

Rent and Rent-seeking in Iran

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Abstract

Financial abuse of power and making decisions that would guarantee the achievement of personal goals have attracted the attention of many Iranian intellectuals in recent years. Evidently, these problems indicate a kind of corruption which is in turn caused by discrimination. A clear example of discrimination in the economic literature is rent seeking; a sinister phenomenon through which windfall wealth is gained. Nowadays, in Iran, the negative meaning of rent usually comes to mind. Unfortunately, it must be stated that political, administrative and financial corruption as well as different types of rent seeking especially economic and political rent have turned into one of the most important problems in the society. Presence of entire governments and politics of rentierism has intensified those problems. Rent seeking, weakens the motivation to work and be productive and causes productive powers to go astray and do wrong. In a society of rent-seekers, sources of wealth, education and power become exclusive and discrimination and corruption, bribery, and consideration of family relationships rather than the rules, unlawful appointments and dismissals, etc. spread all over the society.

Keywords: rent, rent seeking, rentier government, rentierism, corruption, discrimination

1. Introduction

A review of the rent economy in Iran indicates that although this country possesses abundant natural resources and extensive human capabilities, it is still faced with serious challenges. One of the most essential challenges is the existence of different types of rentals and unlawful rent seeking as a detrimental phenomenon in the Iranian economy. Disclosure of some rent seeking activities to the public has led to controversial legal cases in courts. Many such cases are not commonly revealed to the public. Using rent and rent seeking usually involves some kind of collusion and corruption. In other words, the other side of this phenomenon is committing administrative, political and financial corruption. Many cases of rent seeking have not even been considered as criminal acts. Basically, Iranian laws are deficient and ambiguous in this regard since they have not explicitly expressed that unlawful rent seeking is a criminal act. Presence of a rentier government in Iran has resulted in the spread of this phenomenon. Although numerous preventive plans have been enacted and administered in recent years, the experience shows that the planners' efforts have been unsuccessful. Yet, it seems that reacting to this great economic challenge requires a versatile plan which adopts a far-sighted approach. In this regard, laws must also be revised in line with other economic plans so that explicit legal action against unlawful rent seekers is made possible. In this article, we attempt to clearly determine what is essentially meant by illegal rent and rent-seeking, what relationship exists between rent-seeking and corruption, what types of rent are in Iran, what historical course this phenomenon has taken till now.

2. Concepts

2.1 Rent

Rent means ownership of interests, occupying a place in return for money and the money paid to do this. In political economy, it has taken meanings such as economic rent, distributive rent and operation rent. The term has entered the European economists' terminology, such as those of Adam Smith and Karl Marx in the nineteenth century. Its use continued to expand after the Second World War as it was used to clarify the nature of some governments which have had single-product economies dependent upon the sale of oil (Imam Jomeh Zadeh, 2010, 33). Generally, rent is an income gained from natural resources, but without spending any effort. It is a concept placed against the notions of reward or profit which are achieved through work and financial activities

(Tadbir-e-EqtasadInstitute, 2001, 34). However, today in Iran, rent has gotten far from its initial meaning and generally its negative meaning comes to mind. (Rahimi, 2010, 64). In other words, Rent-seekers get illegal access to financial resources and start acquiring wealth through their own political and economic influence or that of their powerful acquaintances (Haj Yousefi, 2008, 37).

2.2 Rent-seeking

According to the legal perspective, rent-seeking is defined as a situation in which an influential person obtains special profit and economic, social and political advantage that they do not deserve at the expense of forcing the people in the society pay for it. The people who benefit from such a situation are called "rent-seekers". (Hossein Khan, 2007, 22). The main idea of rent-seeking gets back to the role of government in the economythe creationrecreation of artificial scarcities by this institution. Posner defines rent-seeking as the allotment of resources in order to achieve an exclusive position and believes that the cost of acquiring an exclusive position is exactly equal to the exclusive profit made by that position. Therefore, the whole expected exclusive rent takes the form of social expenses without having any return for the society. (Khezri&Ranani, 2004, 55).

