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Oil-rent Boom in Iran?

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Oil-rent Boom in Iran?

Abstract

The present article aims to analyze the effects of high oil prices since 2003 on Iran. The theoretical basis of the analysis is the rentier state approach, the basic element of which is that rents are at the free disposal of the rentier. Empirically, the paper examines the issue areas of foreign policy, domestic policy and economic policy. After proving that the oil price—despite fluctuations—has constantly been at a high level in the first decade of the twenty-first century, the discussion demonstrates that Iran has used the increased rent income to support a populist policy. In terms of economic policy, the regime has pursued a redistributive strategy. The country's foreign policy, particularly the ostentatiously pursued atomic program, has been very expensive since it provoked sanctions whose costs were initially balanced only by high rent income. Yet, in his first term, Ahmadinejad failed to prepare Iran for the situation that has occurred as a result of the global financial crisis: the redistributive policy of the regime has meant that an oil price below US\$70 or US\$75 now constitutes a severe challenge for the Iranian state budget.

Keywords: Iran, oil, rentier-state approach, domestic policy, economic policy, foreign policy

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Zusammenfassung

Öl-Boom in Iran?

Der vorliegende Beitrag stellt die Frage nach den Auswirkungen des seit 2003 hohen Erdölpreises in Iran. Theoretisch basiert die Untersuchung auf dem Rentierstaats-Ansatz. Kernelement ist hierbei die freie Disponibilität der Rente für den Empfänger. Empirisch werden die Politikfelder Außenpolitik, Innenpolitik und Wirtschaftspolitik untersucht. Nachdem gezeigt ist, dass der Erdölpreis trotz aller Fluktuationen seit 2003 ununterbrochen hoch ist, wird in Bezug auf die Innenpolitik die These verfochten, dass die erhöhte Rente für eine populistische Politik eingesetzt wurde. Wirtschaftspolitisch verfolgte Ahmadinejad einen Primat der Verteilungspolitik. In der Außenpolitik fuhr das Regime, wie insbesondere das ostentativ verfolgte Atomprogramm zeigt, eine kostenträchtige, weil Sanktionen provozierende Strategie, die nur durch die hohen Erdöleinnahmen finanziert werden konnte. Ahmadinejad verfehlte es allerdings, Iran für den Fall zu rüsten, der durch die globale Finanzkrise eintrat: Obwohl der Erdölpreis auch danach noch über dem Niveau der 1990er Jahre lag, stellt ein Erdölpreis unter US\$ 70 oder 75 Iran angesichts der hohen Kosten der redistributiven Politik vor ernsthafte haushaltspolitische Herausforderungen.

Oil-rent Boom in Iran?

Martin Beck

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1 Introduction

Recent developments in Iranian politics—both in external and internal affairs—are very often explained with reference to ideology. The author of the present paper does not have any doubt that such an approach leads to very important and rich insights. Yet, it is worthwhile to examine further explanations. Thus, the paper presented aims to ask whether and to what degree major Iranian policies under the government of President Mahmud Ahmadinejad can be traced back to “pragmatic,” i.e., nonideological, factors. As will be demonstrated here, these pragmatic factors provide the scholar with complementary rather than alternative explanations. In particular, the paper will examine whether the analysis of oil rent can be useful in better comprehending recent Iranian politics. In terms of external politics, special em-

phasis is given to Iran's rather offensive international politics, such as the ostentatious pursuit of its nuclear program. In terms of internal affairs, the most striking feature appears to be the continuous problems of the Iranian government in solving fundamental development problems. Although Iran possesses growing financial means due to rising oil prices at the beginning of the twenty-first century, there are hardly any indicators that the regime in Tehran is on its way to successfully meeting the country's many development problems. Again, rather than asking about the ideological aspects contributing to this feature, the present paper will focus on oil-related factors.

The paper is structured as follows: In Section 2, the major contextual factors of Iranian oil politics are presented. Then, the relevance of Iranian oil politics for three issue areas is examined. Section 3 analyzes Iran's foreign policy, with a special emphasis on its nuclear program, and is followed by a section on domestic policies which highlights Iranian policies in the oil and gas sector, thereby going into the structural issues of Iranian politics, such as liberalization and populism. Finally, section 5 deals with socioeconomic policies, focusing, among other things, on Iran's Oil Stabilization Fund. Section 6 presents some conclusions.

2 Major Contextual Factors of Iranian Oil Politics

2.1 The Oil Price Development as a Central External Contextual Factor

When looking at the development of the oil prices in recent times, volatility is what, at first glance, appears to best characterize this development. Oil prices sank to hardly more than US\$50 in December 2009 after having reached record-high prices of up to US\$150 only half a year earlier. However, a more in-depth historic perspective helps us to put these extreme ups and downs in more recent years in perspective: At the end of the 1990s, in inflation-adjusted terms, oil prices were on a level which was significantly lower than that in the years after the historic price escalation of 1973/74. The price level of the mid-1970s was only reached again, and finally clearly surpassed, after the US-led invasion of Iraq in 2003. However, the extremely high level of the second oil crises in 1979/80 was only reached—and actually surpassed—in July 2008, with world demand at its all-time high. With oil prices going down again in the aftermath, we are back to the level of the mid-1970s, in inflation-adjusted terms (BP 2008: 16). To put it from today's perspective and in simplified terms, the twentieth century before the 1970s as well as the 1980s and 1990s appear to represent periods of low oil prices, whereas the 1970s and the first decade of the twenty-first century as a whole represent periods of high oil prices.

Thus, recent price turbulence as described above notwithstanding, since ten years we have been witnessing a durable period of high oil prices. Although this is not the place to enrich the many speculations about future oil prices, it is obvious that the Middle East in general

and Iran in particular will have the chance to play an increasing role on the global market: Due to the policy of production rationing in the Organization of the Petroleum Exporting Countries (OPEC), the actual market share of Middle Eastern producers, including Iran, is much lower than their potential—and likely future—share. Thus, although global peak oil may be reached soon and alternatives to oil must be pursued with great urgency in the major consuming countries, it is very unlikely that oil will become less important in Iran in the foreseeable future. Although the finiteness of oil does not stop short of Iran, in terms of the time horizons normally taken into account in politics—generally hardly more than one or two generations—oil is likely to play a major role in Iranian politics in the foreseeable future, as will be shown in the following sub-section.

