Islamic Economics and Economic Policy Formation in Post-Revolutionary Iran: A Critique

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The nature and character of Islamic law and the divine ordinances of the Shari'a furnish additional proof of the necessity for establishing government, for they indicate that the laws were laid down for the purpose of creating a state and administering the political, economic, and cultural affairs of society.

—Ayatollah Ruhollah Khomeini

After the advent of the Iranian revolution in February 1979, the theocratic Islamic state launched a comprehensive program known as "Islamization." In its economic dimension, the objective of the program was to lay the foundation of an Islamic economic system in Iran. More than 10 years later, the practical obstacles of establishing an Islamic economic order are now more discernible. It is the purpose of this study to analyze the process of economic policy formation under the Islamic Republic of Iran during the early stages of the revolution. It is hoped that it will reveal some of the difficulties associated with the idea of establishing an Islamic economic order in other areas of the world, such as Algeria, Sudan, Egypt, and the emerging Muslim republics of the former Soviet Union, where Islamic revivalism is presenting itself as an alternative socioeconomic order to those of the West.

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I argue that the conflicting views of the liberal and radical Muslim fundamentalists on the limits of private property and the economic role of the state in an Islamic economy undermined the formation of coherent economic policies in post-revolutionary Iran. Such inconsistencies were particularly notable in the areas of land reform and foreign trade.

Attempts to apply the principles of Islamic economic teachings to the economy are not new in the Islamic world. Islamic banking, that is, interest-free banking, has been practiced in other Muslim countries such as Saudi Arabia, United Arab Emirates, and Egypt. The first experience was in Egypt when the Misr-Ghams Savings Bank was opened in 1964 as a pioneer project with original capital supplied by West German banks. The idea was originally supported by the Egyptian government by Decree 967 in 1964. However, political considerations, stemming from a perceived threat of Islamic fundamentalism, ended the Egyptian government's support and the expansion of the Islamic banks came to a halt [Abdeen and Shook 1984, 165]. In Pakistan, during the presidency of Zia Al-Haq, Islamization of the entire banking system was suggested, but in practice, complete Islamization was narrowed to the creation of Profit and Loss Sharing (PLS) accounts offered in conjunction with the conventional interest-bearing financial transactions.

The uniqueness of the Iranian experience of economic Islamization compared to the past experiences was the scope and intensity with which it was originally embarked upon. The Islamization program was comprehensive and directed at all components of the socioeconomic structure of Iranian society. Its objective was to transform the Westernized Iranian society, based on a dependent economy, into an economically developed Islamic society. It included various programs such as "Cultural Revolution," "Islamization of the Judicial System," and "Islamization of the Economy." The later included the application of Islamic law to land ownership and tenure, banking, labor relations and wages, inheritance, and even foreign investment.

The most notable shortcoming of the existing literature on the post-revolutionary economic development in Iran is the underestimation of the ideological element that has directly—or indirectly—influenced the course of legislative development and economic policy formation. A good example is Razzaghi's work, Eghtesad-e Iran (The Iranian Economy) [1988], which is a simple collection of
post-revolutionary economic data. It is by far the most comprehen-
sive data on the post-revolutionary economic changes in Iran, but
there is an acute lack of theoretical analysis of the data presented
in the study.

Amirahmadi's [1990] contribution does not suffer from lack of
theoretical substance. However, his account of economic mis-
management is wrongly attributed to what he refers to as a typi-
ical failure of "middle-class revolutions."

Analysis of the economic Islamization in Iran requires reflec-
tion on its underlying theory and philosophy, which is based upon
the jurisprudential thoughts and recent scholarly contributions on
economic principles in Islam. In this respect, Rahnema and
Nomani's book [1990] and Behdad's article [1987] are important
steps toward this direction. The contribution of the present study
is its sharpened focus on the impact of the ongoing ideological
struggle and factional conflicts on two specific economic issues:
nationalization of foreign trade and land reform.

