

March 7, 2016

## **The Iranian Elections**

On February 26, Iran held two elections, one for parliament and the other for the Council of Experts. The former is Iran's legislative body, and the latter is the part of government that monitors the Supreme Leader and selects his replacement if he dies, becomes incapacitated or is removed. Since the 1979 revolution, Iran has not held these two elections simultaneously. The results favored moderate candidates and rejected the most hardline factions.

In this report, we will discuss the structure of the Iranian government, examine the results of the elections and analyze their impact. As always, we will conclude with market ramifications.

### **The Iranian Government**

The Iranian government is structured around a rather confusing mix of democratic and theocratic elements, created by the founder of the Islamic Republic of Iran, the Ayatollah Khomeini. He created two distinct lines of authority, one that is elected by popular vote while the other is made up of clerics appointed by the Supreme Leader. The latter consists of several groups; the most important of which (besides the Supreme Leader's role) is the Guardian Council, which decides who is eligible to run for office. Conversely, the parliament is popularly elected. The Council of Experts is also popularly elected but its primary job is to supervise and appoint the Supreme Leader. In a sense, the Council of Experts straddles both branches of government;

although its role is primarily in the clerical realm, it is an elected body.

The government's highest power is an appointed Supreme Leader who is expected to be a high-ranking cleric. This leader manages foreign policy, acts as commander in chief, has the power to remove an elected president and sets the overall direction of domestic policy. The Supreme Leader is the ultimate voice of government under the basis of what Khomeini called the *velāyat-e faqīh*, or the rule of the jurist. Khomeini's view was that the government should be run according to Islamic law (sharia) as interpreted by the Supreme Leader. Khomeini created a separate clerical structure including the aforementioned Council of Experts, whose 88 members appoint the Supreme Leader and have the power to remove him if he the council deems he has strayed from sharia. As previously mentioned, this council is popularly elected.

At the same time, Khomeini wanted to create a public mandate for the government. Thus, he created an office of the president, a parliament and a Council of Ministers. These branches of government are designed to conduct the daily business of the government. Although the focus is domestic, the foreign minister, like all the ministers in the Council of Ministers,<sup>1</sup> is appointed by the president and serves at his pleasure. The president and parliament are elected by popular vote and thus fulfill a mandate from the people.

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<sup>1</sup> Similar to the U.S. cabinet.

Khomeini's government structure fosters tension. The Supreme Leader has tremendous power to guide policy in Iran. At the same time, he lacks a popular mandate; the Supreme Leader's mandate, in theory, comes from God. However, Khomeini wanted to give the Iranian people some voice in their governance. The Supreme Leader needs the president and the parliament to give him public support; the president and parliament need the Supreme Leader to give the government religious legitimacy. That doesn't mean the president and the Supreme Leader always get along; in fact, there aren't always clear lines of authority on various issues. For example, in the nuclear negotiations, the foreign minister, appointed by the president, ran the negotiations but he could not stray too far from the wishes of the current Supreme Leader, Ayatollah Khamenei, who sets foreign policy.

So far, the Iranian government has mostly functioned even with these clear conflicts of authority. However, there have only been seven presidents<sup>2</sup> and two Supreme Leaders. The tensions within government may lead to a revolution at some point, but since 1979, the Iranian government's structure has held together under very stressful conditions, including the eight-year Iran-Iraq War, long-standing economic sanctions, election protests, the Arab Spring and wars in neighboring countries, including Iraq (twice) and Afghanistan. The system Khomeini created may appear disjointed to a Western observer, but it will probably remain stable for the foreseeable future.

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<sup>2</sup> The first president, Abolhassen Banisadr, was impeached after 18 months in office. The second president, Mohammad-Ali Rajai, was assassinated after being in office less than a month. The remaining five presidents all served two terms.

### The Elections

Western media tends to use terms familiar to its readers, such as "conservative" and "liberal." For the Iranian elections, these descriptions are probably too broad to be of much help. Instead, the following four categories offer a better depiction of the political factions in Iran.<sup>3</sup>

**Hardline Conservatives:** Members of this group are both socially and religiously conservative. They are uncomfortable with markets, desire strict control of the media and want restraint of social interaction between men and women. But perhaps the most important political characteristic is that they are not comfortable with democracy and view the elected parts of government as merely consultative. In other words, they would argue that Khomeini gave too much power to elected officials and want more autocratic rule for the Supreme Leader. They oppose almost all interaction with the West, not only fearing its economic and military power but they are also concerned about Western mores undermining desired social conventions.

