

Economic Causes of the July Student Unrest

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A total of 723,393 women and 616,566 men registered this past summer to take the national entrance examination to Iranian universities and other institutions of higher learning. These young women and men were hoping that by entering a university and earning a degree they might be able to find a job with a decent income. Those who do not succeed in entering a university receive a blow to their expectations not to mention their pride, and will have to be content with low-income occupations, many of which are only disguised unemployment. But even those who succeed in securing a place for themselves in the halls of academia cannot count on a secure or well-paying job. They may have to hold down more than one job just to keep up with their bills. As to any hopes for scientific achievement, advancement, job security, fame, and fortune, simply forget them. The universities do not have the required facilities or even faculty.

Every year about a million people are added to the population of Iran and about 800,000 individuals enter the labor force. It is interesting that, in 1996, the labor force participation rate in Iran (for individuals 15 years of age and older) was only 44%. Should more people enter the labor force, the plight of the economy will only be aggravated. The country has little to offer in terms of employment, higher education, scientific facilities, advancement, material well-being, or amenities of life. Excepting a few lucky ones who are well connected, to be young and Iranian means to be out of luck economically.

No doubt some of those who registered for the entrance examination have taken it for the past few years, and some already knew that they stood little chance of passing it. Nevertheless, the existence of 1.34 million applicants or more than 2% of the total 62 million population is an indication of the enormity of the youth problem in Iran. Note that the applicants are those who finished high school. There are many more who "could have been a contender" and are not, because they dropped out of high school or for other reasons could not afford to compete. It is customary for older people to tell the young that "these are the best years of your life." What the old have forgotten is that these are also years of high energy, restlessness, expectations, and uncertainty. The young cannot say, "this too shall pass." He or she has to look forward. The Iranian youth cannot have even Platonic relations with the opposite sex, marriage requires income, and income presupposes employment. The country is suffering from a low growth rate, lack of investment, and high unemployment and inflation. The youth cannot even complain too much about their problems lest they run afoul of some Islamic tenets. In such an atmosphere riots should not come as a surprise.

I am not implying that the recent riots in Iran were rooted only in the economic desperation of the youth, nor am I suggesting that economics was the main cause of the unrest. Rather I believe that the poor economic condition of the country in general, and for the young in particular, set the stage for the unrest. Furthermore, even if riots and demonstrations are

suppressed by force, as long as the economic prospects of the country do not improve, apathy, despair, drug abuse, and crime will plague the country. In 1998, Iran's real Gross Domestic Product grew less than 2%. Thus, the real per capita output of the country remained stagnant. In the meantime, inflation was about 20% and the unemployment rate 16%. The national account data show that one quarter of the GDP has been invested during the past three years. One has to conclude, therefore, that mismanagement and corruption is so high that investment is not bearing fruits. There is little hope for change. The Third Development Plan bill, which was recently submitted to the parliament, provides for the same share of the GDP to be invested. Still by 2004 (the last year of the plan) the unemployment rate is projected to be between 10.5% and 12.5%, which translates into 2.2 to 2.7 million unemployed.

The causes of Iran's economic woes are not in doubt. In the past 20 years, Iran has experienced revolution, an eight-year war with Iraq, mismanagement of the economy, an environment of uncertainty, flight of capital and skilled personnel, and international isolation, each of which alone could have paralyzed an economy. The question is what is to be done?

In order for a solution to be effective, it has to be comprehensive and tackle all aspects of the Iranian economy that President Khatami has frequently referred to as "sick." It should include privatizing industries, gradually eliminating subsidies, controlling inflation by controlling the money supply, eliminating bureaucratic regulations for exports and imports, floating exchange rates, declaring and enforcing the sanctity of private ownership, and reestablishing a relationship with the United States. All these decisions have to be taken and announced simultaneously, preferably on a Thursday that happens to be a holiday. The reason for the choice of a long weekend is to forestall speculation. More important than timing is the necessity of a political will behind such decisions.

Carrying out these decisions will ultimately face resistance from many quarters. Opposition will come from those in the government and private sector whose vested interests are endangered. In the past 20 years, many have used their connections to the seats of power to enrich themselves through speculation and benefiting from government regulations. They are not going to give up easily. But even many private citizens of modest income may find these reforms hurtful. Such outcomes are inevitable, and the important issue is to stay the course in the face of opposition to reforms. But such statesmanship requires a political consensus that has to be forged between the president, other seats of power in the government (particularly the Leader Ayatollah Khamenei), and the people. The president has the support of the people, and the necessity of economic recovery hasn't escaped the Leader. Therefore, President Khatami is in a position to carry out the fundamental reforms needed for a renaissance of the Iranian economy. What is surprising is indecisiveness as evidenced by the delays. One wonders if the President and his economic ministers are aware of the danger and up to the task.