I begin with a reflection upon the diversity of views regarding
the limits of property ownership and the role of the state in Islam.
I then attempt to demonstrate the extent to which the process of
economic policy formation has been hindered by the ongoing
struggles of the liberal and radical advocates of the Islamic
economic system.

**Islamic Economic Thoughts on Property Rights
and the Role of the State: Two Views**

Two divergent approaches to the principles of an Islamic
economic system have clearly emerged from the writings of the
proponents of such a system. One is the mainstream, liberal
view—sometimes called the "laissez-faire" approach [Behdad
1989]. It has been formulated by Western-educated, liberal
economists and social scientists. This group finds its support
among the conservative Ulama and Mojtaheds (both high-ranking
clerical titles). The laissez-faire approach represents a continuity
of Islamic tradition and thought on economic matters. Islam is
viewed as a religion that looks favorably on economic and earthly
matters, encourages commercial activities, sanctions the right to
private property, and emphasizes an individual's freedom in
her/his pursuit of self-interest in economic activities. Islam is fur-
ther regarded as a religion that furnishes sophisticated forms of contracts to help smooth the flow of credit and business activities.

Liberal Islam allows a certain level of economic intervention by the state. Although this role is larger than the role of the state in a competitive capitalist structure, it does not go beyond that of a modern welfare capitalist state. This approach is well reflected in the writings of Mawdudi [1983] and Qutb [1967] among the first generation of Islamic revivalists and of Siddiqi [1983], Khurshid Ahmad [1980], Mannan [1984], and Choudhury [1986] among the second generation.

Another approach to the Islamic economic system is represented by the writings of the radical faction of the Islamic revivalist movements advocated by Muslim intellectuals influenced by Marxism. The rise of radical interpretations of the Islamic economic laws has been mainly due to failure of capitalistic development policies of the Muslim countries. This populist approach to the limits of private property in Islam starts by introducing a new interpretation of the principle "Tawhid," one of the fundamental tenets of the Islamic religion.

Traditionally, the principle of "Tawhid" indicated the "oneness" of God. It has also been interpreted as the unity of God and its creation, which is the manifestation of God's power in the universe. Accordingly, the direction of evolution of all creation is toward God; eventually all creation will be dissolved under the encompassing might of the Creator. The populist advocates extend the domain of Tawhid to social and economic phenomenon by arguing that the unity of God and its creation also means "equality" of all men in the society. In the evolutionary movement of human society toward unity with God and eventual "unity of all," i.e., Tawhid, the faithful should strive to create a society based upon "Tawhid," that is, "brotherhood," "unity," and social and economic "equality" among all. The principle of "Tawhid" has therefore become the cornerstone of the populist interpretation of the notion of private property in Islam.

The populist interpretations of the principle of Tawhid borrow heavily from the Marxist historical materialism and "social Darwinism." Theoretically, on economic matters, the ideal "Tawhidi society" resembles the final "Communist" stage predicted by some Marxist historians (Behdad 1988, 116).

The anti-capitalist and anti-imperialist political philosophies of the proponents of the populist approach have influenced the
A populist interpretation of the Islamic teachings on the extent of public ownership and the role of the public sector in the economy. In essence, the advocates of this view subordinate the domain of individual rights to the domain of public interest. They envisage an Islamic community in which the state takes the leading role as an economic agent. In this view, public ownership is the primary form of ownership, and the state becomes significantly involved in direct economic activities. A significant portion of the national product is produced under the state sector, and the private sector is mainly involved in the downstream activities of the public and cooperative sectors. Among the proponents of the populist approach are Abu Sulayman [1980], Sadr [1978], Taleghani [1981], and Banisadr [1978], the former president of Iran during 1980-81.

From the above discussion, and as it is reflected in the existing literature on Islamic economic thought, one can clearly conclude that the proponents of Islamic economics are not unified on the fundamental questions of the limits of private property and the economic role of the state. Interpretations of the Islamic laws and traditions on these matters vary depending on the ideological inclinations of the interpreters. In the following, I attempt to demonstrate how such conflicting interpretations have hindered the process of economic policy formation in Iran.