**Traditional Conservatives:** These members are similar to Hardline Conservatives except that they are more open to the West, have ties to the merchant classes in Iran and are more faithful to Khomeini's position on the role of the Supreme Leader. Khamenei resides in this category.

**Pragmatic Conservatives:** Although socially conservative, they are friendly to markets and are generally open to the West. In other words, they want a foreign policy that "gets along" with the West in a bid to

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<sup>3</sup> These categories come from: <https://www.stratfor.com/analysis/iran-political-change-measured-pace> (paywall).

expand its economy. President Rouhani and the former president and head of the Council of Experts, Akbar Hashemi Rafsanjani, are in this group. Although the Western media tends to call this group “liberals” or “moderates,” this is probably a misnomer. They are socially conservative and support the current structure of the Iranian government. They are positioned to the “left” of the first two categories but are, by no means, secular.

**Reformists:** These members are socially liberal, strongly support markets and want normalization with the West. They tend to be less supportive of *velāyat-e faqīh* and would like elected leaders to have more power.

Traditional and Hardline Conservatives control the Guardian Council, which vets potential candidates to determine if they are fit for office. The council eliminated most of the Reformists who applied to run for office. In addition, many leading Reformists have been incarcerated or silenced by the regime. Thus, the election was mostly a contest among conservatives.

The parliament election results strongly favored the Pragmatic Conservatives. Although formal political parties in the Western sense don't exist, loosely affiliated groups tend to work together in the legislature. The remaining Reformists and Pragmatic Conservatives won a plurality in parliament, gaining 71 seats, while the Hardliners and Traditional Conservatives lost 106 seats. Independents of various stripes won the remainder. The Iranian Parliament has become much more moderate compared to the outgoing group. In the end, it appears that Reformists and Pragmatic Conservatives took 54% of the parliament.

Perhaps the more important election was for the Council of Experts. Although the voting was complicated, it appears that Reformists and Pragmatic Conservatives took 52 out of 88 seats. The Supreme Leader Ayatollah Khamenei is 76 years old and is suffering from prostate cancer. If he dies while the current council is in place, it is more likely that a less conservative Supreme Leader will be appointed.

Essentially, this election was mostly a referendum on the nuclear deal. The Supreme Leader allowed President Rouhani to negotiate the deal because of the poor state of the Iranian economy. Western sanctions have undermined the economy, deteriorating it to the point where Khamenei decided that delaying progress on the nuclear program was worth sanctions relief. For the Pragmatic Conservatives and Reformists to secure power, they need to boost the Iranian economy. That is what the voters wanted from this election. Turnout was 62% of eligible voters, a high count but down from 64% in the presidential elections.

### **The Impact of the Elections**

The results of the elections generally shift Iran modestly toward a more liberal position. However, it should be noted that the Practical Conservatives are by no means pro-Western. The elected leadership still supports Iranian regional hegemony, in concert with the clerical leadership. An improving economy will help fund its foreign policy aims. Although the elected leadership is willing to negotiate with the West, it will continue to oppose American efforts to support Sunni states or create an Iraqi government with meaningful Sunni representation of power. In other words, the regime will have a more pleasant demeanor, but its goals and aspirations remain unchanged.

**Ramifications**

For the markets, a more “liberal” government in Iran is welcome, although there are serious doubts that we will see an immediate change in foreign policy. We would expect President Rouhani to aggressively pursue foreign investment into the country. To some extent, Rouhani and his ilk have been granted a mandate to boost economic growth. The Pragmatic Conservatives and the Reformists must work within the Supreme Leader’s constraints to maintain support of the more conservative elements in the clerical arms of the government.

In the short run, perhaps the biggest issue is whether a change in energy and OPEC policy is in the offing. It isn’t likely. It appears that both the clerical and elected branches of government support the idea that the rest of the cartel “owes” Iran the market share it lost due to sanctions. Clearly, Saudi Arabia disagrees with this position. Thus, we are probably not near a deal with OPEC that will significantly boost prices.

In the long run, the most likely result of these elections is that a less conservative body will appoint the next Supreme Leader. If a Pragmatic Conservative becomes the next leader of the clerical apparatus, Iran could become easier to deal with. This isn’t to say that it will become a strong Western ally, stop supporting terrorist groups, back the existence of Israel or call for Syrian President Assad to step down. At the same time, some of the apocalyptic comments that emanated from former Iranian President Ahmadinejad will likely not occur. Simply put, for those in the West that view Iran as a charter member of the “axis of evil,” we would expect fewer comments that support that position. That might make knee-jerk opposition to Iran more difficult to support. However, in the end, we would not expect the substance of Iranian foreign policy to change due to these elections.

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