2.2 Iran as an Energy Producer

Energy production has been shaping Iranian economics, politics and society for much longer than in any of the Gulf monarchies. Actually, oil was discovered in 1908 and commercial production commenced as early as 1913, transforming the country—together with Iraq—into one of the classic Middle Eastern oil-producing countries. When oil production had barely started in the small sheikhdoms of the Gulf peninsula in the years directly after the Second World War, Iran was already an established producer—and has remained so to date.

Iran is indeed one of the most important oil producers worldwide and will most likely remain so in the future. According to the recent *BP Statistical Review of World Energy* of June 2008, at the end of the year 2007 Iran had over 138.4 billion barrels of proved reserves. This figure equaled 11.2 percent of world reserves and qualified Iran as the second-largest oil country after Saudi Arabia (BP 2008: 6). In terms of oil production, Iran ranked fourth after Saudi Arabia, Russia and the USA in 2007 (BP 2008: 8). However, in terms of its future relevance, the latter ranking represents a strength of Iran as an oil producer rather than a weakness since Iran could produce on the level of 2007 for another 87 years, thereby surpassing not only the USA (with 12 years) and Russia (with 22 years) but also Saudi Arabia (with “only” 67 years). Since, according to the same source, Iran holds the second-largest proven natural gas reserves after Russia, there can be hardly any doubt that Iran will also be among the top energy producers in the world in the future (BP 2008: 22).

In comparison to most other oil producers of the Middle East, Iran’s oil consumption is also fairly high: Iran consumed 1.621 million barrels daily in 2007, a level that was surpassed in the Middle East only by Saudi Arabia (BP 2008: 11). Yet, despite its significant domestic consumption, Iran is clearly among the major net oil exporters worldwide. In February 2008, the minister for petroleum, Gholamhossein Nozari, announced that Iran had reached a post-revolution record production of 4.184 million barrels per day and expected to reach 4.2 million barrels per day in the period between March 21, 2007 and March 20, 2008 (MEES,

11.2.2008). The value of oil exports was over US\$70 billion — a value that was exceeded by only one Middle Eastern producer: Saudi Arabia (Seznec 2008: 107). In November 2007, Middle East Economic Survey recorded that Iran had exported 2.93 million barrels per day in October (MEES, 26.11.2007). Thereby, it must be taken into consideration that Iranian export levels are highly variable due to the country's policy of holding large amounts in offshore storage until aspired price targets are met (MEES, 26.11.2007).

2.3 Iran as an Oil Rentier State

Why is the production and export of a certain commodity believed to exert a significant influence on politics? The basic reason is that oil income is mainly composed of so-called economic rents. A rent is an income that is not balanced by investment or labor. Therefore, a rent is at the free disposal of its owner: Contrary to an entrepreneur who is pressured by market forces to reinvest the bulk of its income in order to accrue an income in the future, a rentier does not need to do so (Buchanan 1980: 3; Chatelus/Schemeil 1984: 255).¹

Therefore, contextual conditions are decisive for the development of a rentier. Under favorable conditions, rents may very well foster democratic structures and market-based economies. Norway, a country that is highly dependent on oil exports, may serve as a telling example. However, other things being equal, those who receive the rents are in the position to use them for their self-interests, which are often not compatible with the principles of good governance and sustainable development. Rather, oil rents are very often used for privileging the elite and legitimizing authoritarian rule (Elsenhans 1981). In other words, if no market and democratic structures prevent the rent-receiving elite from doing so, rent abundance will, firstly, facilitate the emergence and/or fortification of inefficient socioeconomic structures: since the future receipt of rents does not require proper economic behavior, the wasteful use of resources, corruption and other inefficient modes of resource allocation are typical of a rent-dominated economy.

Secondly, the rentier elite will foster authoritarian structures, as democratizing the political system would contradict its genuine interest of maintaining a political system that privileges itself. At the same time, opposition movements that are potentially interested in democratizing the political system are in a poor position to prevail: since the rentier elite disposes of significant financial means, it has the material power to buy off participatory ambitions, be it through benevolence (by awarding subsidies and other material benefits) and/or coercion (through rent-financed repression apparatuses).

¹ Of course, in order to accrue the rent, the oil rentier state must also invest, simply because in the Middle East oil also does not spring of the earth on its own. However, as will be shown in more detail below, production costs (plus a regular profit) make up only a small part of Iranian oil income.

The rentier state approach as developed by Bazem Beblawi and Giacomo Luciani (1987) covers both hypotheses, thereby focusing on the state as the recipient and distributor of rent income. Indeed, the central bureaucracies of oil states in the Middle East were in an internal monopoly position from the very beginning of the oil era: The international oil companies that managed to pocket the lion's share of oil rent for decades paid their royalties—nothing other than part of the oil rent—to central state bureaucracies rather than private groups. Moreover, the international companies lost their supremacy only in the 1970s when the power to decide over oil production volumes and price policy was transferred to the oil states (Schneider 1983: Chap. 1-2; Tétreault 1985: Chap. 2). But even before this time, the powerful oil companies privileged the state apparatuses of the oil countries vis-à-vis social groups and nongovernmental organizations. The oil companies privileged the state bureaucracies because they were interested in contracts that were binding under international law and in stable domestic relations, Iran being no exception.

The rentier state approach also attempts to quantify at what degree of rent income a state becomes a full-fledged rentier state: according to Luciani's (1987: 70) influential definition, a rentier state is a state whose budget is composed of at least 40 percent rents. For several reasons, this figure is not undisputed (see for example Gregory Gause III 1995: 291): It could be shown that states with a much lower degree of rent income also show many of the typical features of rentier states. Moreover, it is not easy to precisely extract the exact rent contingent of the price of a commodity. However, the definition has proved to be of some value and the present case—the Iranian oil rentier state—is a case where there is no doubt. Firstly, contrary to many other primary commodities, the rent contingent made up by oil is very high: Jean-François Seznec estimates that oil production costs in the Gulf States vary between US\$1.5 and US\$8 per barrel. Based on average production costs of US\$4 per barrel, Iran's average export income net of production costs, i.e., the oil rent, amounted to over US\$66 billion in 2007 (Seznec 2008: 99). Secondly, Iran became a rent economy fairly early in history, and that both in a lasting and significant way. The foundations were laid in the first half of the twentieth century, and Iran emerged as a full-fledged rentier state immediately after the restoration of the Pahlavi regime in 1953. According to figures presented by Hossein Mahdavi (1970: 455), Afsaneh Najmabadi (1987: 215) and Massoud Karshenas (1990: 82), one-third of the state budget in 1954 was composed of rents. In the second half of the 1950s and in the 1960s approximately half of the state budget was composed of oil rents. In the 1970s, even the proportion of 50 percent was clearly surpassed. There can be no doubt that Iran has been a rentier state "par excellence" (Beblawi 1987) since the 1960s at the latest.

