

Internal Instability in Iran: Drivers and Regime Response

December 2020

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Produced in support of US Central Command (USCENTCOM)

What is ViTTa?

NSI's Virtual Think Tank (ViTTa) provides rapid response to critical information needs by pulsing a global network of subject matter experts (SMEs) to generate a wide range of expert insight. In support of US Central Command (J3), ViTTa was used to address four questions regarding geopolitical stability in Iran. ViTTa reports are designed to provide highly customizable and compelling analyses, reports, and briefings that consider varied perspectives across disciplines, challenge assumptions, provide actionable insights, and highlight areas of convergence and divergence.

Question of Focus

[Q1] What are the primary drivers of internal instability for Iran currently, and how are they responding?

Subject Matter Expert Contributors

Mr. Behnam Ben Taleblu (Senior Fellow, Foundation for Defense of Democracies), **Mr. Christopher Bidwell, JD** (Senior Fellow for Nonproliferation Law and Policy, Federation of American Scientists), **Dr. Michael Connell** (Principal Research Scientist, Center for Naval Analyses), **Dr. Kenneth Katzman**¹ (Specialist, Middle East Affairs, Congressional Research Service), **Mr. Vernie R. Liebl** (Middle East expert, II Corps Consultants, Inc.), **Mr. Alireza Nader** (Senior Fellow, Foundation for Defense of Democracies), **Dr. Sanam Vakil** (Deputy Director and Senior Research Fellow, Middle East and North Africa Programme, Chatham House), **Mr. Alex Vatanka** (Director of Iran Program and Senior Fellow, Frontier Europe Initiative, Middle East Institute), **anonymous expert**

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There was consensus among the subject matter experts (SMEs) who responded to this question that the primary driver of internal instability in Iran is the dismal state of the economy. This is consistent with findings from the previous round of ViTTa reports produced for US Central Command.² This group of SMEs did judge the economic situation in Iran to be more acute than it was six months ago, but do not consider the regime to be in imminent danger of collapse.

Repression, corruption, and economic control, the contributors suggest, will buffer the regime against popular discontent, even when people's economic circumstances are dire. The lack of an effective opposition, or charismatic leader, to consolidate the various social factions, leaves the population with no clear, compelling alternative. And, even if there were, the region (Afghanistan, Iraq, Syria, Libya) provides a sober lesson on the perils of regime change. In other words, things might be bad, and even very bad, but recent history indicates that they could still be much, much worse. This effectively puts the bar for the current Iranian government very low; as long as Iranians consider themselves better off than Iraqis, or Syrians, they are likely to remain risk averse

¹ Dr. Katzman was interviewed for this project in his personal capacity. His comments do not reflect the views of the Congressional Research Service or the Library of Congress.

² Bragg, B. (May 2020). *Regime stability in Iran: The COVID effect*. Produced by NSI, Inc. in support of US Central Command.

and prefer to maintain the existing regime. Figure 1 below shows the key drivers of instability and buffers of stability identified by the expert contributors.

