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P R O C E E D I N G S

MR. POLLACK: Good afternoon and welcome to the Saban Center for Middle East Policy at the Brookings Institution.

The Chinese expression, "doomed to live in interesting times," seems to be kind of a leitmotif for those of us who work on Iranian affairs. I have been working on Iran for almost two decades, and I can't seem to recall a time that wasn't incredibly interesting in Iranian history during the period of time. Of course, now is no exception.

As our invitation noted, within a month, Iranians will go to the polls once again, this time to vote for the Assembly of Experts. As has been the case in every election over the last eight or ten years, there is considerable controversy over who is being allowed to run, who the different leading candidates are shaping up to be, and what it all means for Iran's future. So we asked, as always, two of the leading lights in town to come to the Saban Center and to help us to try to make sense of all of this, to help us understand the elections and what they say about the internal politics in Iran which are, as usual, in a state of upheaval. There is a great deal of tumult, a great deal of turmoil resulting from the different events of the summer, from

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the war in Lebanon, from the continuing deterioration of the American position in Iraq, from internal affairs inside of Iran that have nothing to do with anything on the outside but are simply evolving of their own momentum.

And so, here to try to help us understand that and help us sort things out, we have to my immediate right, our Visiting Fellow here at the Saban Center, Mohammed Hadi Semati. Hadi, I think is known to many of you. I think the best way to describe Hadi is, Hadi is the Iran experts' Iran expert. He is the one who all of us around this room go to find out about Iran when we need to know what is going on there. He is Assistant Professor on the faculty of Law and Political Science at Tehran University and the author of any number of publications, virtually all of which are in Farsi, so I am not even going to try to pronounce them. But as I said, I think he is someone well known to all of you, and I think because we have Hadi and Dan here is why you have all come out.

Next to Hadi, of course, is Dan Brumberg. Dan is Associate Professor at Georgetown University and is also Senior Advisor at the United States Institute of Peace. Dan is also an old Iran hand and among his most recent works is *Reinventing*

Khomeini, a book which I commend to all of you because we are seeing the continuing reinvention on an almost monthly basis here. Of course, even more recently than that, Dan was also the co-author of *Islam and Democracy in the Middle East*, which he co-authored with Larry Diamond and Marc Plattner and reflects some of Dan's more recent work on democracy, Islamism and political change in the region.

So, with those notes of introduction, let me start off with Hadi, and then we will move on to Dan afterwards.

Hadi, the floor is yours.

MR. SEMATI: Thanks, Ken. What a pleasure to be here, not only as a speaker but as a fellow at the Saban Center. It is always enjoyable to be in the company of leading experts in town, especially at this time. Of course, not only at this time but for the last couple of decades, I think Iran has been the main topic of discussions in this town in one way or another. It is getting much more difficult to make sense of it as every year goes by.

I actually would try to use the elections and analyzing the elections as a prelude to getting a picture of where Iranian politics is heading and whether our flamboyant and sometimes

outrageous President is reshaping Iranian domestic policies or not.

Of course, Washington is a place where people tend to think about what sort of impact these things may have on U.S. policy and broader strategic issues. In that sense, I would say that the Iranian elections of the Assembly of Experts on December 15th and municipality elections, which are in some ways more important, would not have that much of significant strategic impact that people are looking for or trying to comprehend. But sometimes these elections are actually important for Iranians. As little as it may be, it is more important in the sense that everyday life of Iranians gets better or worse, depending on really minute changes in electoral campaigns and electoral results. So I am trying to give you an angle that things, however insignificant they might be in terms of large tectonic changes for the outside world, but they have a major bearing on how Iranians everyday life is influenced.

I will give you an example. Yesterday, I got a call from Tehran from a friend of mine who is publishing a book, and the censor in the Ministry of Culture has asked him to basically omit a hundred pages of the book. This guy has been going up and

down the stairs in the Ministry of Culture and Guidance for the last two months and is not giving up yet. He has accepted, actually, the revision. So these are the sort of everyday things that could get worse or could get better.

In many ways, despite the interest in global impacts of something local, sometimes it is good to look at what the local impacts of local leaders are. I think intellectual life, the students' lives could get better or worse, depending on very local elections. So this is about local everyday life, mundane life that is sometimes overshadowed by big, gigantic events.

Both elections, municipality and Assembly of Experts, how important are these institutions in Iranian political structure? The Assembly of Experts is a body of 86 basically clerics or people who may not have the role but have clerical training and passed certain tests of jurisprudential competence. At least up to this point, it has no significant practical impact, but it has more of a potential impact, especially in the next seven to eight years because the Assembly of Experts elections, are elections of seven-year intervals. They decide about who would be the supreme leader, and they have a supervisory function also, whether the supreme leader performs

his duties according to the constitution or not.

I think as we get close and especially this particular supreme leader, Khamenei, now in his late sixties, if something happens to him or major events force him to get out of office, this is where we are getting potentially important for the decision about the future leader or if anything happens to him or any important political event changes the landscape, so potentially important for the first time, I would say.

The local or city council is actually more important, I would say, at least for the immediate future. It is important in two senses. It is the principal vehicle and institution for local mobilization. Anybody, any faction that has control over municipalities could use that as the vehicle for mobilizing for the next elections. It is a campaign area. It is a large infrastructure extended deep into Iran, across Iran, and I think it is one of the successes of Iran in government or the post-revolution government. In that, I would argue that Iran's state at this point is probably much, much more powerful than any state before that, even the Shah's state, in the sense that it is penetrating every area in Iran more deeply and more efficiently. One of the vehicles for this penetration is the city council. It

is a large electoral process with thousands of city members getting elected and their powers have expanded in terms of budget allocation and resource allocation. So it has two functions in my judgment that make it important; local mobilization and it also sets the tone for more important elections.

Of course, unfortunately, at this point, the Guardian Council has essentially disqualified any major alternative candidates for the Assembly of Experts. So practically there is no competition. There are five or six districts or provinces in Iran that there is no competition. Two people are running for that. It has made the Assembly of Experts basically a non-competitive political exercise.

In terms of city municipalities, there is more than 50 to 80 percent of the candidates have been disqualified in smaller cities. Usually, reformists have a good chance of taking over. Fortunately, in Tehran itself, more than 80 percent have been qualified. So the big names of reformists are on the ballots in the Tehran city election and municipality election.

You could argue that there is no competition in the Assembly of Experts election. There is a little feud and dispute between the mainstream conservatives and the radical

conservatives in the Assembly of Experts, but that also is, I think, very minimal at this point because the leading radical conservative forces led by Mesbah Yazdi who is one of the closest political figures to Ahmadinejad has decided not to, at least his friends have decided up to this point, not to publish any lists, independent lists of other main conservative forces.