### Economic Policy Formation under the Islamic State of Iran

The course of post-revolutionary economic policy formation has been characterized by the lack of theoretical and ideological consensus among the major elements of the policymaking apparatus. Indeed, such ideological conflicts draw the most important demarcation line between the dynamics of post-revolutionary Iranian economic transition and those of other significant revolutions such as the Russian, Chinese, and Nicaraguan revolutions. In contrast to the Iranian experience, these revolutions were based on comparatively (though not completely) cohesive and integrated philosophies of revolution. This made the path of post-revolutionary economic transition relatively consistent and goal-oriented. As will be noted, continuous conflicts of opinion over the fundamental structure of property rights and the economic role of the state in the ideal Islamic society of "Tawhid" rendered a coherent implementation of economic policies impossible.
At the time of the revolution, the specifics of the political and economic structure of an Islamic Republic were not spelled out by the advocates of Islamic economic order. With the start of the Islamization drive, there appeared a considerable disagreement among the advocates of the populist and liberal approaches.

The advocates of the populist view were in control of the Revolutionary Council, the Revolutionary Guards, and Committees. They also had significant power in the first and second periods of the Islamic Assembly.

The Revolutionary Council was composed of a closely knit and powerful group of radical clerics including Beheshti (its secretary) and his supporters in the Council, Mohammad Javad Bahonar, Mussavi Ardebili, and Muhammad Reza Mahadavi-Kani. Beheshti’s group virtually controlled the Revolutionary Council. This group, which was often associated with radical fundamentalist Islamic views, had the strong support of Khomeini.

The other group of Islamic fundamentalists with radical economic, but liberal political, views were, according to Menshari, the neorevolutionaries. This group consisted of Banisadr, Qutbzadeh, Moinfar, Habibi, and Abbas Sheybani. The secular liberal factions were headed by the provisional government of Prime Minister Mehdi Bazargan and his followers, Ezzatollah Sahabi, Sami, and Minachi [Menshari 1990, 115]. It is worth noting that Bazargan himself had strong religious beliefs and convictions.6

The liberal Islamic group derived its strength from the powerful Council of Guardians and was mainly supported by the economically powerful merchants of the Bazaar [Bakhash 1990]. Khomeini’s own position in this dichotomy was one of a unifier and conciliator. While living, he could masterly perform this task. This sensitive role was crucial in maintaining unity of the Islamic state. On one hand, Khomeini had to maintain political dominance over the state apparatus by leaning toward the bureaucrats and the executive branch and, on the other hand, as a religious leader, he had to respect the opinions of other high-ranking, often conservative, clerics.

It is an overgeneralization to divide the post-revolutionary period into different intervals of supremacy of one faction against another; however, it is helpful to do so for better understanding of legislative and policy development. Based on Bakhash’s analysis [1990], one may consider the first two post-revolutionary years of
1979-80 to be politically dominated by the populists. The legacy of the populists was passage of the nationalization laws, Esfahani's radical land reform, the establishment of centers for supply and distribution, and the first draft of the Nationalization of Foreign Trade bill.

The effective presence of the liberal faction in the political arena began with the early disputes over the conformity of the "land-reform" law to the Islamic principles on ownership. From then on, the Council of Guardians became the locus of liberal and conservative opposition to the populists' policies and legislation.

According to the Islamic constitution, the Council of Guardians has veto power over the legislation passed by the Islamic Assembly. That is, any legislation passed by even an absolute majority in the Islamic Assembly has a chance of being rejected by the Council of Guardians on the grounds of "nonconformity" with Islamic laws. The 1981-88 period is therefore characterized by intense ideological battles between the radical and liberal advocates of Islamic economic principles.