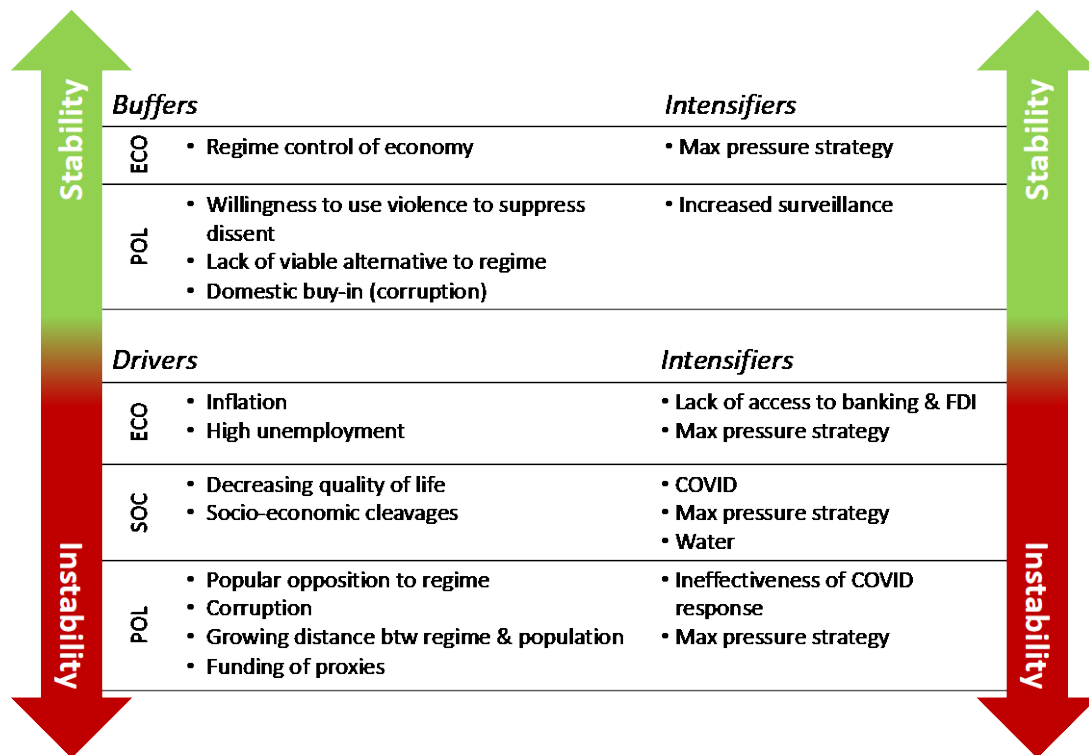


Figure 1: Drivers of Internal Instability and Buffers of Internal Stability in Iran, November 2020

Economic Drivers of Instability

Economic pressure is nothing new in Iran, and, much as in the United States, polls consistently show the economy to be the number one concern of the Iranian people (Vakil). The SMEs identify two driving factors behind Iran's current economic instability: inflation (Katzman, Liebl, Nader, anonymous expert) and a crashing stock market (Nader). One factor responsible for intensifying both is the re-imposition of US sanctions. Iran's currency has been devalued by almost 900% since 2018,³ triggering an increased demand for US dollars and gold where available (Liebl). Today, the rial is "virtually worthless" and the standard of living and purchasing power of the large majority of Iranians has declined substantially, according to the expert who prefers to remain anonymous.

US Maximum Pressure Strategy

Christopher Bidwell, of the Federation of American Scientists, credits the re-imposition of unilateral secondary banking and oil sanctions by the United States in November 2019 as a key contributor to Iran's current economic troubles. A central component of the United States' "maximum pressure" strategy, secondary sanctions are imposed on firms and banks that conduct business in Iran (Bidwell, Katzman). By imposing, or threatening to impose, fines against those doing business in Iran, the United States has effectively, unilaterally, prevented Iran from attracting the banking relationships and foreign direct investment it needs to further develop its energy

³ Current formal exchange rate (24 November 2020): 1 USD = 42,090.36 IRR. Informal exchange rate in Iran is reported by Liebl as 1 USD = 300,000 IRR.

resources and get its economy back on track (Bidwell). In addition, international banks holding Iran's hard currency are abiding by threatened US sanctions and prohibiting Iran from drawing its money down, further contributing to the decline in the Iranian currency (Katzman).

Direct US sales restrictions on Iranian oil have also contributed to the Iranian government's economic problems. Bidwell estimates that Iran's income from oil has dropped from around \$90 billion in 2010, to \$7.5 billion today. Not only does this directly strain government resources, it has led to a "precipitous drop" in Iran's currency reserves, estimated by the IMF to have dropped from \$80 billion in April to \$8.5 billion in November, further driving inflation (Bidwell).

Social Drivers of Instability

The SMEs draw a direct connection between economic conditions in Iran and social conditions that create instability. As the anonymous expert states, the obvious "number one driver is dissatisfaction with the state of the economy. You don't have to be an expert or genius to come to that conclusion." Deteriorating quality of life and socio-economic cleavages were identified by the expert contributors as the most significant social drivers of instability. These too have been intensified by the economic impact of the United States' maximum pressure strategy.