But in the municipality election, the typical three basic factions are fighting and are competing-- the reformists, the mainstream conservatives, and the radical conservatives. So there is a good chance in this election, the reformists can make a comeback in Tehran itself and somewhat in some of the small cities.

That is the state of the fight. As I said, it is broadly taking the shape of reformists battling the institutions of power that are trying to bar them and prevent them from getting into the competition.

Despite the fact that between 50 to 80 percent of the reformists candidates have been vetted for the election, the municipality election, they are still, as I said, hotly debating and publishing and writing letters, protest letters, even sit-ins protesting the decision of the Guardian Council to reject them

and the committee that rejects some of these candidates, but nonetheless, I don't expect a major shift. I do think we are going into the election with no competition for the Assembly of Experts and some modest competition in the municipality election and a good chance that Tehran, the Tehran city council, could be divided 50-50 between reformists and conservatives.

What could this election signify, given this dire state of affairs in one way or another? I think there are basically three issues involved. This is a test for reformists and their viability, at least a test for their viability, whether they can make a comeback organizationally, financially, and politically or not and whether they can pull together the resources to form a broader coalition among the different factions of reformists in that they have expended too much infighting over the last couple of years.

At the same time, secondly, this is also a test of conservative momentum, whether the conservative momentum can be sustained or not and survive and, of course, if that proves to be the case, whether they would be able to further consolidate in the next year or so before the next Presidential election which would be very critical or could be very critical. So that is a

test for conservatives at the same time, whether they can sustain this constant campaigning and constant institutionalization and counter-institutionalization, if you will.

Thirdly, this is also a test for the constituencies, whether there is any public appetite for real politics and real politicking. It is obvious over the last few years that it has been a fairly disillusioned electorate. The reformists' failure or lack of success and the conservative heavy-handed approach has made political life very difficult and, of course, more psychologically, I would say, than institutionally, even though that also has been significant. The turnout will give me an indication, a signpost, whether the public is making some sort of comeback and shows any interest or not, and if the energy could be sort of reconstituted for the next election. I think to some extent both sides of the political divide are actually looking at elections as such, that this could be a prelude to that.

So, essentially, at this point, it is an opportunity for all the groups that are engaged whether to entrench themselves or to survive and make a coalition comeback. That is why I think this election is important more psychologically than actually and practically. It is truly important for reformists

to come out of this in that they still have a chance to go to the grassroots and remobilize themselves. If they fail at this point, I think it is going to have a damping effect psychologically on the spirit of the reform. Of course, I will come back to whether that is viable and possible or not.

Let me get into the next issue which I think is more broadly interesting to you. Do these elections, these two elections, indicate Ahmadinejad and a conservative winning to remold and reshape Iranian domestic politics or not? I think that is, for me, more critical than the actual election itself. I think Ahmadinejad and the conservative forces first are still engaged in reshuffling and remaking the bureaucracy, the state institutions, especially executive power. He has not given up on that, and he is not stopping, and he is just constantly going on.

Just about two weeks ago, he let the Director of the Planning and Management Organization, which is the equivalent of the OMB here but larger in terms of staff and in charge of national strategic planning for development. He let that guy go even though he was his close associate. There was a dispute between Ahmadinejad and this guy. Three weeks ago, he changed the Labor Minister, the Social Welfare Minister, and there is now

buzz in town that he is changing two more cabinet officers, whether because of incompetence -- that he perceives them to be incompetent -- or more political fissure among them. So he is really going on. He has not stopped in reshaping the bureaucratic structure of the Iranian Government, the Iranian State, in many ways. I think he will keep going for some time to come, and it doesn't seem that anybody is stopping him, neither his comrades nor the Supreme Leader who has the power to stop him. That is creating a lot of problems which I will come back to.

Secondly, he is a macro manager. Therefore, he has gone on in a local spending spree and subsidizing the economy. In that, he is actually successful. I talked to the World Bank and IMF officers in the last week, and some told me that he actually has been able to revamp the micro business and small business enterprises quite a lot, although without having a macro plan, and by that, he is actually garnering a lot of support at the local level. He has enough money to do that. Oil money is still there, even though the national oil reserve money is being tapped into constantly.

But nonetheless, I think in terms of his micro

management, he is smart enough to have a political strategy for the next elections and the next election. Let us put it that way. I think he finds this to be very important to spend more of his time and energy and resources in the local areas and municipalities where he can spend money and where he can essentially keep the conservative momentum alive. This is an important issue, that by that, he is making his survivability and the conservatives' survivability much more of a possible game in town.

So subsidies and micro management of the local economies, and he has been fairly successful, I would say, despite the problems with the macroeconomic indicators that are showing some signs of strain and problem at least in the next six months.

Thirdly, he is dominating still the public discourse and the public propaganda campaign. He has been, I would say, successful in that, utilizing and neutralizing -- let us put it that way -- neutralizing the Iranian national radio and television institutions where there was initially some fracture between Ahmadinejad and the head of Iranian IRIB, what they call the Iranian radio and television and broadcasting services. I

think he won that battle in a way of using the Iranian national radio system to publicize Ahmadinejad's achievements over the last two years because he has constantly criticized that people are basically negatively campaigning against my government, first and foremost in Iranian radio and TV, which is a national institution, which was somewhat true in a way. So I think he has also managed that.

In a way, in the larger public sphere battle, he has managed to basically survive and keep the momentum. Of course, he is traveling across the country constantly. He is running a campaign. Of course, at the same time, the conservatives have shut down the major reformist paper one to two months ago. Of course, they are constantly filtering internet access to political sites, even though bloggers and internet sites have found ways to circumvent the filtering mechanism.

At the same time, let me give you a rough idea. Now, that is what he is doing, and he has kept going.

There are three basic misconceptions in this town about Ahmadinejad and the political landscape. First is the highly popular notion that Iran is actually moving in to be a praetorian state and the Revolutionary Guards are taking over. I have

little disagreement about that. I don't think both numbers and actual events show that still to the degree that people tend to believe in this town. There is much more disagreement on the Revolutionary Guards and there is much more defection among the Revolutionary Guards.

I think as an institution, I have always believed that over the last few years, the Revolutionary Guards has not been able to penetrate politics as much. It is more individual with political ambitions that have been able to capture the conservative momentum and use that to interject themselves into politics. So, as an institution, there is still enormous energy and resistance for politicization of the Revolutionary Guards, even though I would say some have managed to get into politics, and the corporate identity of these folks would help the Revolutionary Guards in general. It is just natural. If you have a general from the Marine Corps getting into politics, he is always going to be identified with the Corps. I think in the Iranian sense, it is kind of similar. That is one thing I would caution against the over-exaggerated sense of how the Revolutionary Guards are taking over everywhere. That is not simply true as much as people tend to believe.