2.3 Rentier Government

According to the definitions presented, a rentier government is the one which is dependent on rent income obtained through ownership of natural resources or the returns made by it. The main characteristics of a rentier government are the following:

- 1) Domination of a rent-seeking context in a country in a way that the receipt and distribution of rent become exclusive to its government.
- 2) Economic dependence on the incomes created through rent and thus negligence towards the productive sector of the economy and its development
- 3) The criterion for social mobility and the acquisition of higher social status is getting closer to the powers that hold the rent exclusively in their hands.
- 4) Rentier government seeks to gain the support of the elite and competing groups in order to preserve its exclusive power (Araee, 2009, 85).

2.4 Rentierism

In the literature about rentier governments, such governments are usually considered to have particular styles of governing the affairs. These particular styles of politics and government are called "rentierism". In this kind of government, rent is possessed by the elite governors and they use this rent to gain cooperation and control the society and thus preserve political stability in a society (Hadian, 2004, 17). An obvious feature of rentierism, is the presence of authoritative governments which are economically less dependent on tax revenues. Such conditions would lead to the ever-increasing power for the government and since the government has a strong financial and economic backing. In the absence of tax revenues, people do not feel they have to force their rentier governments to be responsive and accept responsibility. The most important challenge in these countries is the topic of democracy and civil society. The dominant class in such societies is the rentier section which has influence in and dominance over all pillars and constituents of the government and this is what would result in the formation of a phenomenon called "supporter nurturing" in those countries; supporters who have key political roles. Unfortunately, this culture is to some extent dominant in Iran.

2.5 Corruption

The lexical meaning of corruption in the Persian language is "to become spoiled, ruined or destroyed". Corruption is a synonym for loss, wrong-doing and fall. (Moein, 2000, 378) Corruption in Latin language is derived from the verb "*Rumpere*" which means to break. (Aqaee, 1999, 182). In our discussion, corruption happens when a rule in the governmental system's laws is breached which would in turn result in harm and loss to the economic and political systems

Researchers in Iran divide corruption into three kinds of political, administrative and financial corruption. Political corruption is the definite result of struggle for power. The definitions given of political corruption has common aspects. Political corruption takes place when deviation from the norms is related to exercise of governmental, political power for the purpose of achieving personal interest. (Golmohammadi, 1987, 199). Administrative corruption might take different forms of deviation from the rules, exercise of personal power and illegal use of positions. Financial corruption commonly takes the shape of a person's benefit-seeking behavior; a person who works as an official or a state authority and abuses his/her power. (Supreme University of National Defense, 2009, 15)

3. Relationship between Corruption and Rent-Seeking

One of the concepts related to rent-eating is the issue of corruption which appears in financial, administrative and political forms. In fact, it must be mentioned that rent-seeking and corruption is generally two related phenomena. According to most theoreticians, corruption is above all a rent-seeking behavior. Kroger considers corruption as one way to impose rent and a form of rent-seeking. Tanesie believes bribery is one of the most important methods of gaining rents and asserts that it is difficult to draw a boundary between rent-seeking and corruption. (Khezri&Ranani, ibid, 58). When corruption takes place, the official rules of allocating public resources are breached by economic planners in return for money or political support. Where economy is planned by the government, rents are created and bribing the planners becomes a major method of obtaining those rents. In fact, when resource allocation becomes politicized, the planners gain a central role in the process. Therefore, individuals and groups are in search of economic rights related to a profitable, exclusive condition that is created by economic planners. Planners also know that exclusive opportunities and the licenses donated through exclusive advantages would bring about considerable surplus (i.e. rent) for the ones who achieve them. So the planners try to transfer part of that surplus to their own account by getting bribes. It must be said that creating restrictions and artificial scarcities by the government and the licenses issued following such conditions, will bring about exclusive rent for the individuals and groups that achieve them and bribes for state authorities. Thus, administrative corruption is a product of rent-seeking process and a reaction to it. Some researchers consider the production of rent by government as the most important factor that contributes to the emergence of administrative corruption (Bakhtiarizadeh, 2007, 75). On the one hand, the demand for administrative corruption on the part of rent-seeking individuals and groups and their paying bribes to bureaucrats is one of the ways to achieve legal rents. (Tadbir-e-Eqtesad Institute, 2009, 14).