Oil production is a highly capital intensive branch, which is why a high level of investment is actually required (Falola/Genova 2005: Chap. 1). Still, for two reasons the bulk of oil income in the Middle East is actually composed of rents. Firstly, in 1928 an international cartel organized

by the biggest transnational oil companies and exerting a high degree of market control was established. Due to production control, a high economic rent could be achieved. When the oil-exporting countries which were organized in OPEC, founded in 1960, managed to take control of production and price policies, rents then multiplied in the early 1970s. Even in the following two decades of comparatively low oil prices, the bulk of the income generated by oil exports was composed of rents (Claes 2001: Chap. 3-4). Secondly, Middle Eastern oil producers benefit from a differential rent since the natural productivity of their oil fields is much higher than that of their main competitors, particularly in North America and Europe (Richards/Waterbury 1996). Thus, it also becomes obvious that the comparatively low market share of Middle Eastern oil producers is an indicator of strength rather than weakness: by restricting their own production, Middle Eastern oil producers keep the rent high (see Kohl 2002). At the same time, the high degree to which the West exploits its comparatively expensive oil fields has an ambivalent effect on contemporary oil rents: On the one hand, it reduces the market share of Middle Eastern oil producers, thereby reducing their rent income. On the other hand, by maintaining their comparatively expensive energy production, Western actors actually contribute to increasing the differential rent. In the long run, however, the effect of the West's high oil production is unequivocal: it will increase market power of Middle Eastern actors.

3 Foreign Policy

The most spectacular use of Iranian petrodollars in terms of foreign policy in recent times has been the launch of an atomic program. Although Tehran has not tired of claiming that its ambitions for the atomic program—which indeed had already been started in the Pahlavi era and was then intermitted by Ayatollah Ruhollah Khomeini—are confined to civilian use of the technology, the program has heavily contributed to Iran's categorization as a "rogue state." Rogue states are authoritarian states that are exposed to sanctions and other forms of massive external pressure by influential actors in the international system. In most cases, as in the case of Iran, it is the USA that takes the initiative of designating a state as a rogue state (Beck/Gerschewski 2009). The USA experienced it as a humiliating trauma that Iranian fanatics took US citizens hostage for more than one year, from November 1979 to January 1981. Although the US cut diplomatic ties with Iran in November 1979, it only embarked on a full-fledged sanctioning policy towards the regime in Tehran in the 1990s. Western allies of the US, particularly the EU, joined in the US approach towards Iran only after the election of Ahmadinejad as Iranian president.

Nota bene that it is not necessarily true that Ahmadinejad's attempt to make Iran a nuclear power is more pronounced than that of his predecessor. Actually, according to a 2007 report of the National Intelligence Estimate (NIE 2007), Iran was working on nuclear weapons until 2003

and then halted the program. Thus, it is quite possible that Khatami “objectively” contributed to Iran’s transition to a nuclear power to a greater degree than Ahmadinejad. However, the latter stands out for the fact that he propagated the Iranian aspiration with big ado.

Iran’s assurances that its atomic program is civilian can be traced back to the logic of a rentier state: atomic power could be a means to satisfy the country’s growing domestic energy needs, which are indeed significant, thereby curtailing the export of oil production. However, in the last instance the argument is not really convincing since, following the logic of a rentier state, the Islamist government has been neglecting a much more demanding task: the modernization of its oil production facilities and, above all, the construction of an efficient production network for the exploitation of its vast natural gas reservoirs (Cordesman 2005: 9-10). At the same time, the Western suspicion that Iran aims to acquire a strong armory is plausible: Iran’s regional environment—composed of precarious countries such as Azerbaijan, Armenia and Turkmenistan as well as Iraq, Afghanistan and Pakistan, with India and Pakistan as the two nuclear powers in the immediate neighborhood—has always been difficult and characterized by a high degree of self-help policies and the lack of stable cooperation. Yet, the mutual perception of threat accelerated after the Islamic Revolution of 1979 and the Gulf War of 1990/91, since—according to perception—the universalistic ideology of Islamism threatened the stability of the Arab neighbors, which in turn threatened the survival of the revolutionary leadership in Tehran. An aggravating factor was that Iran presented itself as a regional agent of anti-Americanism and anti-Zionism, which is why the regional conflicts that Iran was involved in became even stronger reshaped by global conflicts (Mostashari 2003).

Thus, at first sight, the rational logic of the Iranian nuclear program appears to be based less on economic rents than on classic military threat perception. However, how do we then explain the striking empirical variance of Iranian behavior towards a nuclear program? Khomeini banned the program, whereas Ahmadinejad put it on his agenda with significant hoopla big ado. This finding is also difficult to explain in terms of ideological factors since Ahmadinejad is considered to be the Iranian leader who is attempting to bring the Islamic Republic back to the roots laid by its historic leader Khomeini. In terms of their approach towards the development of nuclear power, however, Khomeini and Ahmadinejad could hardly differ more. Rent theory, on the other hand, offers a convincing explanation: When Ahmadinejad took office, the financial-economic backbone of the Iranian system had been significantly strengthened, which is why Iran could afford a costly foreign policy. This policy did indeed prove to be costly as it triggered a Western sanctioning policy. Moreover, acquiring the status of a nuclear power would enable Iran to claim the role of a regional power. Rising global demand for oil and high prices contributed to the development of such a perspective inside the Iranian elite.

Tensions between Iran and the West have been high ever since the Islamist Revolution. Yet, at the beginning of the twenty-first century, the mutual threat perception increased. Iran saw itself exposed to a direct US military presence at its west and east borders as a result of the wars waged in neighboring Afghanistan (2001) and Iraq (2003). After the Iraq war, US president George W. Bush indexed Iran as part of the “Axis of Evil” in his notorious speech held on January 29, 2002. Particularly after the election of Ahmadinejad as Iranian president, Iran added fuel to the flames by intensifying its anti-Israeli rhetoric. Moreover, although Iran had already intensified its atomic program years before, tensions about the program were exacerbated in 2005 when Ahmadinejad took office: his decision to remove the seals on the uranium enrichment equipment in Isfahan was a sensational act of great political symbolism. From the perspective of the West, and particularly the European Three—the United Kingdom, France and Germany—Iran overstepped the line and caused them to adopt the American’s tougher approach towards Iran. Less than one year later, on July 31, 2006, the Security Council of the United Nations demanded in Resolution 1696 that Iran suspend all enrichment activities.