By mid-1987, the extent of this doctrinal conflict between the Council of Guardians and the radical elements of the Islamic Assembly had reached a point at which the legislative process and long-term economic policy formation were effectively brought to a standstill. The significance of the crisis was noted by Khomeini himself. Consequently, after intensive consultations, in February 1988, he ordered the appointment of a 13-member council known as the "Assembly for Discerning the Interests of the System of the Islamic Republic" (Majma-e Tashkhis-e Maslahat-e Nezam-e Jomhuri-e Islami) [Bakhash 1990, 253], sometimes called the "Expediency Council" [Petrossian 1989, 31], in order to settle the differences between the views of the Council of Guardians and the Islamic Assembly. In addition, the Expediency Council was given legislative authority, which enabled it to pass temporary laws [Bakhash 1990, 253]. Such laws, however, are only effective for a three-year period during which, it is hoped, a final agreement can be reached between the two main legislative bodies, the Islamic Assembly and the Council of Guardians.

Although this move was criticized by 100 members of the Islamic Assembly, it was eventually incorporated into the constitution in July 1989 as Article 112 [Petrossian 1989]. Since then, the Expediency Council has become a vehicle for the legislative body to bypass the Islamic Assembly and the Council of Guardians.
Creation of the Expediency Council has often been associated with the rise of pragmatist philosophy in the state apparatus of the Islamic Republic [Amirahmadi 1990; Bakhsh 1990]. Its emergence indicates the increased power of the bureaucrats and technocrats of the later stages of Mussavi's—and currently Rafsanjani's—cabinets. The mandate behind such pragmatic solutions was to simply put aside the very ideological differences that were to bring the possibility of creating an Islamic economic order into question. One may, therefore, categorize post-1988 as a period of the rise of pragmatism and the gradual decline of fundamentalism within the Islamic Republic. This does not indicate, by any means, that doctrinal differences have been resolved and that they will not, under the Islamic Republic, continue in the future. In the following pages, I focus on the crucial early post-revolutionary period in which the ideological battles were at their climax.

The Debate over the Nationalization of Foreign Trade

The Radicals' Initiative

Section 44 of the Constitution of the Islamic Republic requires that "foreign trade" be carried out by the government. The first step toward enactment of this section of the constitution was taken by Banisadr's government on May 10, 1980. Legislation was presented to the Revolutionary Council, according to which nine centers were to be established for import and distribution of basic imported goods by the commerce department.

The first "Center for Supply and Distribution of Goods" was established in August 23, 1980. Shojae'din Fatahi, the deputy minister in the commerce department at the time, commented:

To take the foreign trade from the control of the private sector, we have introduced a system which is practiced in the socialist countries . . . According to this plan import and distribution of goods will be at the control of the government and therefore the government will only import what the country needs, and will also have a control over its prices [Fatehi 1980].

Despite the establishment of the supply and distribution centers, the government could only control 40 percent of the im-
ported trade [Bakhash 1990, 193]. The hostage crises, the outbreak of war, and acute crises of foreign exchange earnings gave rise to further intensification of inflationary pressures, which, in turn, furnished a noble excuse for the radicals to push for complete nationalization of foreign trade. The radicals blamed the overpricing practices of the merchants and middlemen as the main causes of the problem.

Under pressure from the radical representatives, the Islamic Assembly passed a resolution that demanded that the government introduce a bill for complete nationalization of foreign trade within 60 days [Bakhash 1990, 193]. Shortly thereafter, the first draft of the bill, known as "Nationalization of the Foreign Trade Bill," was introduced by the government. According to this legislation, the government was to obtain complete control over foreign trade in a matter of four years. The bill was passed by the Parliament on March 16, 1980, and was sent to the Council of Guardians for approval as required by the constitution.

