Iran Needs to Address the Broader Issue of Its National Economy: A Macroeconomic Strategy in Response to US Sanctions

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Faced with the relentless U.S. economic war, Iran needs a to address the broader issue of its national economy

To say that the brutal economic sanctions on Iran, which are effectively tantamount to an economic war, require a "war economy" on the part of Iran is not to suggest that Iran should respond militarily—not at all. It is rather to suggest that, to minimize or mitigate the destructive effects of economic sanctions, Iran needs a state-guided macroeconomic plan that could guide, control, manage, or monitor its vital economic sectors and industries such as international trade, money and banking, natural resources, infrastructural industries, and the like.

In this sense, the plan of a "war economy" should not, indeed, be very difficult for Iran to implement since it has a relatively successful experience of carrying out such an economic strategy: during the 8-year war with Saddam Hussein's Iraq, Iran embarked on an extensive state-guided economic management that effectively provided for both its military and civilian needs. Because of the atmosphere of the time, and because of the corresponding spirit of generosity, selflessness, social cohesion, and national unity the country was able to effectively withstand both the military and economic wars launched against its territory and its people.

Despite the extremely costly war, both in terms of blood and treasure, and despite the fact that Iran's total output, or national income, at the time was only a fraction of what it is today, its people did not experience nearly as much economic hardship as they do today. Why? Mainly because its national resources were at the time distributed relatively equitably—unlike today where those resources are monopolized and plundered by a clique of financial oligarchs and economic mafias.

To embark on a "war-economy route", Iran needs, first and foremost, to revive the real (value-producing) sector of its economy, that is, manufacturing and agricultural activities. These real-value and employment generating activities, which are the physical or material sources of *the wealth of a nation*, as the classical economist Adam Smith put it, have become dormant under President Rouhani—largely by a persistent and out-of-control barrage of imports, both legal and illegal.

To begin with, the government must embark on a large scale and affordable construction of housing facilities. In addition to reducing the cost of housing for low-income citizens, this would also revive many industries that tend to feed as well as feed-off this industry. It is estimated that there are nearly 200 industries that could be revived from an effective revival of the housing industry. Indeed, despite the largely unfair criticism by the Rouhani administration, the government-sponsored housing project that was carried out by the previous (Ahmadinejad) administration not only succeeded in keeping the cost of housing under control and, thereby, allowing 4.4 million low-income families to become homeowners, it also significantly contributed to economic growth and high employment rates of the time.

To revive its semi-paralyzed economy, Iran must also embark on a policy of *import-substitution*, combined with a policy of *export-promotion*. Import-substitution simply means curtailing imports that can be substituted by domestic products. Only those products that are essential for basic consumer and manufacturing needs (but cannot be produced domestically) should be imported. Such critically-needed foreign products must be imported *directly* by the government and distributed through the chain networks of consumer cooperatives or municipal retail stores at subsidized, affordable prices. Due to utter paralysis of market mechanism in Iran, the government must simultaneously contain the skyrocketing inflation by administrative means, that is, by strict laws against hoarding, price gouging, and speculative transactions. To make the administrative price control effective, the government must also restore the coupon system of pricing and distribution it used during Iran-Iraq war.

An export promotion policy means supporting exporters of domestic products, promoting their products abroad, standardizing and improving the quality of such products, thereby broadening their sales markets beyond national borders. In this connection, two important policy issues should be kept in mind. First, only those products that are above and beyond domestic consumer and manufacturing needs should be exported. Second, the export earnings of foreign exchange must be returned to the national reserves of foreign currencies.

Liberal-Neoliberal proponents of free trade would sneer at these proposals as schemes of a planned or command economy. These proponents forget or ignore the fact that proposals of these sort are no more than development strategies of a guided capitalist economy; that almost all the presently advanced capitalist economies, including the U.K. and the U.S., resorted to such protectionist strategies in the early stages of their economic development; and that even today the core capitalist country of the world, the United States, is protecting its non-competitive industries such as steel, aluminum, automobiles, and sugar against imports from China, Europe, Canada, South Korea, and Japan. It is altogether ironic that while the most advanced capitalist country in the world is resorting to protectionism and the erection of tariff walls to support its non-competitive industries, President Rouhani and his economic advisors are singing the song of free trade. These misguided Iranian champions of free trade tend to be *more catholic than the pope*!

Crucial to a successful implementation of a "war economy" is control of the country's money and banking system, that is, of the financial sector. A radically-different management of the nation's money and banking requires that the parasitic formation and growth of the shadow banks (or *moasesat-e eatebari* in Farsi), which are essentially based on Ponzi or Pyramid schemes, be terminated. It further requires that the commercial banks be prohibited by law from engaging in non-bank, speculative activities. This is, indeed, what the United States did in response to the Great Depression of the 1929-1933. That depression was blamed largely on commercial banks' parasitic investment and speculative loan pushing, which created an unviable stock market bubble that eventually collapsed on October 29, 1929. To prevent the recurrence of such a destructive act of the banking system, the U.S. Congress instituted the landmark Glass-Steagall Act that prohibited commercial banks from engaging in non-bank activities, or speculative investments. Specifically, it prohibited them from participating in the investment banking business.