The oil boom of the early twenty-first century enabled Iran to switch to a more daring foreign policy. At the same time, the rising demand for oil and increased prices also gave the regime in Tehran more leverage to maintain its active foreign policy despite significant external pressure. Immediately after the Iraq war, it there was great speculation as to whether Iran could be the next target of another American or Israeli war in the Middle East. Particularly during the Bush era such a scenario could indeed not be excluded. Yet even under Bush it was clear, from a sober analytical perspective, that both a surgical cut targeting the infrastructure of the Iranian atomic program and a comprehensive campaign aiming at a regime change in Tehran could only have been implemented if Washington had been ready to go high risk. Possibly, the oil boom contributed to the Bush administration’s decision to refrain from waging war on Iran (Leonhard 2005: 7).

There were most likely several other factors that prevented a US war against Iran. The regime in Tehran had learned from the Israeli hit against the Iraqi reactor in Tamuz in June 1981, which set back Saddam Husain’s nuclear program for years, to diversify its atomic facilities and to better protect them against military attacks. Moreover, Iran never tired of declaring that it was not aiming to create a military program, and the West could never come up with clear evidence that Iran had violated international law. Therefore, a campaign against Iran would have generally been considered in the Middle East and in the Third World to be an illegitimate act of aggression (Thränert 2003). Linked with that, the legitimacy of the Nuclear Non-Proliferation Treaty, whose effectiveness rests on the will of member states to cooperate, would have been weakened. Finally, although difficult to foresee in detail, the repercussions on oil trade and prices would have been of negative significance from the consumers’ point of view.

In the 1990s, the Western policy towards Iran was fairly ill-coordinated. Under the leadership of Bill Clinton the USA pursued an increasingly rigorous policy and in April 1995 tightened the thitherto rather symbolic sanction policy towards Iran significantly. Until then, 20 percent of Iranian oil production had been bought by US companies, after other parties had served as intermediate buyers. The US administration now closed this bolt-hole (Torbat 2005: 409, 417). In August 1996, the USA extended their sanction policy by passing the Iran and Libya Sanctions Act, which also targeted foreign companies that invested more than US\$20 million in the Iranian oil sector. In 2001, the Congress passed an extension of this law, which was signed by Clinton's successor, although there were some hints in his campaign that he would lift the sanctions (Torbat 2005: 410-411).

The EU, however, developed an alternative approach: the "Critical Dialogue." Announced as a policy towards Iran in December 1992, the approach was further encouraged by the election of Seyyed Mohammad Khatami as Iranian president in 1997 and the victory of the reform-oriented segments in the parliamentary elections in 2000 (Sabet-Saeidi 2008). Europe's approach was to focus on "soft power" (Nye 2004), thereby giving incentives to the government in Tehran to deepen their reform policies and to develop better relations with the West. At the end of the Bush era, it was obvious that both the American and the European approaches had failed: the results of the parliamentary and presidential elections in Iran, held in 2004 and 2005, respectively, came as a shock to the West. However, the results of the ambitious US sanction policy towards Iran were also meager by then (Franssen/Morton 2002).

The limited ability of the West to enforce its will upon Iran under the condition of a booming oil market only became obvious when the USA and the EU started to coordinate much more closely—yet still achieved only limited tangible results. Though sticking to its embargo policy, the USA supported the EU troika's approach of conducting negotiations with Iran. These talks resulted in the Paris Agreement, concluded in November 2004. This was a voluntary self-determination by Iran to intermit its atomic program and to prove this by letting the International Atomic Energy Agency (IAEA) seal Iranian atomic facilities. When, however, Ahmadinejad ordered the removal of the seals in August 2005, the West lacked an efficient crisis management system. In the following months the West attempted to convince Iran to concede by using a policy of sticks and carrots. Yet, the immediate result was hardly much more than a series of lengthy negotiations that appeared to many observers to be just a cat-and-mouse game. The USA repeated the threat it had already made in January 2006: to take the issue to the Security Council. At the same time, intensive negotiations were held about a—albeit already previously submitted—Russian offer to pursue a joint atomic program with Iran for civilian use (MEES 26.2.2006). After weeks of negotiations without result between Iran and the IAEA as well as Iran and the EU troika (United Kingdom, France and Germany), the IAEA finally opted to submit the issue to the Security Council (MEES 20.3.2006). Unim-

pressed by a nonbinding statement from the Security Council on March 29, 2006, Iran announced a technical breakthrough in terms of enrichment of uranium on April 11, 2006 (MEES 3.4.2006: 23; 17.4.2006: 32). After months of difficult negotiations between Iran and the EU troika, plus China and Russia, the EU high representative for the common foreign and security policy, Javier Solana, submitted an offer elaborated by the five permanent members of the Security Council and Germany to Iran on June 5, 2006 (MEES 12.6.2006: 28). Rather than immediately rejecting the offer, the Iranian government asked to have until the end of August to consider the offer. This deadline did not receive the approval of the initiators. Instead, under the auspices of the USA and in cooperation with the United Kingdom and Germany, a draft for a Security Council resolution was launched.

With only one dissenting vote, cast by Qatar, the Security Council of the United Nations passed Resolution 1696 on July 31, 2006, under which it was demanded that Iran abandon all uranium enrichment activities. On the one hand, in light of the simultaneous Israeli campaign against Hezbollah, the adoption of the resolution proved the determination of the international community. On the other hand, the USA did not succeed with its request that the Security Council threaten the use of military force. Although the resolution refers to the seventh chapter of the UN Charta, the possible imposition of sanctions is confined to article 41 of the Charta, which excludes military means. As expected, Iran let the deadline pass, even officially accentuating its right to enrich uranium for peaceful means (MEES 7.9.2006).

However, in March 2007, the Security Council took action to extend sanctions to Iran. On March 3, 2008, in Resolution 1803, the Security Council widened the scope of sanctions in terms of financial transactions, travel restrictions and the export of dual-use goods (MEES 10.3.2008). Moreover, the USA also put strong pressure on the banks of its Western allies to cut off Iranian financial institutions from their access to the global financial system. European banks in particular did indeed cut operations in Iran down. Due to Iran's unwaning role in international oil policy, its business with China and India continued. Yet, the financial system in Iran was deeply affected. MEES (11.2.2008) quotes an international bank executive in Tehran who said, "Right now in Iran it's difficult to finance anything." Germany, one of Iran's main trading partners, halved its export guarantees in February 2007 (MEES 18.2.2008). As a result of the tightening sanction regime, OECD's political risk classification for Iran deteriorated. On the scale of 0 to 7, where 7 indicates the highest risk, Iran had been ranked as 4 until April 2006, but in July 2007 it was ranked as 6 (MEES 11.2.2008).

