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Exit the Shark

On January 8, Akbar Hashemi Rafsanjani died of a heart attack. The 82-year-old cleric was a major political figure in Iran and his passing is a significant event for Iran and the region.

Analyses of history usually follow one of two lines—the “Great Man” or the “Great Wave.”¹ The former postulates that the progression of history is shaped by strong personalities that bend the path of society through the force of their will. The latter says that history is a progression of impersonal forces which shape society and the people who participate are simply playing their role. In reality, both describe history, although we tend to lean toward the Great Wave explanation. This is because there are trends that develop in economies, societies and institutions that affect how history evolves, and the great people are usually those who correctly figure out the trends and move them forward. There are always those who resist; if the wave is strong enough, they tend to fail.

However, people do matter. Some personalities are so strong that even though they may not be “on the right side of history,” they slow the progression of a trend. And, if they are part of the trend, history suggests their support accelerates the movement.

Rafsanjani was this sort of figure, and so we want to mark his passing with a dedicated report. We are not suggesting that he was a good man; if anything, he was involved in many activities that harmed the U.S. Still, as we will discuss below, he was a pivotal figure in Iranian history and his death changes how Iran’s leaders will act going forward.

Our analysis will begin with a description of the structure of Iran’s government. A short biography of Rafsanjani will follow. We will discuss his influence on Iranian society and the political system, then examine how his death may affect future Iranian activities. We will conclude with potential market ramifications.

The Structure of the Iranian Government

The Iranian government is structured as both a democracy and theocracy. The ultimate power of the state rests with a Supreme Leader, an ayatollah by requirement; he is the commander in chief, appoints the head of the judiciary and the state-controlled media and approves the elections of the president. In theory, the Supreme Leader can overturn laws created by the legislature and remove officials for being “irreligious.” An elected Council of Experts, composed of clerics, appoints and can remove a Supreme Leader. Within the Council of Experts, a 12-person Guardians Council is appointed. This group approves all the candidates for elections. Elections for municipal and federal offices are held consistently, but these posts have limited power and it is not unusual for liberal candidates to be kept off ballots by the Guardians Council.

¹ See WGR, [The Great Man or the Great Wave](#), 1/13/2014.

The idea of a nation ruled by clerics was somewhat novel for Shiites. For most of its history, this variant of Islam was mostly quietist, avoiding political involvement. Its members, often oppressed throughout the Muslim world, awaited the return of the 12th Imam, a messianic figure who would end their suffering. It is also important to note this quietist theology took a literalist view of the Koran.

The former Ayatollah Khomeini offered a competing theology. Instead of quietism, he devised a theology that suggested Shiites should become active in government. He suggested the Koran be interpreted by clerics to fit modern times, opposing the literalist tradition of the quietists. Assuming Islamic law was the ultimate authority, he argued that clerics, interpreting the Koran, should become the political leadership in an Islamic nation.² These changes allowed the Ayatollah Khomeini to graft Islam to the revolutionary leftist movements of the 1970s.

Khomeini also established a democratic government that included a president and a parliament (the Majlis) which were expected to conduct normal policy functions, such as providing general public goods. Although the president and parliament have some influence due to their voter mandate, the real power rests with the Supreme Leader and the clerics, as we noted above.

The political structure breaks down into conservatives and liberals. The latter are considered reformists and call for more social freedoms, market economies and engagement with the West. This faction has mostly been eliminated from political influence in Iran.

Conservatives break into three categories. The Hardline faction is very socially conservative and populist in economics. It wants very limited contact with the West. Former President Ahmadinejad would fall into this group. The Traditionalist faction is also socially conservative, although less so than the Hardline faction. They are cautious with the West and tend to align with the more economically affluent. The current Supreme Leader Khamenei is part of this faction. The Pragmatist faction is also socially conservative but more open than the other two groups. They tend to support ties with the West and better relations with the nearby Sunni states and prefer a market economy. Rafsanjani was in this group.

Rafsanjani: A Life

Rafsanjani was born August 25, 1934, in the village of Bahreman, in south-central Iran. He came from an upper class family involved in business and pistachio marketing. At the age of 14, he moved to Qom to study theology and became part of Ayatollah Ruhollah Khomeini's orbit, the radical cleric who was the key leader in the Iranian revolution. Rafsanjani became a supporter of Khomeini and part of the opposition to the Shah. From 1960 to 1979, Rafsanjani was arrested seven times and spent four years and five months in prison. For much of this period, Khomeini was in exile, spending time in France and Iraq.

Rafsanjani's life took a major turn during the Iranian Revolution. He had grown close to the leader of the revolution, Ayatollah Khomeini, and the leader relied on Rafsanjani to implement and expand the Islamic republic. Rafsanjani held a number of positions in the early years. He was interior minister soon after the revolution. He was appointed speaker of the Majlis in 1980 and held this position for nine years. He was also the *de facto* leader of the

² Known as "Vilayat-e Faqih," or the Rule or Guardianship of the Jurist.

military at the end of the Iran-Iraq War; according to reports he was able to convince Supreme Leader Khomeini to accept the U.N. resolution³ to end that war.