More importantly, the power of money creation and, therefore, control of money supply must be taken away from commercial banks and delegated exclusively to the publicly-owned Central Bank of Iran (CBI). Following the Anglo-Saxon model of fractional reserve banking, the power of money creation in Iran rests not so much with the government, or Central Bank, as it does with commercial banks. When commercial banks make loans or extend credit to their clients, in effect, they create money, which is called debt money, or credit money, or bank money, as opposed to sovereign or real money created by the government. Although *in essence* bank money is not real money, in practice it functions just as real money.

In theory, the ability of the banking system to create credit or debt-money is determined or limited by (a) the amount of savings or deposits they receive from households and businesses, and (b) the central bank regulation of these deposits—a regulatory mechanism which is called fractional reserve banking. In practice, however, the ability of the banking system to create credit, or bank money, is not much constrained by the amount of deposits they receive or by central bank regulation of money supply.

The ability of the commercial banking system to create money explains why the all-important power of controlling or manipulating money supply, of financing and, therefore, of influencing national economies in most capitalist countries has increasingly come to rest with commercial banks—often mediated by central banks and treasury departments that are frequently headed by the proxies of the financial oligarchy.

What has made the ability of the commercial banking system to create money—of course, debt or credit money—especially more dangerous in recent years is that, as the financial sector has systematically freed itself from traditional rules and regulations, most of the debt money they create is increasingly geared towards speculation, not production. This explains the exponential growth of parasitic finance in most capitalist countries. Parasitic growth of the financial sector in Iran represents an extreme case of this ominous development—a developments that has made the country's economic landscape akin to a nationwide casino (for more information on this point please see here).

It follows that an effective cleansing of Iran's economy of the poisonous effects of parasitic finance requires (a) ending the commercial banks' ability to engage in speculative or non-banking activities, and (b) ending their ability to create money. Aside from the destabilizing and destructive economic effects, private banks' ability to create money is also problematic on legal and/or constitutional grounds. As a critically important economic decision or policy of any nation, money creation is logically a sovereign prerogative, that is, a national right; it belongs to the public, not private, domain. The right of creating money ought to exclusively be granted to the publicly-owned central bank as the monetary authority of the state. This would replace sovereign money system for the currently corrupt bank- or debt-money system based on fractional reserve banking.

In brief, Iran needs a government that could guide, manage, monitor or control its international trade, its banking and financial markets, its foreign exchange market, its money supply, and its natural endowments, or gifts from nature, such as forests, water resource, oil, natural gas and other underground resource. It also needs to put a leash on the corrupt privatization of national resources and industries—a fraudulent practice that is used as a pretext for the looting of public domain properties, or national wealth. It further needs to embark on a state-guided extensive development or industrialization plan, along with a relatively generous social safety net program that would reduce inequality and economic hardship for the overwhelming majority of its people.

The funding sources of such an ambitious developmental and social safety-net projects are readily available—provided that there is political will and managerial ability. One such a source of financing could be provided by a reallocation of a larger portion of the oil revenue to such projects. Since becoming president, Mr. Rouhani has reduced the share of the reconstruction and development budget of the total national budget from over 20 percent to less than 10 percent. By the same token he has drastically increased the share of the largely ceremonial and wasteful current expenditures. A re-allocation, or re-setting, of these two categories of the national budget to pre-Rouhani days could free a significant amount of funding for social and developmental expenditures.

A second, and more important, source of financing could come from government funding through the publicly-owned Central Bank of Iran (CBI). Instead of borrowing from abroad or from domestic private banks at interest, CBI could print money (as needed) and *directly* spend it into the economy through social and developmental projects without going into debt and paying interest. Champions of neoclassical-neoliberal school of economic thought would scream at this suggestion, which is called deficit spending for productive investment, that it would be inflationary. But it does not have to be so. Whether it would be inflationary or not depends on the management of the funds thus created. If they are used for productive investment, they could lead to a rise of production, employment, economic development and social progress—not inflation. Indeed, all the core capitalist countries of the world, especially Germany, rebuilt their devastated economies by the Great Depression and World War II largely by virtue of deficit financing.

Strategies of a “resistance” or war economy along the lines suggested here are rather well-known both in theory and practice. As noted earlier, most of the advanced capitalist countries of today successfully utilized such protectionist strategies of industrialization in the early stages of their development. They switched from policies of economic protection and strategic trade to policies of free trade only after they became internationally competitive under protectionist strategies of trade and development. Also as noted earlier, Iran too resorted to similar strategies of economic protection and resistance during the 8-year war with Iraq, which enabled it to successfully provide for both its civilian and military needs. Even today Ayatollah Khamenei and a number of economists such as Ebrahim Razaghi, Ahmad Tavakoli and their co-thinkers have been calling for the implementation of a protectionist developmental strategy, which they call “resistance” economics.

The main economic problem facing Iran today is, therefore, not a lack of theoretical knowledge or practical experience; it is rather an absence of political will and managerial ability of implementing such a strategy that is crippling Iran’s economy. As I have shown in a number of previous essays (please see here, here and here), President Rouhani and his economic advisors are too deeply wedded and/or committed to the doctrine of liberal-neoliberal economics to carry out a war or resistance economic policy. Implementation of such a policy, which is essential to the revival of Iran’s paralyzed economy, requires a different administration: an inward-looking administration that would rely on domestic resources, talents and capabilities; not an outward-looking administration that pins its hopes for economic development on Western capital, expertise and markets. Obviously, this implies the need for an altogether new, revolutionary government.

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