Deteriorating Quality of Life

Inflation has raised the cost of living in Iran such that, "in 2010, 10,000 Iranian rials would buy you \$1. Now it takes 42,000 rials to buy \$1. Imagine as an American paying \$4 for a latte in 2010 and now having to pay \$16 in 2020, without having the equivalent growth in salary, and you get a sense of the problem" (Bidwell). Not only are Iranians aware that they are worse off than they were a decade ago, Bidwell suggests they are "aware something is out of whack" with the cost of living in Iran as compared to the United States and other countries. Since 2018, the Iranian economy has contracted by at least 20% (Liebl), leading to high unemployment levels (Katzman, anonymous expert). Combined, inflation and unemployment contribute to a situation in which 60% of Iranians currently live below the international poverty line⁴ (Liebl). In reflecting on interviews recently conducted in Iran, Dr. Sanam Vakil, of Chatham House, suggests that the threat of malnourishment is growing to a level not previously seen. While considering whether "there is any role that women would play in Iran that could be a tipping point for protests," Vakil notes that women experiencing the greatest deprivation are unlikely to be in a position to protest, and while the women's movement in Iran is relatively effective compared to others in the region, "the state is also good at silencing, repressing, dividing" (Vakil).

Water Shortages

In addition to high inflation and unemployment, water shortages are compromising Iranians' quality of life. Rural areas are increasingly facing water shortages, exacerbated by the regime's "theft" of water and alleged damming of rivers for its own profit (Nader), as well as decreased inflows from Afghanistan (Liebl). The Iranian government has itself redirected some rivers that flow into the Tigris back into Iran, which has angered the Iraqis (Liebl). For rural Iranians, this situation has contributed to malnutrition (Liebl) and forced many families off their land and

⁴ According to the World Bank, the international poverty line, currently \$1.90 a day, is the universal standard for measuring global poverty.

into cities where unemployment is already high (Vatanka). Cities also are not immune to water shortages; Iran has exploited its aquifers to such an extent that sinkholes are appearing in Tehran (Liebl). Vernie Liebl, of II Corps Consultants, Inc., notes that Iran may soon have no choice but to switch to desalinating seawater, which will increase its vulnerability, as the desalination plants (of necessity located on the Persian Gulf) may be targets in future conflict.

COVID

Consistent with the findings from the last round of ViTTa reports,⁵ the SMEs believe the regime's response to COVID has undermined public confidence in the government. The IRGC has acknowledged that mistakes were made early on and has tried to take over response measures, but "it's just not working out" (Liebl). By late November, Iran had reported almost 900,000 cases and over 46,000 deaths. While these official figures indicate a much higher death rate than comparative countries (Bidwell), the unofficial death toll is estimated to be even higher still, with unofficial estimates suggesting up to 116,000 deaths (Liebl). Bidwell notes that, although medical supplies, medicines, and foodstuffs are specifically exempt from US unilateral sanctions, Iran is not receiving the supplies it needs due to concerns from European banks and insurance companies that they may inadvertently run afoul of US sanctions enforcement. These companies have largely decided that there is too much risk in underwriting any transactions with Iranian entities, legal or not. Even when supplies reach Iran, there is significant evidence that corruption (smuggling or hoarding of medicine, and theft of money allocated for medicine) further exacerbates chronic shortages (Nader).

Socio-Economic Cleavages

As well as undermining Iran's standard of living, the moribund state of the economy has contributed to development of socio-economic cleavages (Vakil). Class, age, and ethnic cleavages are all widening as each group finds itself under increasing economic pressure with fewer alternatives to improve their situation. Iran's population has doubled since the 1980s and most of this growth has been in less affluent segments of society—particularly in rural areas (Vatanka). More so than ever before, the poor in Iran face economic conditions that directly challenge their ability to survive, whether they remain in rural provinces or move to urban areas (Vakil, Vatanka). In addition, both lower- and upper-class young Iranians are increasingly frustrated by the lack of employment opportunities (Vakil). In Iran's border provinces, especially those with Arab or Kurdish populations, economic dissatisfaction among the population as a whole is compounded by political discontent (Vakil).