Secondly, a misconception about the alternative, the radical Mesbah Yazdi, who is supposedly the leading radical conservative who is aiming and eyeing to substitute out Khamenei later as the Supreme Leader. I think people have exaggerated his power too quite a lot, more than the Revolutionary Guards' power. So I want to caution you that is also a misreading of Iran at this point, even though he is trying to show force, but I think that show of force is mostly directed at the reformists and the Rafsanjani campaign than at the rivalry to Khamenei, the Supreme Leader.

Thirdly, there is a lot of talk about the Messianic ideology of Ahmadinejad, the Hidden Imam, the apocalyptic nature. I don't think that he really believes in that in those senses. To him, these are more political truths and he may believe in some of those and I agree that he believes in some of those, but I do not believe that he is that much of a fanatic that most people tend to believe he is. He is more of a character that wants to repossess what he thinks belongs to this generation, the political power.

So, normally, those who believe in this Messianic ideology of Hidden Imam, there are two types, theologically

speaking -- those who are politically active and those who are not active. The traditional ones are those who do not believe in politics at all, who believe that they have to get engaged in educational walks and, contrary to belief, should not promote corruption. So it would happen with the return of the Hidden Imam and they just have to wait. They do not believe in the concept of Mahdi at all. They do not believe in those senses.

But the more activist branch of this apocalyptic and Messianic ideology -- Ahmadinejad probably belongs to that -- actually does not believe in that notion. They believe that, yes, you have to provide justice in order to facilitate the return of the Hidden Imam. There are two different ideological strands. I am not going to get into it. Nonetheless, he is not, in my judgment, as people tend to believe, a Shiite remake of an Evangelical Christian in the U.S., the version of that. Given all of that, the odds and the cards are still not yet landing in terms of where he would head and how he would institutionalize himself.

The consequences of his policies -- I am going to finish in a few minutes -- and what he has done so far and what he is doing constantly in those three areas that I alluded to, he

has created perpetual and constant fissure and infighting within the system. This is the first time I think, in my opinion, for the last 27 years that we have such a fragmented elite at the top. That is serious.

This perpetual and constant fissure among the elites, there are essentially three types: old versus new, the old revolutionaries versus the new revolutionaries, more generational; secondly, what I call technocracy versus the political appointees and incompetent political officers now in charge; thirdly, the mainstream conservatives versus the old, more politically radical conservatives. These are also crisscrossing in a way. He is creating a lot of resistance and a lot of problems within the bureaucracies and within the state institutions along these lines.

You can take a look. The Parliament has been the most important opposition to him in many ways and his economic policies. This is a conservative-dominated Parliament. Major ministries have had tremendous problems with his policies and suggestions -- the Ministry of Economy and Finance, I indicated earlier Planning and Management Organization, Social Welfare Organization, all of these are having really difficult times

meeting his expectations and are actually challenging him sometimes discreetly and sometimes open. So you can see in these contexts, he is not having a fun time. He has to let people go, change and substitute.

Secondly, one of the more important strategic consequences of his actions is essentially forcing Khamenei, the Supreme Leader, into a corner where he would have to support him. I don't think that he has done that by planning. It is just mostly by default. Of course, Khamenei himself, he thinks that Ahmadinejad is very functional for these purposes. In this long battle, Khamenei has succeeded, at least to some point, to use Ahmadinejad to isolate and neutralize reformists, weaken them enough, and, of course, weaken Rafsanjani and the pragmatic camp also but not kill them. He wants to make sure they are not totally finished.

People are asking this question constantly to me, whether this is a reversible process or not. If he goes too far, then Ahmadinejad becomes such a forceful character that you cannot just get rid of him. I still don't believe that he is there. I think Khamenei also is very, very smart and calculated and knows what he is doing, and I think he still has the power to

reverse the process and to stop him. But if in the future, Ahmadinejad becomes such a force that he will not have the capability to suppress him remains to be seen. I tend to be skeptical of that.

In a way, Khamenei has constantly over the last few weeks supported him very openly and very forcefully, and I think he has no choice. That is my point. In domestic politics, he doesn't trust reformists. He doesn't trust Rafsanjani. The only guy he can trust is Ahmadinejad and the core conservatives. These are true bastions and core constituencies of the Iranian Revolution if he can depend on them. So in that sense, I think Khamenei is essentially left with no other option but to support Ahmadinejad and his faction.

But I think he is making a risk and a bid that he will contain them, and every now and then he makes a comeback and then makes a gesture. Just like yesterday, there was news that Rafsanjani didn't want to stand for elections in the Assembly of Experts, that he forced him to run. Secondly, because he wanted a balance; he didn't want the Assembly of Experts to be overrun by somebody who is not experienced and somebody who might be problematic.

Secondly, Iran is the most counceled state in the world. Isn't that what you say?

MR. POLLACK: What?

MR. SEMATI: The most counceled state; there are a lot of councils, yes. The Expediency Council now has a new mandate. Actually, it had a mandate, but now it is implementing it. Yesterday, the ex-Commander of the Revolutionary Guards who is now the Secretary of the Expediency Council said that we are going to start implementing one of the mandates that we have, that is overseeing the performance of executive power and other powers. We are going to see that they are doing it based on a 20-year prospective plan and a 5-year development plan. In a way, we have incursions, if you will, into this maze.

Okay, thirdly and lastly, I think one of the consequences of his erratic actions and constant infighting is paradoxically I think he is limiting the institutionalization of himself and his power, Ahmadinejad, I mean. By doing this in such an outrageous way, if you will, and constant infighting and eliminating opposition or limiting opposition, he is limiting the extent to which he can institutionalize conservative power and radical conservative power because of the resistance that is

bubbling up from below and because of these constant changes.

I can essentially summarize my thoughts in this sense that I think it is too soon to say that he has institutional power. I think his more valuable asset still to date is his public campaigning and populist imagemaking and revitalizing that image everyday rather than deeply institutionalizing himself and his power.

I think I would argue that the U.S., in terms of policy recommendations, is in a very difficult position. It is a catch 22. If you engage Iran and this guy, you tend to consolidate him. If you don't engage him, you are going to consolidate him too. So there is now way out of this.

I have thought about that quite a lot, and I think, as a reformist, it is hard for me to suggest a very cordial engagement but nonetheless it seems that in the longer term, that will pay off. The U.S. is usually lagging five years behind in decisionmaking. Of course, I will have to admit that we all are lagging behind to sometimes. Is that right or not? We usually tend to lag behind too, but nonetheless, this time it is the U.S.'s turn.

Despite the difficulty that the engagement process and

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prospect of engagement might have, I think there is just no other option at this point. I can see we could go on. I mean the U.S. and Iran could go on for some time with this status quo -- limited containment, a different version of isolation, and we just keep talking about Great Satan and all of that for some years to come, and I think we could go on with this sustained status quo. But it is just a default position for those who cannot innovatively think about the possible long-term impact of engagement. Despite the difficulty that I have of comprehending engagement may lead to consolidation of Ahmadinejad and his conservative folks, nonetheless I am still very pro-engagement for the long term because I think it has a lot more offer. I can get into that in more detail, what I mean by engagement or lack thereof.