The Liberals' Reaction

The liberal Council of Guardians found the legislation contrary to Islamic principles and sent it back to Parliament to remove those un-Islamic items from the law. In an interview, Ayatollah Khoieniha, the chairman of the Islamic Assembly committee for "Nationalization of the Foreign Trade Act," expressed the reasons for the rejection by the Council in these words:

After the approval of the bill by the Islamic Assembly, the Council of the Guardians criticized the bill in several accounts of nonconformity to Islamic laws . . . In particular, that portion of the law concerning supply and distribution which results in unhappiness of the merchants . . . . In the letter by the Council it has been stated that, you [the government] want to subsume all the commerce under your own control and monopoly. This will result in government becoming a big employer and violates the religious rights of those involved in trade and other activities and, therefore, restrains their freedom [Razzaghi 1988, 631].

Consequently, controversies around the implementation of "Nationalization of Foreign Trade" became a battleground be-
tween radical and liberal factions. Musavi Boujnordi, a radical advocate of complete nationalization of foreign trade, argued:

Until the first item of the section 44 of the constitution is implemented, economic independence is impossible. In this relation we should continue our definite ideological struggle to establish the dominance of the "oppressed people", as Qur'an has promised "ultimate dominance of the oppressed people of Earth" [Boujnordi 1982, 8].

He further criticized the private status of foreign trade and the inflationary rise of prices as being un-Islamic. He argued that the government bill was an attempt to Islamicize the practice of foreign trade and would therefore help establish Islamic economic justice in society [Boujnordi 1982, 8].

In order to conciliate the views of the National Assembly and the Council of Guardians, a special committee was formed to introduce a compromise bill. The committee suggested that the private sector could be involved in foreign trade, but it had to supply its own foreign exchange. Accordingly, it was suggested that the private sector could either purchase its required foreign currency from the free market or supply it from the foreign exchange proceeds of its exports.

This suggestion would have put the private sector in a difficult position because oil revenues are the main source of foreign exchange for the public and private sector. And, if the government was not to supply the foreign exchange required by the private sector, importing by private sector firms could come to a complete halt. Despite the significant modifications, the Council of Guardians rejected the special committee's suggestions.

After almost four years, when the final version of the legislation was approved on April 22, 1984, a mixed system of foreign trade was permitted in which the public sector imported necessary goods and the private sector all other goods. Section 48 of the law, which was passed as a major compromise to the Council of Guardians and the conservatives, states:

The government is responsible to make a provision in the annual budget for the foreign exchange requirement of the Public, cooperative, and private demands for import of goods and services [Razzaghi 1988, 633].
At the same time, in defending the new version of the legislation and the changed government position on the issue, Prime Minister Moussavi asserted that:

The original interpretation of our needs are now different. Five years of experience has taught us to depart from our original approach. We do not intend to treat the foreign trade in a way which would completely monopolize it in the hands of the government through the "Centers" [Moussavi 1988].

As a result, according to the deputy minister of commerce, Firooz Doulatabadi, in 1990

39.5 percent of imports [was] carried out by the public sector, 37 percent by the private sector, 16.5 percent by the nationalized industries, 6 percent by the Centers for Supply and Distribution, and 1 percent by the cooperatives and Islamic foundations [Doulatabadi 1990].

The issue of nationalization of foreign trade took about six years to resolve. Its ultimate significance was not in the debate on the extent of the state's control over the foreign trade, but in the more fundamental question of the limit of private ownership and control in post-revolutionary Iran. The conservatives argued that the government did not have the right to interfere with the licit trade activities of the private sector, and that if the government obtained control over distribution of imported goods, which were paid for by the merchants, the ownership rights of the merchant would be violated. This argument was explicitly made by the Ayatollah Khoiniha:

If you allow a merchant to import a good according to the rules and regulations, what kind of right would you [the government] have in demanding him to release the merchandise to you for distribution. This is against his right to his property [Razzaghi 1988, 631].