4. Types of Rent in Iran

Nowadays, the Iranian economy is influenced by various types of rent. Rents are divided into different types which are mentioned in the following:

4.1 Economic Rent

This type of rent, synonymous with windfall income that is earned without any efforts or difficulty. In Iran, Economic rent often originates from abnormal economic relationships. Issues such as exclusive use of natural resources, commercial limitations, support policies, multiplicity of exchange rates, state funds and budget distribution method (Aqanazari, 2004, 76).

4.2 Political Rent

We can define political rent as acquiring any level of political power without paying the essential and necessary expenses (Darvishi, 2008, 132). Some social groups want to gain resources and interests which are much more than what they have paid to obtain those resources and interests. Such social groups make use of "political rent". In fact, individuals and groups' use of political rent means gaining possession of political power or exertion of political influence without having the necessary requirements, i.e. merit (efficiency).

4.3 Information Rent

Gaining early and exclusive access to economic information in the areas of commercial, monetary, exchange, stock market, financial affairs and construction plans policies is one of the most important types of rent which is known as information rent. Some people are informed in advance about such information as the upcoming changes in rules and regulations, new policies, major construction plans, etc. and use them to gain personal interests and achieve considerable amounts of wealth. Thus, it can be stated that information rent is an introduction to the acquisition of economic rent and achievement of huge wealth without much effort.

4.4 Social Rent

"Possession of some special rights by certain individuals not due to their merits or because they deserve those rights is called social rent. Social rent implicates that some individuals or groups are given particular rights which they do not deserve; a condition that would result in the accumulation of wealth by few people." (Fazlinejad&Ahmadian, 2010, 132). Social rent is in fact a kind of discrimination and discrimination takes place when some individuals who are not qualified and do not deserve certain opportunities and facilities whether they are material or intellectual have priority or preference over others who possess essential conditions and qualifications.

4.5 Judicial Rent

Judicial rent occurs when some influential individuals who have economic power can also have judicial

immunity and can escape from law enforcement as a result of illegal measures such as exerting influence on or paying bribes to state officials. By judicial rent, influential individuals who are connected to centers of power, evade the exercise of justice through their influences on the judicial institution. It is evident that when such an unpleasant event takes place, the judicial institution invests all its efforts in dealing with cases which are not either economically or politically cost-effective instead of taking care of cases related to the so called "big guys".

5. A historical Account of Rent-Seeking in Iran

5.1 Rent-seeking before the Islamic Revolution

Undoubtedly, the structure of political power and the type of economic system in Iran have had mutual effects on each other. During the first and second parts of Pahlavi period, the government was basically built upon nepotism and this issue resulted in ever-increasing political, administrative and financial corruption during the time when Mohammadreza Shah was the king of Iran. In addition to the king, the royal family also reached abundant financial resources and preferred their own personal and family interests over those of the people. Pahlavi foundation which was affiliated with the Pahlavi government had shares in many banks and investment institutes inside and outside Iran. It worked as the largest Iranian economic organization and was a huge source of income for the king's family. Pahlavi family possessed a major share of the rents due to their direct relationship with the king himself and the civil and military high-status officials. Pahlavi foundation was one of the main shareholders or possessed all the shares in 200 insurance companies and investment institutes, 15 metal industries manufacturing companies such as the Iranian General Motors, 12 petrochemical companies and tire manufacturers, 12 textile factories, 50 construction companies, 46 food and livestock companies including Iran cultivation and technology company and about 60 trading and service companies, etc. (Azghandi, 1997, 27).