Thank you.

MR. BRUMBERG: Terrific; Hadi may have been alluding, in terms of the five-year plan, to the piece that he and I wrote when we were at Carnegie together, advocating U.S. engagement with Iran over Iraq at the time when the United States had a lot of cards to play. Here we are down the road in a much more complicated situation.

I agree very much with most of what Hadi said, and I just will add a few nuances for purposes of framing his talk, particularly in terms of his remark on implications for Iran's foreign policy.

I have always tended to see Iran's domestic battles as at least battles over two central issues, one of which is economics -- who gets what -- and certainly the battle over the President's populism is part of what is happening here. It has been quite remarkable. We have seen a joining of different factions in opposition to his extravagant spending and fears that this may put Iran in a particularly vulnerable position, given the possibility of sanctions, although I don't think that is very great, but with a decline in oil consumption and prices down the road if they do go down, there is great concern that the President may be setting up Iran for a very difficult situation down the road. I am sure the Supreme Leader shares that concern. So I think part of the current struggle is over economic policy. Although the President seems to be winning that battle for now, I think that he is helping create, not merely through his statements about the Holocaust and the rest of it, but through his spending policies which alluded to real consternation about

where Iran is going to be in five, six, seven years down the road or prior to that.

The other issue, I think, related to this obviously is the concern that in some sense the new President is running rings around the professional foreign policy establishment. He has, in many respects, run rings around Ali Larijani, undercut his capacity to negotiate with the United States, and this is a growing concern, particularly among, apart from the reformists, certainly the conservative clergy as opposed to the ultra conservatives who are now I see referred to as neo conservatives. That is going to get very complicated in our own analyses in the United States about the ability of essentially the President to muck it up down the road through his rhetoric and through basically making some sort of pragmatic approach very difficult for Iran's professional negotiators.

I think in many respects part of what is going on now is an effort to influence that foreign policy debate through domestic politics. This is not a new story. Domestic and international politics in Iran have always been intertwined. Iran's Revolution linked its own domestic politics to international affairs in a way that was really quite remarkable

and perhaps unprecedented in the last 20 or 30 years in any other country. This was the last great revolution in that particular sense, a revolution which was as much about domestic politics as about international politics, and that in many respects hasn't changed.

I think this battle over Iran's foreign policy can be seen in the efforts of Rafsanjani to make his way back from recent defeats and to essentially retaliate against some of his enemies, particularly in the Revolutionary Guards. Not long ago in September, he released a letter to Khamenei, reportedly written by leaders of the Revolutionary Guards towards the end of the Iran-Iraq War in which they were pleading for a ceasefire and making references to the use of nuclear weapons down the road to address Iran's situation on the battlefield.

It is very murky, this game of releasing letters and quoting letters. I talk a lot about it in my book. You never know quite who the letter is from, whether it is authentic or not but, of course, this was an effort by Rafsanjani to undercut the Revolutionary Guards and to strike back at Ahmadinejad. I agree that it is not so much a question of Revolutionary Guards per se but the fact that this institution has individuals who are

closely linked to the President, and this is an important vehicle through which personal networks are reinforcing his power. This was Rafsanjani's effort to some extent undercut that and to humiliate or embarrass them.

I think this was followed up by a retaliation from the other side. Ahmadinejad appointed Wechtaba Hashemi Sumarai (?) to the position of Deputy Interior Minister. This is his long-term, his old buddy and his advisor and a very hardline character, and he is going to be playing a major role in overseeing the elections. I think this appointment which came only a few days after the letter that Rafsanjani let out indicates again that Ahmadinejad is not going to sit there and take it from Rafsanjani. I think he very much would like to limit his power, and I think the debate, the struggle in the Assembly of Experts is in part over that.

I think where I suppose I differ a little bit from Hadi is my sense is that the effort of Mesbah Yazdi to go public and to play a more public role and to find his allies, him and allies a way to get into the Assembly and undercut the authority and power of the more traditional conservative members of the Assembly indicates a real potential problem, not only for the

conservatives and obviously the reformists but potentially for the Supreme Leader himself. Mesbah Yazdi is a man whose authority and power was always based in part on the fact that he was something of a mystery, stated at home, wasn't a national figure, didn't appear on television, had that kind of mysterious aura to him. As soon as you start getting out of the cave, things get complicated.

Don't quote me on that, but I am going to Iran in January. This is off the record, by the way, I assume.

I think that Mesbah Yazdi poses a real challenge because he is essentially trying to undercut the position of the traditional clergy and in so doing not take the position of the Supreme Leader. The Supreme Leader is 66 years old. That means he will live another 50 years, right. I mean he is going to be around a long time.

MR. SEMATI: They don't have retirement.

MR. BRUMBERG: They don't have retirement and these guys eat yogurt three times a day and raisins and have a nice walk.

MR. SEMATI: (off mike)

MR. BRUMBERG: Remember, Khomeini had his older brother

for a long time. The Supreme Leader is not going anywhere for a while. He is well protected.

So it is not as if he is trying to take that position, but the Supreme Leader's position is not a position of being a supreme leader in the absolute sense. The Assembly of Experts can disqualify him if it so chooses and can issue threats as it has obliquely before against certain of his policies to keep him in line. Therefore, what we are seeing here is a battle to affect the authority and position of the Supreme Leader.

Rafsanjani is gearing up to recapture that alliance because the two were, of course, very close in the early nineties, early and mid-nineties. Mesbah Yazdi and his colleagues are trying to undercut that alliance through their close working relationship between themselves, the President, and the Chairman of the Assembly of Experts, Jannati. That is a very powerful alliance.

Iranian politics has always worked through a balancing of competing forces, and despite it being an authoritarian system, the authoritarian system works because, not despite, the effort to incorporate and balance different forces. Once you are on a path of permanently trying to exclude a particular force, you are really undercutting the logic of the system. This is the

dilemma that the hardliners and Khamenei, the Supreme Leader, has to face because once you cut out the reformists in a permanent way, you begin setting the stage for a kind of polarization of the political battle that could become very destabilizing.

It is in that sense that, of course, the elections for the municipal assemblies are very important. One can see a certain logic in allowing reformists in some way to get back through the door and into those seats to create some sort of balance. The Supreme Leader is not going to be in a favorable position if increasingly the neocons or whatever they are called, those ultra conservatives, are more powerful and are able to weasel their way into the Assembly through, of course, the critical role of the Council of Guardians in disqualifying people to run for the Assembly in the first place. In the Council, six members are appointed directly by the Supreme Leader and the other six are appointed by the Head of the Judiciary who happens to be the personal advisor of the Supreme Leader. You can see where the cards lie here.

