting goods, and that's where the government money comes from, if you tell them to go to hell, exports drop and you're out of business." Now that oil has plunged to below forty-five dollars a barrel, Salchi-Isfahani says, the government will be forced to rely on the part of society that has the skills and the capital to produce goods. He added, "If the middle class is productive, there is a much stronger chance it will lead to democracy, I think."

To forestall this, it seems, the Iranian regime has repeatedly resorted to sweeping its economic experts out of government. But the ideas themselves are harder to dislodge. Even Ahmadinejad's government has begun, for lack of any better option, to embrace reform. In a bill that was recently submitted to parliament, the administration has proposed eliminating energy subsidies—a possible first step toward eliminating other subsidies as well.

Tabibian has watched this latest swing of the pendulum with a wary and cautious optimism. "I do not know what to make of all this," he wrote recently in an e-mail. "I guess this is a big change in their policy standing, given the populist position of the government. But will they be able to carry out such ideas? I only pray." ♦