5.2 Rent-seeking after the Islamic Revolution

The first decade after the Islamic revolution (1976 – 1986) when Iranians were faced with socio-political problems on the way to establish their revolution and suffered from an imposed war which lasted for eight years. In this period, the spiritual character of Imam Khomeini, the leader of the Islamic revolution in Iran, the government's control the economy over economy and public participation in solving problems prevented from political and administrative corruption and rent-seeking.

The second decade after the Islamic revolution (after 1989). In this period, the economic balance policy started and privatization was practiced on a large scale. In addition, market economy replaced a state economy that was dominant during the war between Iran and Iraq. From this period on, the values respected during the first decade after the Islamic revolution such as justice, philanthropy, spirituality, etc. gradually lost color and gave way to a desire for wealth, luxurious life. In effect, unplanned and unsupervised privatization spread of administrative and political corruption in the period after the imposed war led to the intensification of social inequalities (Rafipour, 1997, 170). During this time, a kind of give and take relationship was established among different centers of political power, administrative system and powerful influential persons and parties. Thus, the road was paved for the revival of economic rents. In the process of leaving public economic institutes to the private sector, political rent-seekers who were close to the sources of power prioritized themselves and their relatives in buying those institutes. They even grabbed the opportunity when they bought manufacturing companies at lower prices with long-term installments. Issuing many licenses for some people commonly called "noble sons" and the resulting class conflicts and movements, created a kind of socioeconomic injustice in the Iranian society. (Sardarnia, 2010, 88).

6. Conclusion

Nowadays, in Iran, rent-seeking is considered a sinister phenomenon in the areas of economy and politics. Rent means the income obtained through natural resources such as oil. Thus, the states whose major part of income is gained by selling natural resources are called "rentier" states and the particular style of policy-making and government in such states is referred to as "rentierism". In Iranian politics of economy, rent means "any unusual profit gained through abuse of power by particular individuals and groups without efforts and simply because of having certain privileges and information and governmental positions and any actions taken to acquire rent is called "rent-seeking" and the people who strive to obtain it are "rent-seekers". Rent-seekers in Iran use their political or economic influence or take advantage of their influential relatives' positions in order to illegally gain access to financial resources and accumulate wealth. Different types of rent including economic, political, social, judicial and information exist in the country. Two issues of rent-seeking and corruption in Iran is totally inter-related phenomena. One side of the coin is rent-seeking and the other is corruption. Corruption might take financial, political or administrative forms. In fact, corrupt economic behavior is a pre-requisite for rent-seeking. Presence of a rentier government, which is dependent upon oil and adopts a "rentierist" policy would also

intensify the problem. One of the main causes of rent-seeking in Iran is the large size of the state economy. Although privatization policies have been exercised to some extent, such measures have not been successful in practice and in some cases they have even led to the expansion of rent-seeking problem due to lack of clarity, lack of sufficient information, lack of supervision and responsiveness in economic activities. Rent-seeking in Iran has led to such a recession that the motivation to perform entrepreneurial tasks, care about real production and value creativity have terribly dropped. Thus, it can be said that rent-seeking has turned into a culture in the Iranian society; an act which makes the human force busy with acquiring rents, increases unemployment, causes the spread of intermediaries, reduces productivity, disturbs conscience at work and creates two poles of the rich and the poor in the society, aids the spread of corruption, leads to an unfair distribution system and ensures the interests of a particular group in the society, causes lack of safeness in production, and makes capitals turn towards service production or intermediary activities. Based on all the things said, it seems that the authorities in Iran must adopt privatization policies accompanied by supervision, provide support for national production and take decisive measures to fight against economic corruption. In addition, they have to enact the required rules to tackle and hopefully overcome this huge challenge.

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Conflicts of interest:

The authors declare that they have no conflicts of interest.

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