On the one hand, the escalation of the conflict regarding the Iranian nuclear program proves that the international community led by the USA is capable not only of putting political pressure on Iran but also of harming it through economic sanctions. The coordinated Western sanction policy indeed worsened the investment climate in Iran (MEES 7.2.2005; MEES 28.2.1005) and made it more difficult for the country to acquire technology to improve oil and gas facili-

ties (Dorraj/Currier 2008: 77). In a report published in March 2008, the US Congress claimed that Iran's development of oil facilities lagged far behind its ambitions due to US sanctions. Some of the claims are obviously distorted by impartial observations: for instance, the fact that the reserves/production ratio is much higher in Iran than in Russia is not primarily an indicator of Iran's weakness but reflects the ability of all Middle Eastern states with membership in OPEC to curtail their production for the sake of increasing the oil rent. However, other facts mentioned in the report actually point to the major weaknesses of the Iranian oil economy in general and the negative effects of external sanctions on the Iranian oil sector in particular. Actually, the fact that Iran is a major net importer of gasoline proves that there are major investment problems in its refining facilities (MEES 27.3.2008).

On the other hand, the regime in Tehran did not have difficulty securing the financial basis for its own legitimization. Thus, although the sanctions regime did have some effect, as a result of rising oil prices and options for export outlets these were too limited to cause a basic policy change in Tehran. At the same time, the costs for the West were significant: Iran was driven into the arms of China, becoming its second-most important energy supplier in the early twenty-first century (Bahgat 2005: 25). As atomic powers privileged by the Non-Proliferation Treaty, China and Russia also have a vested interest in preventing Iran from becoming a nuclear power (Katz 2008: 202). However, particularly in the case of China, it is rather obvious that these concerns are outweighed by Beijing's strong interest in maintaining close economic and trade relations with Iran (Bahgat 2007). Thus, not surprisingly, China and Russia invested in the Iranian energy sector in 2007 and 2008 (MEES 18.2.2008). From a geopolitical and energy-oriented perspective, the emerging Sino-Iranian alliance is rational: China needs a long-term energy supply independent of the USA in order to pursue its own ambitions as a regional and global power. For Iran, China's strategic value as a permanent member of the Security Council has already proven of major help since the United Nation's sanction policy has been diluted due to Chinese interference. The Sino-Iranian alliance is at odds not only with US interests but also, and possibly to an even higher degree, with European interests. For the EU, gas imports from Iran would be potentially the main alternative to dependence on natural gas supplies from Russia. It remains to be seen whether these differences in interest between the USA and the EU will once again play a role in the future.

The conflict between the West and Iran is menacing, even after Barack Obama's charm offensive on the occasion of the Iranian new years celebration in March 2009, which was launched just a couple of days after Obama's extension of US sanctions against Iran: not only was the Iranian reaction reserved, but Obama also neither lifted sanctions nor excluded the appliance of compulsory measures in the future if diplomacy failed. The history of the Islamic Republic shows that the regime is capable of turning inwards when external pressure becomes too great: although the ideology of exporting Iran's revolution was never formally abolished,

under the burden of the war with Iraq (1980–1988) Ayatollah Khomeini moderated Iran's foreign policy. The regime also showed its pragmatic orientation by supporting Christian Armenia in the war over Nagorno-Karabakh by supplying it with natural gas (Shaffer 2003: 19-20; Herzig 2003). Nevertheless, it should be taken into account that in periods of volatile distribution of power capabilities the danger of military confrontations increases, particularly in conflicts that are boosted with ideology. The latter aspect applies not only to Iran's relations with the USA but also to Israel: as the only nuclear power in the Middle East, the Jewish state would have the most to lose if Iran managed to become a nuclear power. It would have the most to gain if Tehran were prevented from joining the ranks of atomic powers.

The conclusions that can be drawn from these findings vary according to one's worldview. If one is ready to rely on the rational logic of deterrence, the future scenario of Iran as a nuclear power would be less problematic. Rather, the recent situation in which counter-actors still see a chance of preventing such an outcome appears to be threatening. According to (neo-) realism, Iran and Israel would keep each other in check if both were nuclear powers. However, as long as Iran does not dispose of second-strike capability, Israel and its allies have an incentive to prevent the menacing loss of relative power through a military strike.² Yet, if one doubts that the logic of deterrence is applicable (when the Islamist regime of Iran is involved), the danger of a military escalation would be particularly high if Iran were a nuclear power: according to a logic based on the "clash of civilizations," the most threatening scenario is an Iranian regime ready to annihilate Israel, even at the expense of being wiped out as the result of an Israeli or US counter-strike.

4 Domestic Policy

Iran is a classic case of the efficacy of the rentier state hypothesis that high rent income for a state favors the emergence of a political system in which the state bureaucracy emancipates itself from the society and becomes the dominant elite. Exempted from the necessity of taxing one's own society, it is not the state that depends on the society but rather the opposite: the state class uses its possession of the bulk of material means available to the entire system in order to establish authoritarian rule. Thus, securing political domination, rather than promoting socioeconomic development, is the priority of the ruling elite.

Although the rentier state theory does not contribute to an explanation of the Iranian revolution as such, its results confirm rather than contradict this assessment: when taking office, many of the members of the Islamist elite had the firm intention of radically reducing Iran's

² This is the rational nucleus of an otherwise problematic interpretation of the summer war of 2006 in Lebanon put forward by investigative journalist Seymour Hersh (2006), according to which the Israeli campaign was a trial for a passage at arms against Iran.

dependence on oil exports, which implied its painful subordination to Western capitalism; however, rather than renouncing capitalism and heralding an autonomous Islamic economy (Meyer 1985), the ruling elite stuck to the Pahlavi legacy of oil-export dependence. The difference between the Islamic Republic and the preceding regime was not dependence on oil but the former's more effective use of oil income to stabilize its authoritarian rule—even in periods of severe external pressure, such as that exerted by Iraq during the first Gulf War and by the USA since the mid-1990s. Although Islamist ideology is an important feature of the ruling regime, mundane oil rents turned out to be the most crucial factor in legitimizing the authority of the ruling elite in Tehran.