If this process went forward of exclusion and essentially decimating one critical voice, I think that the Supreme Leader would find himself dependent on the Assembly in a

way that would really undercut his authority to lead and would at the same time make it much more difficult for him balance all the different forces because you must have these forces involved in the system to balance them in the first place. So I think Hadi is quite right. The Supreme Leader doesn't have any choice right now than to basically tolerate the amazingly effective efforts of the President.

There is no question about it that there are plenty of people around this table who know as much if not more about Iran than I do, and I think we would all acknowledge that this President has been much more successful than any of us would have possibly imagined when he was elected.

The Supreme Leader finds himself forced to effectively tolerate this, but there is a point at which on the economic front and the international front, this becomes intolerable. The question is how to recapture that balance.

Therefore, the elections in Iran both at the Assembly level and at the municipal level are important because they will or will not create a certain kind of political feel that will allow for a recalibration of the political system or they will create a system which is increasingly polarized and as a

consequence of that, not able to deal with the United States, not able to negotiate, in which the pragmatists will feel increasingly constrained. We find at that moment, while we are five years too late when we talk about engaging Iran, we will not only have no cards to play because of the situation in Iraq -- even Josh Muravchik is acknowledging that now as I saw in the *Washington Post* this weekend -- but we will find ourselves in a tough situation because of the lay of the land in Iran. So there is a close, very close important working relationship, not simply theoretical but practical, between the internal politics and the domestic politics. It could be that if things go in the direction that they might go, one can see that the pragmatists in both capitals will be limited in terms of what they can do.

We can only hope that Hadi's friends succeed in getting back through the side door, not the back door but the side door in the municipal elections.

My guess is at the end of the day, the Supreme Leader knows that a victory by the neocons in the Assembly is a very bad thing for him, and therefore, he is going to try to see these factions balanced.

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Experts. To back out and just not run would be, I think, an extraordinary defeat and open the door to the neocons. So I think we are going to see an effort to balance those forces within the Assembly as opposed to an outright victory. It could go either way, and it is going to have an effect on Iran's relations with the United States.

MR. POLLACK: Thank you both very much. You put a huge number of things on the table for us.

I will be taking questions. If you would like to ask questions, just put up a finger, your index finger, please, and I will add you to the list. We will take you in turn.

Let me start out. I would like to ask each of you a question to draw out your thinking a little bit. First, for Hadi, I want to ask you a question based on where Dan left things which is you have laid out this incredibly complex set of factions in Iran and the different jockeying among them which seems to be pretty much par for the course in Iran these days. But obviously, as Dan has suggested, the outside world is going to impinge upon the internal politicking inside of Iran.

Just looking out a little bit on the U.S. foreign policy horizon, it strikes me that you could have two typically

completely contradictory gestures from the United States in the next three or four months. On the one hand, you are probably going to have the Baker-Hamilton Commission recommending engagement with Iran and that will have a huge impact in this town and all the media sources will pick it up and replay it endlessly.

At the same time, you are going to have the Administration pushing very hard for a new sanctions resolution against Iran and given conversations with the British and the Germans, it seems pretty reasonable that they will get some kind of a sanctions resolution. It may be a very weak sanctions resolution but they may very well get a sanctions resolution. Even if you think it is weak, that sends a very different signal.

The question I have for you, Hadi, is: How are those different kind of bolts from the blue going to play when they hit the ground in Tehran? How is it going to change the internal politics? How is the internal political situation there likely to make everyone react?

Dan, there were a number of really interesting things you said, but there was one in particular that you started off with and came back to later that I think is absolutely critical,

which is this issue of the economy and the fact that in many ways, many of the things that Ahmadinejad is doing, pretty much every economist will tell you could be disastrous for their economy and many the Iranian economists are in fact saying it is going to be disastrous for us. But as you also point out, he has proven to be a much more efficient administrator and a much better politician than any of us gave him credit for.

I would love it if you could just spend a few minutes playing that out and suggesting how things might work out two, three, four years down the road when both trends may come to fruition.

Hadi, do you want to start?

MR. SEMATI: I think basically the U.S. gestures can be in one way or another a mix of all of these things, at least over the last six months to a year. There are different voices coming out of Washington. Let us talk over Iraq, not talk over Iraq, extend a hand, then \$75 million appropriation, then we can engage Iran or not, pressure from them. As Larijani himself stated yesterday or the day before yesterday in an interview that he keeps receiving different signals from Washington. So I think there has been some sort of a mixture; whether intentionally or

unintentionally, that something else.

I suspect sanctions -- I agree with you that there is a good chance that very minimal sanctions will come out of the Security Council -- would definitely put the whole engagement force or those who support engagement in Iran would make it really difficult to make a comeback or a stand for engagement. So there will be a setback for sure. I think it would not be a last blow, so to speak, because Iran is going to calibrate their response in a very measured way, I think -- a response that we are going limit inspection probably, but we are still interested in talking and even maybe taking up the talk over Iraq.

I expect, first and foremost, the impact would be definitely adverse in terms of engagement and would weaken the position of those who are in favor. It would weaken definitely the NSC, our NSC, and Larijani and his allies. It would weaken Rafsanjani for sure.

I think that is why Ahmadinejad is out there every day saying that we are going to build it today, saying we are going to build 6,000 centrifuges. We are not going to stop. I think his radical campaign is paying off one way or the other with a minimal degree inside but more so outside.

I think that is a key factor that we didn't talk about much -- the new importance of Muslim constituencies in Iran's thinking. I think that went almost away during the mid-nineties up until two years ago but especially after the Lebanon crisis, the Lebanon War. I think in terms of calculation of Iranian leadership, how the Muslim world thinks of their actions and policies seems to be becoming really important, especially for Ahmadinejad and this folks and for Khamenei as well.

So I think the sanctions will definitely weaken the engagement camp and will put it probably off for some time. I think the Iranians have said recently that they would be interested in some sort of a pause on the nuclear issue. By pause, I don't mean suspension. That pause apparently was discussed since we talked about that, Ken, if you remember. Apparently, the Europeans are interested in taking up that offer but they couldn't deliver Secretary Rice and the U.S. on that, a pause without suspension at the end of which there would be some sort of suspension, but apparently the U.S wanted a complete suspension. By pause, I mean they are stopping the second centrifuge, not building the second one and a warm spinning of the centrifuges, a vacuum of spinning. They did a lot of things

in this respect to make sure that they can make it, at least make some sort of engagement, but I think definitely things are going to get difficult if there is a sanction.

MR. BRUMBERG: If you have a situation where the sanctions are actually not that strong, so you generate all this antagonism but you don't really have a good lever against Iran unless you are talking about really reducing or stopping oil flow. You have to talk about exacting real pain. You may not get the real threat you want. I am not sure I agree with Hadi that he anticipates the pro-engagement camp may be undermined, such as it is.