The struggle over the content of the bill closely resembles a similar conflict over the content of the "land reform" bill.
The Fate of the Land Reform Program

The Radicals' Initiative

According to Islam, uncultivated agricultural land and all natural resources belong to the public. Consequently, on September 16, 1979, the revolutionary council introduced a land redistribution program that made the following lands eligible for redistribution:

1. Confiscated land or unclaimed lands that had become public land after the revolution.
2. Public lands that were in the possession of private or public agencies.
3. Uncultivated lands.
4. Scattered wooded lands and pastures that were surrounded by cultivated lands [Razzaghi 1988, 345].

This rather conservative land reform law reflected the moderate views of Bazargan's government. However, by early spring 1980, political conditions had significantly changed. Bazargan's government had fallen, and the dominance of the radical clergy, headed by Beheshti, was consolidated in the Revolutionary Council. Accordingly, the Revolutionary Council introduced a radical land reform program in April 1980. The program was known as "Reza Esfahani's Land-reform" after its architect, Reza Esfahani, the new under secretary of agriculture.

The new law provided for extensive land redistribution. It limited land ownership by small-scale farmers to three times the acreage sufficient to support a peasant family. Absentee owners with no other source of income could hold twice this amount. The law also provided that mechanized farms be kept intact and be transferred to cooperative farms. An organization for land redistribution was established in Tehran to oversee the redistribution of land in villages. A seven-member committee—known as "Hay' at Hai Haft Nafareh"—was made up of representatives of the government, the revolutionary organizations, the local villagers, and the religious judge of the district.

Beheshti, the powerful chairman of the Revolutionary Council, pressed for the breakup of large holdings. He argued that once the land reform law was implemented in agriculture, "grounds for
sharecropping or leasing arrangements simply would not exist, since each person would own the tools of his own labor" [Bakhash 1990, 201].

Following the ratification of "Esfahani's land reform" law, the seven-member committees started distributing land among the villagers. Between April and November 1980, the committees distributed 150,000 hectares of barren land and about 35,000 hectares of arable land; they leased 850,000 hectares of disputed land to the peasants. They also transferred 60,000 hectares of barren land to the government to be distributed among qualified candidates such as university graduates in various fields of agriculture [Bakhash 1990, 210].

The Liberals' Reaction

After eight months, on November 12, 1980, under mounting criticism by the liberal grand ayatollahs and landlords, Khomeini ordered the suspension of those articles of the law that dealt with the issue of private property. Accordingly, the activities of the seven-member committees were also suspended until a new version of the law could be formulated and legislated [Bakhash 1990, 205].

In May 1980, the opponents of Esfahani's land reform held a meeting that was organized by the provincial agricultural councils, which were all dominated by the landowners. There it was concluded that:

the denial of ownership and the violation of property rights of the people is not in accordance with any of the principles of Islam, the order (Fatvah) of the Great Faqih (Khomeini) and the leading clergies (Ulama), or the constitution [Bakhash 1990, 204].

In addition, strong opposition came from 10 Grand Ayatollahs (Faghih) who unanimously opposed the law. Among this group were the Ayatollahs Ozma (Supreme) Gul-paigani, Mahallti, Qomi, and Shirazi. Khomeini himself was not content with the radical terms of Esfahani's land reform [Bakhash 1990, 204].

Upon suspension of Esfahani's land reform program, two new bills were introduced to the National Assembly: one was a revised Esfahani bill, presented by the ministry of agriculture; the other was proposed by a group of 16 parliamentary representatives.
While Esfahani's bill had brought the entire question of private ownership of land under question, the second bill approached the land distribution program from an entirely different perspective. The latter bill was an attempt to ensure the sanctity of ownership of land under the Islamic Republic. The 16 representatives blamed the unequal distribution of land on the illegal activities and ownership by the Pahlavi's and their associates. Therefore, it suggested that the land distribution program should only affect those large holdings that were acquired illegally by their previous owners. In addition, it suggested that all unpaid religious dues by such owners should be collected, or the lands would be confiscated in lieu of such obligations. As noted, this bill left the controversial notion of limits of land-ownership in Islam untouched. Indeed, it only targeted the uncultivated lands and those cultivated parcels that previously were acquired illegally.