Although the downfall of the Pahlavi regime and the social classes associated with the *ancien régime* meet the major criteria of a revolution, many of the ruling mechanisms exercised by the Islamist elite resemble those of the preceding regime. The Islamist revolutionaries have turned into rent-oriented state bureaucrats. They prevent all social groups including those that were close to them during the revolution, such as the *bazaar*, from autonomous development. At the same time, the elite acquires political legitimization by promoting distribution policies that contradict economic and developmental rationality. As was the case for the Pahlavi regime, the Islamist regime promotes patronage systems prone to corruption. The same applies to overlapping competencies in the state bureaucracy—a feature which increases control from above but inhibits efficiency.

However, apart from Islamism, there is another new feature of political relevance in the Islamist regime: national elections. Due to practices such as the manipulation of candidate selection and the constitutionally defined influence of nonelected institutions such as the Guardian Council, Iran is no democracy. Yet, in comparison to many other systems in the Middle East elections are much more competitive in Iran. In many Arab countries elections, if held at all, are of no major significance whereas in Iran they are always awaited eagerly.

The results of the 2004 elections and the presidential elections in the following year reflected the failure of the reform policies in the era of Mohammad Khatami's presidency. Several factors contributed to Khatami's defeat, including the influence of the undemocratic Guardian Council. Moreover, active Western support for Khatami was very limited; it was actually confined to the EU, whereas the US stuck to its policy of stigmatizing the Iranian regime. Khatami also focused too much on symbolic and populist policies, thereby neglecting Iran's basic socioeconomic problems. The development of the Iranian oil sector under Khatami is a telling example. Like his predecessors, Khatami failed to modernize the Iranian energy sector and did not tackle the issue of terminating its subordination to political rather than economic imperatives. In particular, he failed to separate the oil ministry from Iranian oil and natural gas companies, something which would have been highly desirable from the point of view of efficient management. Moreover, Khatami achieved hardly any progress in restructuring

Iran's natural gas sector (MEES 13.6.2005: 28-32). These findings are surprising from the perspective of efficiency criteria in a market economy; they are not so, however, from the perspective of the rentier state approach: access to and control over the oil sector decide the hierarchical position of an actor in the ruling system of a rentier state, which is why the oil sector was the object of political rivalry rather than economic reason, even under the reform-oriented presidency of Khatami.

Apart from the frustration over the meager results of Khatami's reform agenda, Ahmadinejad's campaign also benefited from the fact that the lower strata of society, which had made many sacrifices during the era of the revolution and the war against Iraq in the 1980s, did not profit from Khatami's liberalization policy. At the same time, they had to face the fact that the ideals for which they were sent to war against Saddam Husain had been macerated and replaced by a Western life style. Ahmadinejad cleverly took advantage of this social state by focusing his campaign on the idea of justice (ICG 2005: 7; Ehteshami/Zweiri 2007: Chap.4). Thereby, the oil sector was openly presented as the strategic domain for achieving justice via a redistribution policy. The success of this campaign, firstly, reflects the simple fact that, due to the widespread problems of poverty and unemployment, the preferences of major parts of the Iranian society were more oriented towards material benefits than political reforms. Yet, secondly, Ahmadinejad also benefited from the circumstance that (contrary to a liberal market-oriented system) poverty reduction in a rentier system can hardly be achieved through liberalization policies. Since the private sector is weak vis-à-vis the state-led rent-generating sector, for the lower-middle and the lower classes freedom from the state is not an attractive aim. Instead, the welfare of the poorer people in particular depends on the subsidization of staples and other daily needs as well as job offers in the expanded public sector rather than the weak private sector (Najmabadi 1987; Reissner 2005).

Ahmadinejad's first domestic policies as the newly elected president were typical of a political system based on patronage and the distribution of rents. Thereby, of course, Ahmadinejad benefited from strongly increasing prices on the world oil market. Thus, Ahmadinejad initiated popular redistribution policies. For instance, he established a fund equipped with US\$1.3 billion, the purpose of which was to enable young Iranians to establish a family (Farmani 2005). Moreover, the president replaced major members of the political personnel, particularly the cabinet and diplomatic leadership. These policies, sometimes referred to as political cleansing, succeeded fairly well, which proves that allocating political positions to followers is an acceptable political practice in Iran (Abir 2005).

Ahmadinejad's attempt to give a personal follower the post of the oil ministry, however, caused a stir. After the president had failed three times to get his candidate through due to resistance from the parliament, Kazem Vaziri-Hamaneh, who served as acting minister during the tug-of-war period, was promoted to head of ministry in December 2005. The fact that both president

and parliament became deeply absorbed in the issue, even risking that the Guardian Council would take over the decision making, proves the exceptionally high degree of politicization of oil politics in the Iranian rentier state (MEES 27.6.2005; MEES 4.7.2005; MEES 15.8.2005). The argument put forward by the parliament and their supporters that the opposition to Ahmadinejad's candidates was purely motivated by their incompetence is not completely convincing. Although Vaziri-Hamaneh was indeed better qualified than the three other candidates, it should be also underlined that he Ahmadinejad's third candidate appeared to be more eligible than the two first candidates and still was turned down by the parliament with a majority of 139 to 77 votes (MEES 21.11.2005; MEES 28.11.2005). Anyhow, it is questionable whether professionalism is the most important criterion for the appointment of the oil minister, whose autonomous room for maneuver is limited (MEES 22.8.2005). Thus, possibly most decisive was the fact that Ahmadinejad refrained from consulting the parliament and tried to push through a favorite, thereby attempting to marginalize the representatives. The politicization of the oil sector once again became apparent when Ahmadinejad denounced corruption in the ministry with lots of publicity. A report handed over to Supreme Leader Ali Khamenei detailed the accusations of corruption between the oil ministry and eleven companies (MEES, 24.10.2005: 15). Finally, in January 2006, Vaziri-Hamaneh announced a major reshuffle of top positions in the petroleum ministry (MEES 2./9.1.2006), which was referred to as a "purge" (MEES, 27.8.2007; MEES, 19.11.2007).

After less than two years in office and many tensions with the president, Mr. Vaziri-Hamaneh resigned on August 12, 2007. Gholam-Hossein Nozari, who had served as managing director of the National Iranian Oil Company (NIOC), was appointed as caretaker, a decision which was believed to increase Ahmadinejad's influence on the oil sector (MEES, 20.8.2007). After Nozari had been nominated by Ahmadinejad on October 31, 2007, on November 14, 2007, due to his long experience with NIOC, the Majlis approved Nozari's appointment as regular oil minister by a large majority (MEES, 5.11.2007; MEES, 19.11.2007). However, the change in the department triggered some open criticism targeted at Ahmadinejad. When Vaziri-Hamaneh declared he was removed from office for his criticism of the president's oil policies, he received widespread support from economic experts (MEES, 27.8.2007).