Getting back to Ken's question, all of you, of course, know the extent to which the Iranian economy, that is, 60 percent of the budget is essentially subsidized by oil sales. Iran has an extraordinary situation where it cannot refine its own oil, so it sells its oil and then it buys it back as refined product at international prices. Then it subsidizes to the population. It is something like \$5 billion a year, this year alone, is going to be spent on subsidies and that is much more than the Parliament anticipated. They wanted to slash those subsidies and introduce a kind of rationing system, a complex system. I never understood

the details of it, but apparently that has been at least jettisoned for the time being.

You can understand why if you have taken one of those flying taxis, whatever they call them, in Tehran with those drivers and half of them seem to be stoned all the time but in any case, at least I hope so to drive at that speed. You have people whose livelihood depends on doing whatever they do during the day and at the end of the day, they hop in their cars and give people rides, right, all over town. So much of the middle class is dependent on these subsidies. Ahmadinejad understands this, and he has managed to create a secure base of people who otherwise would be very vulnerable.

Of course, Iran is vulnerable. The question is when does the vulnerability hit? A year or two years from now? The oil experts will debate this. We all should go out and buy Prius right away or whatever because down the road, if the response to these increases in oil prices is going to be the one we anticipate, there will be some decline, at least in demand from the United States, but that is not the same for China where you may have decline and you may have increasing demand elsewhere.

I think that Ahmadinejad could be in a strong position

for quite some time, and it could be several years before the negative consequences of these policies come to roost. Populist policies are designed to make everybody happy to some extent. Unless there is a shock to the system and when there is, you make everybody unhappy and then you really undermine. But I don't necessarily think the rubber will hit the road in the near future. So we could see this President getting a lot of mileage off his current policies.

But when it hits, it is going to hit big. It will be very significant. For an investment such as it is -- it was never that great -- there is already doubt in the Iranian economy. The stock market has taken some hits. There have been a lot of jitters already. We already know the political leadership is jittery about the economic implications, but Ahmadinejad has a lot of latitude. He has raided the Oil Stabilization Fund to his benefit. I don't see this as turning around any time soon.

MR. POLLACK: Thank you.

Identify yourself, please.

QUESTIONER: I am Allan McCofsky (?)with the House International Relations Committee.

Two questions: On engagement, it is not clear to me exactly where Iran is itself right now. We seem to get equivocal messages also. You have speculated about what would be the impact of sanctions or what would be the impact of the neocons getting more power in the Assembly of Experts. Where is Iran? Just as a constant, where are they right now on the issue of engagement if the U.S. sent a clear signal that it wants engagement, as some would argue it has?

Let us say we are so unequivocal that Larijani could not say it is a mixed message. Where are they?

Second of all, on the Discovery channel documentary last night, Ted Koppel got a kick out of the fact that a villager was quoting the NCT. I know that some of your colleagues in Iran whom some of us are in touch with have said Ahmadinejad has so much publicized this issue that now he has really dug in and there is really no way that he could ever support a permanent suspension at any price. I just wonder how you would evaluate that claim. I guess the second one is for Hadi; the first one is really for either or both of you.

MR. SEMATI: I think in terms of engagement, you are right that there are always these mixed signals, different

signals, and contradictive signals whether Iran is ready or not, but Larijani on three or four different occasions over the last two or three weeks has said that they are ready to talk, contingent that these talks are serious and respectful, all that qualification.

My hunch is that this is actually interesting, that this relationship, this engagement is more now an issue for Ahmadinejad himself. He wants this relationship, of course, for two reasons -- one, domestic and personal, so to speak and one international. I think just briefly he was getting good training on the job over the last year or so, despite the lack of experience on international issues and overall even executive responsibilities. He was the Governor of a small province, a newly established province, and then for a couple of years, less than two years, the Mayor of Tehran. So he doesn't have that much experience. Actually, within the Revolutionary Guards itself, he is considered a junior among the commanders. He wasn't ever a formal member of the Revolutionary Guards. So a lot of people have problems with him.

But I think that he thinks he is riding so high, that an engagement initiated by him will nail his success completely

and will not only consolidate him as a populist sort of anti-American who brought the Americans to their knees but the same time will consolidate him internally.

Actually, when he wrote the letter -- to give you a little info -- nobody knew that he wrote the letter to President Bush, even the present Foreign Minister, just the night before he found out. He was himself personally interested in writing this letter and wrote it, not that he himself wrote it but somebody else close, an advisor, wrote it and he corrected it and all that. There were three people involved in writing this letter. This is my understanding. Therefore, engagement has a huge support at this point, and that is the public persona of Ahmadinejad. He wrote this letter and he has said it several times himself publicly. So I think there is a consensus across the board.

The question is: What is in it for us at this point? They are so cocky right now that Americans are in deep trouble. So what is going to go on the table for us? You are not going to just talk about Iraq. That is their position, I think. Engagement, yes, but contingent upon one, two, three, four. I think they have a big agenda.

MR. POLLACK: But not if it is only Iraq.

MR. SEMATI: Not if it is only Iraq; I think they may accept let us go to the table but the first order of business, well, the shouting matches will be the first order and who is responsible for what. They are going to say: Okay, why should we help you guys? I am confident that will be the first statement by the chief negotiator, whoever that might be, and they have a point in that sense.

They are now in a very advantageous position, and they have the experience after Afghanistan. Our ambassador in Iraq is the guy who has long experience in Afghanistan in the eighties. So this guy knows a lot about the problems of engagement in Afghanistan.

I think I am sure Iran will come back and say, okay. I think that is actually a good way of getting out of this trap of the nuclear issue. Deprioritize the nuclear issue, that is my policy recommendation if anybody would want to listen to me. Deprioritize the nuclear issue but put everything on the table. Go to the negotiations. Talk about Iraq, Lebanon, Hezbollah, everything else. Just forget about the nuclear issue for some time, six months. But underneath the table -- in Farsi, we say -

- talk about it. Then you might be able to actually desensitize it somewhat. This is one way to do, and there would be some room for maneuver.

Suspension, I think I agree with whomever has just told you. I think suspension, at least at this point and the foreseeable future, unless there is some sort of minds coming together, it is out of the question.

MR. BRUMBERG: Hadi and I disagree a little bit on this issue. My sense is, and I get this from being in Iran but also from being involved in some second track diplomacy meetings and endless discussions. Other people around the table have done this sort of thing, and Ken and I have talked about this before. There is a fundamental set of psychological desire for reconciliation here and it is a very important desire but it is very hard to know how to operationalize that. Ahmadinejad, I think is, to use a term from the sixties and seventies, somewhat conflicted. He greatly wants the political benefits that he might get from engagement, but he also feels that this is a revolution built on this notion of independence and opposing this other system and how do we square this circle. I think many Iranian leaders have not quite come to terms with how do you

square that circle. It remains an impediment, a kind of symbolic psychological impediment. It is very complex, particularly for someone like him.