Despite the more conservative contents of the new bills, neither bill gained sufficient support in Parliament. Not until 1982 did the Majles approve a land reform law, one which set the limit of land ownership to an amount sufficient to support from two to three times the size of an average family farm. However, the same law provided that lands in excess of this amount could be leased to the peasants. Therefore, in effect, it did not introduce any significant change in the existing pattern of land-ownership. The large land owners continued to hold large areas of land by leasing it to their children or to the local peasants under the Islamically legitimate contracts of sharecropping, rental, or partnership agreements [Bakhash 1990, 209]. By one account, if this law had been put into effect, it would have resulted in the leasing of at most 2 million hectares of land, a relatively negligible amount [Ashraf 1982, 43].

The final version of the agricultural land reform law was ratified by the Islamic Assembly on December 1, 1982. Again, even this conservative legislation was rejected by the Council of Guardians in January 1983. Since then, land reform legislation has been put on the shelves, and the pre-revolutionary patterns of land ownership, which favored large-scale landlords and the clerical landholding establishments, prevail.

The unsuccessful fate of the land reform program under the Islamic state is a vivid example of the doctrinal differences between the existing approaches to the notion of ownership under an Islamic system. It is also an indication of how the Islamic laws and tradition concerning economic issues are vulnerable to various in-
terpretations, which may lead to confusion, uncertainty, and lack of policy formation.  

Another example of failure in economic policy formation under the Islamic Republic of Iran is reflected in the fate of economic planning after a decade of debate and controversies among the liberals and radicals. This issue has been well examined by both Behdad [1987] and Amirahmadi [1990]. However, the relevance of the issue necessitates a few words on more recent developments.

After 10 years of failing to set long-term objectives for economic policy, the final version of a plan that was developed in 1982 was eventually approved by the Islamic Assembly in January 1990. Although this plan was originally rejected by the conservative Council as being contrary to Islamic principles in 18 items, Ayatollah Khomeini’s death and the ascendancy of the more pragmatic and liberal government of the Ayatollah Rafsanjani encouraged the Council of Guardians to put its seal of approval on the plan in February 1990.

Although the original broad objectives of the 1982 plan have been reinstated in Rafsanjani’s plan, the focus has been shifted from agricultural development to economic growth through increased industrial production. In this plan, state enterprises have been given more autonomy, a more liberal approach has been taken toward foreign trade, the significance of private investment has been emphasized, and, perhaps most important, for the first time, provision for foreign finance ($27 billion dollars over five years) has been made. This later issue has become the most recent subject of conflict between the radicals, who are now led by the Society of Progressive Clergies headed by Ayatollah Mohtashami, and the liberals, led by President Rafsanjani.

It is noteworthy that according to principle 81 of the constitution, the "granting of concessions to foreigners for the establishment of companies or organizations in (the) commercial, industrial, agricultural, mining and service fields is strictly forbidden" [Petrosian 1991, 17]. Although principle 77 of the constitution had indicated that "international treaties, conventions, contracts and agreements must be approved by the Majles" [the Islamic Assembly], thereby allowing foreign participation, until recently, the dominant view among the political leadership, based on principle 81, was that all forms of foreign loans, investment, and participation are forbidden under the constitution. However, in 1990 a new interpretation of the law was presented by the
Council of Guardians in which it was argued that "contracts where one party is a ministry or a government agency or company and the other party is a private foreign company, are not considered international contracts and are not subject to principle 77 of the constitution." Therefore, it effectively eliminated the need for Majles's approval of foreign contacts made by the public sector. One may well argue that this kind of political maneuver by the pragmatic government of President Rafsanjani has been one of the main reasons for his success. At the same time, such pragmatic solutions have undoubtedly undermined the very fundamental original principles upon which the Islamic economic system of Iran was supposed to be established.