Oil rent theory contributes to an explanation of the weak performance of Iranian economic policy in the early twenty-first century in general: From an economic point of view, Ahmadinejad's policy was simply irrational. However, according to the logic of the rentier state, economic irrationality was quasi affordable. Due to global increases in oil prices, the state budget did not come under pressure until 2008, despite problematic economic policy decisions. Accordingly, public criticism of Ahmadinejad's economic policy began fairly cautiously only in 2006 and was mainly confined to economic experts. In June 2006, Ahmadinejad was publicly attacked by a group of fifty leading Iranian economists for his expansionary monetary policy

(MEES, 3.7.2006). In January 2007, he was heavily criticized in an editorial of the daily *Jomhuri-ye Eslami* for his “aggressive language” and “inappropriate words” for causing damage to the country (Ganji 2007: 17-18). In April 2007, Ali Qanbari, a former member of the Money and Credit Council and a university lecturer, attacked the poor economic performance of Ahmadinejad’s government (MEES, 7.5.2007). In November 2008, a group of sixty Iranian economists heavily criticized Ahmadinejad’s economic policy, thereby also explicitly blaming the government for the financial and economic cost of its aggressive foreign policy. Moreover, the sixty experts warned that Iran would be heavily affected by the global financial crisis (MEES, 17.11.2008). With the onset of the crisis, the negative repercussions of Ahmadinejad’s policy became more visible and, in the course of the election campaign for presidency in 2009, politicized to a much higher degree. Thus, the rentier state approach contributes to an explanation of the massive protests after the disputed election results of June 12, 2006.

5 Socioeconomic Policy

Until the (temporary) end of the oil boom as a result of the 2008 financial crisis, there were few limits to an expansive policy of distribution under the Ahmadinejad’s presidency. Accordingly, the successful candidate based his campaign on the promise to intensify state subsidies for daily needs which favored the urban poor (*mostazafin*). However, it should be added that the basic concept of distributing oil wealth to strategic groups of the society was not invented by Ajmadinejad. Rather, this concept has always been part of the political system established after 1979.

Yet, the magnitude of subsidy policies has increased since the defeat of the reform-oriented segments of the Iranian leadership. In November 2003, the regime publicly debated the option of rationing fuel, and in April 2004 the parliament opted for more than doubling fuel prices. The aim of curtailing the consumption of highly subsidized fuel was obstructed by Ahmadinejad’s move in January 2005, when he froze oil prices at 2003 levels. When presenting the budget in January 2006, Ahmadinejad announced plans to raise fuel prices to the market level in the next five years. However, he failed to implement his proclamation (Cordesman/Al-Rhodan 2006; ICG 2005). Since the expenses of gasoline imports swallowed ever increasing financial means, the regime decided to fix the subsidies by rationing the discount gasoline available per person in June 2007. Half a year later, gasoline imports had dropped from 200,000 to 90,000 barrels per day. However, they remain one of the major burdens of the state budget (MEES 10.9.2007; MEES, 17.12.2007). According to leading economist Jahangir Amuzegar (2008), the Ahmadinejad government raised subsidies by up to 20 percent of GDP.

The policy of fuel subsidies demonstrates the rent approach of Iranian policies. Neither from a developmental perspective nor from a social point of view is the policy of subsidizing fuel

progressive: Firstly, it is not sustainable, and, secondly, it is based on the watering-can principle rather than relieving truly needy social groups. Thirdly, society pays a high price for this policy since Iran is not a self-supporter of fuel (Cordesman 2005: 10). To sum it up, the meaning of the policy is purely based on its high visibility and its symbolism, which implies that everybody can participate in Iran's oil wealth.

Not only did the Iranian regime fail to work on a refinery capacity that would enable the country to produce sufficient fuel, but it also neglected its oil hauling capacity. In 2005 and 2006, due to outdated oil infrastructure, Iran lost two to four hundred thousand barrels a day (MEES 13.6.2005: 30; MEES 8.8.2005: 16, 30; MEES, 30.1.2006: 4; Cordesman 2005: 9). In 2008, estimates were that Iran lost up to seven hundred thousand barrels per day due to natural decline. As a result, Iran, unlike its neighbors, had major difficulty utilizing its OPEC quota (MEES, 30.1.2006; Dorraj/Currier 2008: 76). According to FACS Global Energy Group, Iranian production output might decline to 3.0 or 3.5 million barrels per day by 2015 rather than increasing as the Iranian government has announced (MEES, 17.11.2008). The major setbacks for the Iranian oil industry in recent history occurred as a result of the war with Iraq in the 1980s. Firstly, since many oil facilities were located in battlegrounds, the physical damage was significant. Secondly, human capital suffered tremendously: many competent staff passed away, and those who remained to keep up Iran's oil industry lacked interaction with international experts and therefore failed to maintain the standards for modernizing the industry (MEES, 5.5.2009). Moreover, the US embargo played a role (MEES, 6.10.2008). However, twenty years after the end of the war with Iraq it seems fair to say that the basic reason for Iran's failure to modernize its oil facilities is domestic. Although Iran has been announcing for years that it intends to significantly increase its oil production capacity, up to five or six million barrels per day, all that outgoing oil minister Bijan Zanganah could present in July 2005 as a result of his eight year term was an increase of 350,000 barrels per day—which indeed fell far behind the original ambitions (MEES, 8.8.2005).

Apart from the Western sanctions policy that has cut off Iran from US technology, the main reason for Iran's problems in modernizing its oil infrastructure is the lack of a coherent strategy. An obvious option would be to compensate technological deficits by attracting foreign investment, which the regime has failed to do. This difference from other OPEC members in the Middle East, whose domestic technological level is not higher than Iran's, can be partly traced back to ideological reservations towards foreign capital. The Iranian petroleum law of 1987 bans the allocation of concession rights to foreign companies. Yet, the reform-oriented segments of the regime exploited a bolt-hole in the mid 1990s: since the law did not explicitly ban other kinds of contracts between foreign companies, the state of Iran and national oil companies, the reform-oriented segments—against the resistance of conservative groups—pushed through so-called buyback contracts. In the framework of a buyback contract, the

foreign company is fully in charge of all exploration and development activities. However, rather than a concession the company gets a previously fixed rent, which is due as soon as NIOC starts the commercial production of the oil field (Howard 2007: 33-36). However, the procedure is disadvantageous for both sides since it inhibits long-term, sustainable cooperation. In his 2005 campaign, Ahmadinejad announced that he intended to further curtail the engagement of foreign capital in Iran (MEES 4.7.2005; MEES, 8.8.2005). Ahmadinejad also stuck to his policy of criticizing foreign capital after his election (Howard 2007: 37).