Political Drivers of Instability

Several expert contributors express the view that the discontent currently seen in Iran is qualitatively different from what has been seen in the past: "It's about lack of money. It's about not having enough to eat. It's about deteriorating socio-economic conditions" (Vatanka). Although not primarily politically motivated, or driven by the urban intelligentsia as in the past, protests against the regime do reflect the growing distance between the regime and the population, which is further exacerbated by widespread corruption.

⁵ Bragg, B. (May 2020). *Regime stability in Iran: The COVID effect*. Produced by NSI, Inc. in support of US Central Command.

Growing Distance Between Regime and Population

According to Dr. Kenneth Katzman, of the Congressional Research Service, “[Iranian government] politics are not following the popular trends, which are more toward moderation and engagement.” This has been borne out by the regular election of moderate elements in local and municipal elections. Katzman notes that currently the hardliners are ascendant in the regime, and the IRGC is also more powerful, contrasting this to the situation prior to the US withdrawal from the JCPOA, when “things were evolving in a much more positive direction.” Vakil offers an interesting indicator of the regime’s awareness of this divide: “They are still dangling, for the 100th time, the prospect of a woman running for president in 2021...don't be surprised if they let that happen this time. That would be a sign that they think, ‘we're in trouble!’”

The belief that the regime neither listens to, nor reflects the interests of, the people has further eroded popular trust in government (Liebl) and generated significant frustration and anger across Iranian society (Vakil, Vatanka). Increasing economic hardship and social cleavages within the country further challenges the legitimacy of the regime (Vakil). Vakil points to the recent widescale purge of the judiciary by Chief Justice Ebrahim Raisi as designed not only to demonstrate his competence, but also the regime’s commitment to judicial reform, and willingness to go after their own as a show of accountability.

Corruption

Regime corruption is extensive and, as it receives increasing attention, very well known in Iran (Bidwell, Liebl, Nader). It is regularly featured in domestic news reports, and “officials basically admit that the regime is very corrupt and it’s a big problem, and sanctions are not the only reason the economy is hurting” (Nader). As discussed, institutional corruption has intensified shortages of medical supplies and water (Nader), and distorted economic activity more generally. As economic conditions have worsened, Iranians’ frustrations with regime corruption are mounting and feeding more general underlying societal anger and dissatisfaction (Nader, anonymous expert).

Funding of Proxies

Similarly, Iran’s continued funding of Hezbollah and other external organizations is generating criticism and discontent as Iranians face increasing economic privation. While Iran’s funding of proxy groups has decreased (Connell), it has not ended. The IRGC have less resources than in the past, but their control over half of Iran’s GDP ensures that they still have some money for funding (Liebl). This policy, however, is increasingly seen by the population as stealing Iranians’ money to give to others. As Alireza Nader, of the Foundation for Defense of Democracies, explains, “most Iranians [do not] care what the regime is doing defending the religious shrines in Syria, because it doesn't really benefit them.” The regime’s determination to maintain its regional reach and influence at a time when the domestic situation is so dire signals priorities—both security and economic—at odds with those of the population (Bidwell, Nader).

Popular Opposition to the Regime

As economic instability creates hardship across Iranian society, social cleavages are becoming more salient and combining with dissatisfaction with the regime to trigger protests. As Behnam Ben Taleblu, of the Foundation for Defense of Democracies, notes, protests since 2017 are not the pro-reform protests of 1999 and 2009, or

demonstrations for or against specific political leaders. Today, “a much broader cross-section of Iranians, demographically and geographically, are protesting against the negative impact the regime’s policies are having on their ability to meet their basic needs” (Katzman, Vatanaka).