Conclusion

To embark upon a new economic program or to reform a certain degree of consensus on the primary and dominant system of property ownership is needed. In today's modern, secular, capitalist societies, such questions are often inconspicuously answered in the constitution. Undoubtedly, in these societies, factional disagreements and struggles occur on various aspects of economic policy formation. Nevertheless, such disagreements do not normally undermine the very fundamental consensus upon which the economic system is established.

Under the theocratic Islamic system of post-revolutionary Iran, this fundamental principle of economic planning and policymaking has not been established. The traditional—and ultimate—source of legitimacy in this system is based on the Qur'anic text and can easily undermine the legitimacy of the secular laws, including the constitution. Since the Qur'anic principles on social and economic matters are open to different interpretations, secular legislation on these matters becomes a matter of long-lasting debates on the extent of their conformity with Islamic laws.

Assuming that the Islamic religious forces are in total control of the political power and state apparatus, the outcome of the Islamization drive in each country will ultimately hinge upon the distribution of power among the radical versus liberal religious forces. It can well be expected that under a populist domination, the Islamic economic system will closely resemble those of the centrally planned Socialist economies, while under the liberal domination, a Western capitalist system will prevail.
In the real world, the complete domination of one faction against another is unlikely. Therefore, it is highly probable that the course of economic policy formation will fall victim to ideological conflicts and theoretical confusions, hindering the process of economic development.

When Naqvi, a proponent of the Islamization program, describes the "Islamization Process" as a significant break from the past that is "bound to lead to gross social and intellectual confusion," he is undoubtedly correct [Naqvi 1981, 146]. The Islamization process in post-revolutionary Iran has been characterized by various forms of confusion, from political, social, and intellectual to economical. However, contrary to Naqvi's assertion, in the economic realm, the most important impediment to the Islamization process has not been confusion and difficulties associated with breaking away from the capitalistic-Westernized economic system of the past, but the conflicting perceptions of the notion of Islamic economic system among the various proponents of a "true" Islam.

Notes

1. For more information about Islamization of the banking system in Iran, see Valibeigi [1993].

2. As Behdad [1990] and Rahnema and Nomani [1990] have noted, the so-called Islamic economics is an eclectic combination of Islamic economic ethics and neoclassical theories of the capitalist welfare state. This body of literature has increasingly become more sophisticated both in terms of its methodological approach and its theoretical complexity. Indeed, this seeming theoretical maturity has reached a point where 22 universities in Muslim countries, such as the University of Islamabad in Pakistan and Al-Azhar in Egypt, have created programs to teach Islamic economics as a new subject in social sciences.

3. Behdad adds a third category, which he calls "Populist-State Control," to Islamic thought on the notion of private property. In my view, the third category is not needed because it is virtually the same as the "populist" or "radical" approach [Behdad 1989].
4. The impact of Marxism has also been observed by Fakhry [1983] and Behdad [1988]. Such an impact is clearly reflected in the writings of Mojahedin Khalgh (the People's Fighters).

5. Just as Marx heavily borrowed from the Darwinian notion of evolutionary process of biological organisms [Hafstadter 1959, 115-16].

6. It is important to note that the above categorization of the "radical" versus the "liberal" Islamic forces is merely based upon their economic views and philosophies and not on their political or social thoughts. Therefore, while Banisadr and Ayatollah Taleghani's economic views were quite radical politically, they were regarded as allies of the democratic and liberal forces. At the same time, Ayatollah Beheshti's economic views were much closer to those of Banisadr, Ayatollah Taleghani, and the "People's Mojahedin" organization than to those of the high clergy and the merchant's of the bazaar, including Bazargan.

7. The analysis of the development of the labor laws under the Islamic Republic is yet another indication of the continued confusion and struggle within different factions of the Islamic state. This task has been comprehensively carried out by Assef Bayat, who has studied the formation of the workers' councils and labor laws during and after the revolution [Bayat 1987].

References