It also depends on what you mean -- Hadi was getting to this -- what you mean by engagement. What does engagement involve? Who is talking to whom? Who is in the room? What is the purpose? I think the Iranians, certainly because they are in such a strong position now -- it is a great paradox of our gambit in Iraq -- that to say, well, we are just going to talk about Iraq, what is the point of that?

What they would like, and this is the kind of thing you and I talked about in the paper we wrote several decades ago when the climate was better. What they want is real relations. They want to be recognized. There is this talk of the idea of having negotiations based on the initiative of the United States with China. Basically, we get together and we talk about all the issues that are on the table without preconditions, and we work from there without trying to prenegotiate these issues. That is compared to the grand bargain, but it is really not a bargain because it is basically an agreement just to finally recognize one another and talk. Let us see where it goes.

But the Iranian body politick cannot absorb that now in the way I think they could have perhaps a few years ago. Certainly, it would be very difficult for Washington. So I am very pessimistic on the prospects for significant progress on engaging Iran right now.

QUESTIONER: Scott Harold, Brookings. Two questions very quickly but first, thank you both for a fabulous presentation.

Hadi, could you address what effect you think any kind of blowback that might be coming from Iraq might have on these upcoming elections? I can imagine hardliners tend to beget hardliners, violence tends to drive people into corners, and the pressures on Iranian social services if there is any dropoff in revenues from visits to mosques or what have you, any of that. Just give us some insight into how you see that possibly playing.

Dan, you already talked about reshaping what Khomeinism meant and you talked about how really Ahmadinejad has not been institutionalizing so much as building up his own charismatic leadership.

MR. BRUMBERG: (off mike) Hadi said that, but I agree with it.

QUESTIONER: I am sorry; Hadi said that but you agree with it.

At any rate, could you speculate on how you see Ahmadinejad's rhetoric shaping the vision that everyday Iranians have about the role their state should play in the world?

Certainly, they have gone through a number of iterations of the anti-Western or the Third Worldist. Now, it seems to be Iran as Leader of the Muslim World which I think is somewhat a new role, although it also obviously harkens back to, in many ways, 1979. So if you could just give us a feel for where Iran is going under this vision, thank you.

MR. SEMATI: On Iraq, I suspect things could not get really worse in many ways that would have any blowback.

MR. POLLACK: Oh, sure it could.

MR. SEMATI: It could, okay, gosh.

In Farsi, we have a saying that there is no color beyond black in terms of physics. The Islamic Republic has proven there is a new spectrum of colors beyond black.

MR. POLLACK: Because of the black hole.

MR. SEMATI: So it could get worse, of course.

I think Iran has carved out Iraq in a strategic sense.

It doesn't matter how bad it gets. It is going to have all sorts of contingencies and plans for that. Iran is going to have significant economic relations, legal, non-legal, all sorts of things, and it will not have that much impact in the Iranian elections per se or the composition of these bodies. That, I think, is beyond the normal politicking of these institutions. There is a consensus across the board, I would say, about Iraq, both institutionally and, of course, publicly in some ways as well. People don't want to be dragged into another war for sure, neither the public nor the elite nor the decisionmakers.

Of course, if it gets too bad, which means mass sectarian conflict, killing of thousands of Shiites, more than just hundreds or so every day, civil war with artillery and propelled grenades and things like that, in those extreme circumstances, I can see Iran getting involved in some way directly with military force to protect, to safeguard, to position, and all of that. I can see that as conceivable. That is possible but not probable in some ways, plausible but not probable.

Anyhow, the impact on Iran's domestic policy would be much less on this issue, as I said, because of the consensus-

driven policy formation about Iraq. You are not going to let the border be destabilized. That is how they frame it. Secondly, we are going to have to capitalize on whatever resources you have to maximize our influence in Iraq. Thirdly, we are going to make sure that this is not going to be used as a launching pad against Iran whether by the U.S. or somebody else.

So in those senses, no matter what happens, it is independent of that, internal politicking.

MR. BRUMBERG: I might add that my sense is the Iranians do not want a precipitous withdrawal of American troops because that would leave them in a situation where they might be forced to play a hand they don't want to play and there have been some indications of that just recently as well which is interesting.

In Afghanistan, what the Iranians wanted all the time was some sort of power-sharing formula. They didn't want to get drawn into a war. They would probably have preferred some successful power-sharing formula where the Shia were number one, of course, but it isn't working out that way. In the absence of American troops, despite their numbers, the Shia are really vulnerable. That is my sense. What would Iranians have to do

but be compelled to intervene in a way that would drag them into a conflict?

That is the other way to look at it in terms of the leverage. I mean ironically. It might work in terms of talking to the United States, and I suppose that has certainly occurred to Baker and Hamilton and their associates.

The interesting thing is the President is the only nationally-elected leader, directly elected national leader who represents the country. We saw that, well, from the beginning, in fact, of the Revolution, there has been this tension between the position of the Supreme Leader and the position of the President and that tension became even more complicated with the election of Khatami because he represented a key segment of the Revolutionary family which was, in effect, defecting from the Revolution in a certain sense. At least from the perspective of the hardliners, that is what they were doing and defecting with an ideology of engagement with the world, the dialogue of civilizations, which may sound very flowery and it is very flowery but also I think Khatami meant it seriously. He was not just using this as a tactic to soften up the West as some people seem to imagine.

Now, we have gone from a dialogue of civilizations to a confrontation of civilizations, and Ahmadinejad is advancing that kind of ideology which seems like a new version of Third Worldist ideology. He meets with the Third Worldist leaders like Chávez. He curses Bush and so on. He is riding a wave of that, and he has a certain constituency that brings some of the old Khomeinism back, the phobia of the Great Satan. One day he sends a letter to the United States which was a very conflicted letter again, saying we need to talk. Then a week later, he says, I wish the United States didn't exist or whatever he said some weeks ago.

I think this kind of rhetoric has a certain kind of attraction, and I think it has been fed in part by our own -- this is my own personal opinion -- by our own foreign policy. But I think we can only take him so far because at the end of the day, he has to succeed in a concrete sort of way.

The question is: How long can he go on? He can go on for quite a while. This is going to make it much more difficult when you have so-called conferences on the Holocaust in Tehran. In some sense, this man, you don't know what planet he lives on because he has his people calling people here in Washington, inviting them to this conference as if it is a serious

conference. These are different planets.

When we dealt with Khatami, we had a rational debate. We could engage on a rational basis. It is so far away from that now, and Ahmadinejad has been so successful that it is very hard to imagine.

When Khatami was here, what are the consequences of coming here? It is extraordinary on one level and irrelevant on the other; I mean really. He came through town. He talked to a bunch of us. Some people around this table including myself and Hadi were there. We asked him a few important questions, at least I did, and he went on. So it hasn't made a splash at all.