Lack of an Effective Opposition

Despite the pervasiveness of discontent with the regime, as was similarly noted in the last round of ViTTa reports, there is currently a lack of organized opposition within Iran. There are lots of groups, especially younger Iranians, that are mobilizing, but they are disconnected (Vakil) and still “on the back foot” after the United States’ withdrawal from the JCPOA, which many of these groups had counted on to bring “a new era of engagement with the United States and loosening of restrictions internally” (Katzman). The disorganized state of Iranian opposition reflects both the fragmented nature of Iranian society and the effectiveness of the regime’s policies of suppression (Vakil). As the anonymous expert points out, “dissatisfaction is a necessary but not sufficient cause of revolution and social change.” Successful revolution or even social change requires an organized opposition (Katzman, Vakil, anonymous expert), a shared ideology (anonymous expert), and a population that is not only unhappy, but believes that if it protests, a better situation will come of it (anonymous expert). Liebl was the only expert contributor to identify any organized opposition currently operating at scale in Iran; the National Council of Resistance, and the People’s Mujahedin Organization of Iran (PMOI). Although not yet sufficient in size or scope to seriously challenge the regime, it is becoming a focal point for opposition.

Regime Response

The regime’s response to sources of internal instability has been to double down on what it knows works—surveillance and violence—and to bolster this with efforts to reduce factionalism and consolidate the regime around Khomeini. The SMEs indicate that the regime’s focus is predominantly on surviving the domestic challenges discussed above. These challenges combined with shrinking resources, and a new US administration, have led the Iranian regime to adopt a “wait and see” attitude with regard to foreign policy. The regime has dialed back its international activity to avoid escalating tensions at a time when it lacks the political capital or resources to fight.

Suppression and Violence

Since the protests in 2009, the Iranian regime has developed specialized domestic security units in the IRGC and Basij (Connell). Through these and other organizations, the regime has become very good at controlling its population, both on the streets and online (Connell, Katzman, Vakil, anonymous expert), and is focused on its own survival (Liebl, Vakil). Surveillance power is backed up by a demonstrated willingness to use violence against its own people (anonymous expert); and “there is a very pervasive belief that the regime will not hesitate to use any amount of force. There is no amount of force the regime will not use to keep itself in power” (Katzman).

Toward this end, the regime also offers carrots to those who support it. As sanctions have weakened the Iranian economy, regime efforts at control have increased (Liebl). Membership in the Basij, or working for the government, gives Iranians access to employment, higher education, and other material benefits (Liebl). As the economy in Iran continues to contract, opportunities outside the regime’s control become harder to find, increasing the segments of Iranian society that have a vested interest in the survival of the regime (Connell, Vakil).

Internal Consolidation

Within the regime, the anonymous expert notes, current conditions have motivated Khamenei to move toward homogenizing the elite, ending internal divisions and competition, and transitioning to one-party rule. This motivation is driven partly by US pressure, which Khamenei apparently feels can be more effectively resisted if the regime speaks with one voice (anonymous expert). However, both Alex Vatanka, of the Middle East Institute, and the anonymous expert suggest that political control at home is a stronger driver. If hardliners try to not just marginalize but oust moderate elites, these figures could transition to fill the leadership void currently faced by popular opposition groups, cohering them into a viable opposition (anonymous expert). Vatanka contends that Khamenei is concerned that if infighting is not regulated, he “would very quickly find himself on the sidelines being a spectator and watching it.”

Likely Way Forward

Overall, the SMEs paint a fairly dismal picture of Iran’s current circumstances and short-term outlook. With the usual disclaimers about the futility of prediction in the Middle East, none indicate that they consider regime collapse imminent. Implicit in this is the perception that Iranians’ decision calculus reflects an understandable fear of the future. As Taleblu points out, looking around the region, there are “a lot of horrible end games.” Effectively, this sets the bar for regime survival very low, as summed up by the expert who prefers to remain anonymous:

When middle class, educated Iranians, no matter how frustrated, look at the map of the region, they do not like what they see. ‘Do I want to be another Afghanistan, Iraq, Syria, Yemen...?’ The answer is no. What they are likely to say is, ‘I don’t like this regime, but what option do I have? At least I have some degree of stability that other countries don’t have.’