Iran is particularly backwards in developing its natural gas resources (MEES 13.8.2005). At the end of 2007, Iran possessed nearly 16 percent of world reserves but produced less than 4 percent (BP 2008: 22, 24). *Nota bene* that, contrary to the analogous oil figures, there is no comparable rationality of rationing the production of natural gas since no equivalent to OPEC exists in natural gas trading. Only in October 2008 did the “Big Gas Troika”—composed of Russia, Iran and Qatar, who together control 60 percent of the proven global reserves—start to coordinate their gas policies (MEES, 20.10.2008).

Khatami’s failed policy of developing the huge natural gas reserves has been perpetuated under the presidency of Ahmadinejad. In 2006, the Islamic Republic envisaged itself becoming the third-biggest gas producer by 2024. However, due to a cold spell in northern Iran in early 2008, the country temporarily ceased to be a net exporter of natural gas. In January 2008 Iran even faced a shortage of gas for domestic consumption. Since the rate of growth in developing Iran’s natural gas resources does not match the increasing internal demand, Iran is far from becoming a main exporter of natural gas, as would be appropriate given its huge reserves (MEES, 25.2.2008). It remains to be seen whether new initiatives taken by the new managing director of the National Iranian Gas Exports Company (NIGEC) will succeed (MEES, 6.10.2008).

The ambition of the Oil Stabilization Fund (OSF), founded in 2000, was to establish a future-oriented project based on the idea of sustainable growth. In periods of high oil income the state should invest in the OSF in order to preserve financial means for periods of financial crisis. Yet, even from official side criticisms were raised that the government took deposits in order to balance the budget deficit although the use of the OSF was supposed to be confined to sustainable development projects. For instance, in November 2005 the parliament decided to extract almost US\$3 billion in order to cover the growing cost of fuel imports (MEES, 21.11.2005).

The OSF’s performance remained weak during Ahmadinejad’s first term in office. Despite the high oil prices, the OSF grew only modestly. However, it must be taken into consideration that no precise data on fund assets are available. There were already contradictory announcements and estimates on the OSF balance in 2007 (MEES, 5.11.2007). Yet, they were topped in 2008 and 2009—years in which the relevance of the OSF increased due to the global economic crisis and decreasing oil prices. Instead of the US\$30 billion that should have been achieved in fall 2008 according to Iranian deputy and member of the Majlis Budget and Planning Commis-

sion, Musa Ali-Reza Servati, the balance was only US\$7 billion (MEES, 6.10.2009). However, the deputy chairman of the parliamentary budget and planning commission, Asghar Geranmayeh-Pour, stated that the fund's balance was US\$25 million (MEES, 3.11.2008).³ The lack of transparency had been heavily criticized beforehand by both the IMF and Iranian economic experts. The IMF asked for annual statements of the fund's cash flows and summary balance sheets and praised the websites of other oil funds, particularly Norway's Pension Fund (MEES, 25.11.2008). The IMF estimated the balance of the OSF at US\$12.1 billion in 2007/08; although inflows grew considerably, outflows were also rising, despite high oil prices (MEES, 25.11.2008). It remains to be seen whether Iran will walk the talk of increasing transparency by replacing the OSF with the "New Development Fund" (NDF), which shall have a more formal structure and clearer, more restrictive rules for withdrawals (MEES, 23.6.2008).

Not least because of its failure to top up the OSF appropriately in the years before, Iran has been hit by the global financial and economic crisis much harder than most of its neighbor countries on the Gulf peninsula. According to Iranian experts, Iran would need an oil price of US\$60 or even US\$70 per barrel in order to avoid a budget deficit (MEES, 3.11.2008). According to IMF figures, even an oil price less than US\$75 per barrel could result in a severe account deficit (MEES, 9.2.2009).

6 Conclusion

Ideology is without any doubt a very powerful factor in explaining contemporary Iranian politics. Yet, as proven in the present article, "pragmatic" factors, particularly the oil rent, are also crucial for a better understanding of Iranian politics. Since a rent is not balanced by investment or labor, no reinvestment is needed in order to accrue a future income. Therefore, rents are at the free disposal of their owners. Since it does not feel strong pressure to use the income in an economically or politically "reasonable" manner, the regime of a rentier, such as the Iranian ruling elite headed by President Ahmadinejad, is in the position to use the bulk of its income in a way that reflects its genuine interests—without the constraints most other authoritarian regimes face when they attempt to do so.

Increasing oil prices enabled Ahmadinejad to embark on a fairly daring foreign strategy, thereby neglecting diplomatic and economic rationalities. The same is true of his socio-economic policy, which ignored the imperatives of sustainable development. Due to an oil income that until 2008 was rising, independently of problematic investment policy in the oil sector, Ahmadinejad could also afford to neglect the highly under-developed natural gas sec-

³ At any rate, the value of the OSF is much lower than the oil funds of its neighbours, whose populations are much lower. The estimated values of the funds of Qatar, Kuwait and Saudi Arabia are US\$60 billion, US\$213 billion and US\$289 billion respectively (Seznec 2008).

tor, instead promoting a nuclear program whose economic rationality appears to be of secondary importance. Ahmadinejad's socioeconomic approach has been heavily criticized from an economic point of view, and with good reason. However, based on the logic of a rentier state, his emphasis on redistributing rather than investing the oil rent makes sense.

Ahmadinejad's policy failed to prepare Iran for an extended period of oil prices that were significantly lower than US\$70 or even US\$75: state expenses such as subsidies for fuel and other basic means are too high and the reserve assets saved by the Oil Stabilization Fund are too low to avoid a severe budget deficit if oil prices remain at the level of the first half of 2009. To make things worse, from the perspective of Ahmadinejad, if present trends in the natural decline of Iranian oil fields, low investment in the modernization of oil facilities and rising domestic energy consumption continue, Iranian oil exports could significantly decrease. According to Manochehr Dorraj and Carrie Currier (2008: 76) they could even come to a halt in the course of the next decade if no measures are taken. It remains to be seen whether these restraints to an expansionist oil distribution policy will cause Ahmadinejad to alter his policies or even whether the massive protests against his disputed re-election will terminate the Ahmadinejad era.

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