For the time being, we are just going to have to find ways to manage a very difficult relationship and see what happens. I think it also is going to depend on how our own domestic scene evolves as well.

MR. POLLACK: We have two last questions as we are drawing near. Why don't we take both questions?

QUESTIONER: You have both said that the economy is a priority. If they were serious about that, we would have something to negotiate about when we engage because there are probably few countries in the world where the U.S. and its

European allies could make a more dramatic difference in a compressed period of time than Iran, if there were massive foreign investment and opening the technological opportunities and so forth and the lifting of sanctions. My question is: What do they mean by a priority on the economy? I wish they had one because we could make a deal.

QUESTIONER: Gary Mitchell from the Mitchell Report.

This is a simple question and arguably simplistic, but it has to do with I am trying to get a handle on this character that you have talked a lot about. A few weeks ago, we had lunch with someone who likened him to Hitler. My question is I am looking for some sort of point of reference that we might all recognize, so let me ask it simply put. Are we talking about a Hitler or are we talking about a Huey Long? Where do we put this guy in the pantheon of political characters of any country?

MR. SEMATI: Let me just start with the economy. I think, yes, he won the election and the conservatives won the election on an economic agenda, a populist economic agenda. Most of these guys have no serious comprehension of what that means and what the prerequisites of economic planning mean, seriously. I don't know a lot any. I have been involved with politics,

studying or being involved, knowing these at least for two and a half decades or more and 90 percent of them I don't know. The names don't sound familiar. They have no expertise. I think in many ways, the populist economic agenda is pretty simple, that is, subsidies, distribution of oil wells, and a very nationalistic in the sense of the investment climate. That is: We are going to build it ourselves. We can rely on ourselves. We need technology, but if you don't give it to us, the hell with it. We can do it.

So there is a self-confidence, and he is very self-confident in that. I think he is serious about that. He genuinely believes and he seems to genuinely believe that they can do it on their own if no foreign investment is directed toward Iran. They really genuinely believe it.

I think in terms of what we know as Economics 101 or 102, even in terms of if you are left of center, sort of what they call leftist structured adjustment packages, even in that, it is not really there that much because in there, you have something. You have shock therapy. You have stabilization of currencies, exchanges, and all of that. They don't have a blueprint for economics really and diversification in investment.

He just almost destroyed the most successful viable private bank in Iran, the bank that has almost increased its liquidity 10 times over the last four years and by all accounts, the most successful, most independent, and most efficient, the bank that is actually buying a Turkish bank in London. This is the first success. For what? Because they think this is too much of a private enterprise, too much of power, of course, politically. That means power because a successfully running business in the private sector, that means political power as well. That means money.

But I think they don't have a sound comprehension of economics, of what we call gateways to global integration. He wants Iran to have this nationalist economic agenda. Of course, there are all sorts of problems right now. As I said, a lot of his recommendations have changed overnight. By what they mean by priority of economics is essentially everyday bread and butter and we know how to do it and we are going to distribute the oil wealth in a more subsidized economy and create local businesses and give loans and bring down artificially the interest rates so people can borrow. Then it leads to more inflation and all that.

They are doing it. I think, as Dan said, there is a

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good chance that they can succeed in some time to come.

MR. BRUMBERG: Look, real economic reform touches on the interest of too many political leaders to talk about it as something that is obvious or simple. Even under Khatami when he proposed some modest changes when the Guardians were taken over by essentially his opponents, they vetoed those plans because nobody wanted to be seen as hurting the poor. It is not obvious that you open up the Iranian economy and then suddenly all this money comes flooding in because there are so many losers in an economic reform project that they are hesitant to engage in that sort of reform in the first place. So it is not just the issue of sanctions.

What would the Iranian economy look like if it were opened up? Would funds come flooding in? I don't think they would. So much of the economy has been quasi-socialized since the Revolution. The Bonias (?), the power of the Bonias (?), there are so many deeply embedded interests that you can't talk about economics, an economic capitalist reform being the lynchpin of Iran's transformation. Politically, everybody has to survive the next day.

MR. SEMATI: Sure, go ahead. I was going to just add.

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QUESTIONER: The employment coefficient of oil is very low -- there are very few jobs -- whereas the employment coefficient of even pistachio nuts or rugs is high, let alone some modern industrialization. In terms of putting the country to work, is this saying the same thing, counterproductive?

MR. SEMATI: Yes, I think in the picture of Iran's economy, of course, there are two ways to look at Iran's economy. One is: What are the visions of the next decade or so, 20 years from now, where Iran wants to go as part of the global economy. Then what is Iran's economy today? Iran's economy is actually fairly stable at this point. It is not doing terribly, but it is not going where it is supposed to go. There is not abject poverty. Iran's economy in terms of volume is 17th in the world in terms of the volume of the economy based on the IMF and World Bank reports. It is thriving in terms of industrial capacity. It is building a lot of things locally.

But the point is it is not dynamic. It is in a stable, fairly prosperous, not too prosperous sort of not dynamic. It is stuck in the haphazard integration of testing capitalist free markets and then edging back again toward a more socialist economy or a state-run economy. It is just a state of limbo, a

little bit of everything. So that makes it much more resilient to change and transform in the global economy of today.

Then, of course, in terms of Hitler, you want to come back to that. Yes, I certainly don't believe that you can characterize him, as I said, as Hitler or anybody like that. Somebody called him an Islamist Nasser, like the Egyptian Abdel Nasser, which may sound quite all right in that sense if you want to look for something. He is a unique character in that sense. Like everything else about Iran, you can't quite conceptualize this guy who came up the ladder of nowhere. Certainly, he is not a fanatic or dogmatic. He really has no exposure. That is my first characterization.

Secondly, he is smart. He has no exposure to the international world, very little exposure.

MR. POLLACK: That is a lethal combination.

MR. SEMATI: It is, exactly. Sometimes ignorance or lack of exposure could lead to a lot of self-confidence and a projection of power that may not be too good. Most of his power projection --

MR. SEMATI: Yes, exactly. But speaking of Nasser, let us recall how much Nasser's rhetoric got him in 1967. I mean

rhetoric has a way of running away from you and rhetoric has consequences.

There is one player in the region for whom this rhetoric is serious business. I agree that it may be meaningless to use the term, Hitler, or whatever, but the perception in Israel, of course, of this player has to be taken very seriously. He is taken at his word. In all these debates about when he says get rid of the Zionist entity, is he referring to the entity or Bill Beaman (?)? We have all been there. Is he referring to the country? If you ask an average Israeli whether these distinctions make any sense, you know what he is going to tell you.

We can't make any excuses for him. This rhetoric may have consequences down the road which may be very dire.

MR. POLLACK: Let us leave it on that perfectly ominous yet confusing note which I think is exactly right for Iran.

Please join me in thanking our two terrific panelists.

(Applause)

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