Rafsanjani also participated in the Iran-Contra Affair, a convoluted scheme in which the Reagan administration exchanged arms with Iran for money with the hope of securing the release of hostages who were being held by jihadist groups thought to be under Iranian control. Some of the funds were then sent to the Contras who were operating a guerrilla war against the Nicaraguan government. Congress had passed the Boland Amendment which made funding the Contras illegal. The Reagan administration was convinced that Rafsanjani was part of a “moderate” faction that might take power after Ayatollah Khomeini died. The administration was concerned that Iran might become a client state of the U.S.S.R. and thus was trying to create backchannel relations with “friendly” elements within Iran.

Khomeini died in June 1989. Rafsanjani supported his successor, then-President Ali Khamenei. There is evidence to suggest that Rafsanjani supported Khamenei for Supreme Leader with the idea that he would be a weak leader and would need Rafsanjani’s support. Rafsanjani was elected president in 1989 and held that position for two four-year terms.

As president, Rafsanjani faced the task of rebuilding the economy devastated after the eight-year war with Iraq. He focused government spending on cities and favored economic liberalization to boost economic growth. These policies were quite popular with the urban elites and the merchant class that dominated the economy. The rural areas were mostly neglected. When the plan

didn’t lead to a significant economic recovery outside the cities, the working classes and rural Iranians became disenchanted with President Rafsanjani.

It is generally believed that senior members of the Iranian government, including Rafsanjani, were behind the bombing of the Argentine Israelite Mutual Association (AMIA) in July 1994 and the 1997 assassinations of Iranian opposition activists in Europe. Despite the belief among some in the West that Rafsanjani was a liberalizing figure, in reality, this was only on a relative basis. In fact, he clearly supported the Iranian Revolution and was a key player in it. He could be ruthless to perceived enemies of Iran; although pragmatic, he was no great ally of the West.

After two terms as president, Rafsanjani held a number of key positions, including the chairman of the Council of Experts and the Expediency Council. He supported his successor to the presidency, Mohammad Khatami, who was part of the Pragmatist faction. Although the West liked Khatami due to his liberal positions, Khamenei persistently undermined his authority, weakening his power.

In 2005, the lower classes, supported by the Hardline clerics, elected Mahmoud Ahmadinejad to the presidency. Rafsanjani opposed Ahmadinejad and this became quite evident during Ahmadinejad’s reelection campaign in 2009. In the aftermath of that election there was widespread unrest due to evidence of voter fraud. Khamenei sanctioned hard repression against the protestors and several political and cultural figures were arrested. Rafsanjani openly opposed the crackdown. A son and daughter both participated in the protests (called the “Green Movement”); both were arrested

³ UNSC Resolution 598

during the repression. However, Rafsanjani was not detained.

Although Khamenei supported Ahmadinejad in 2009, he eventually lost faith in him. Thus, it appeared that the Supreme Leader was open to less Hardline leaders. In the 2013 presidential election, Rafsanjani did register to run for office but the Guardian Council disqualified him. Rafsanjani threw his support behind Hassan Rouhani, a Pragmatist, who won the election. He continued to have influence up until his death.

Now That He Has Passed...

The death of Rafsanjani has severely undermined the Pragmatists' cause. Because of Rafsanjani's close ties to the founder, Ayatollah Khomeini, he had credibility that allowed him to support the Pragmatists and at least partially protect them from harassment and arrest. As part of the Pragmatists' position, Rafsanjani supported some degree of normalization with the West. It is quite possible that the recently consummated nuclear agreement would not have occurred without Rafsanjani's influence. It should also be noted that he was the only senior Iranian figure on cordial terms with the Saudi Royal Family. In his absence, the odds that President Rouhani will be reelected in May have declined. And, even if the Supreme Leader supports his reelection, Rouhani's ability to deviate from Khamenei has been weakened.

At the same time, there has been a tendency in the West to view Rafsanjani as a reformist who wanted to liberalize Iran's government. His history suggests nothing could be further from the truth. Although some have speculated that his nickname, "the shark," came from his tawny skin and lack of beard, his behavior more than characterizes this

moniker. As noted, Rafsanjani participated in the Iranian Revolution. He probably participated in the bombings in Argentina and the assassinations of Iranian dissidents in Europe. He was involved in the Iran-Contra scandal.

Rafsanjani was a credible leader in Iran that the West could sometimes rely on for improving relations. At the same time, he completely supported the Iranian Revolution. Some of his deal-making may have been driven by the goal of easing social constraints and reforming the economy by relying on markets. It is generally believed that Rafsanjani was very wealthy; in 2003, *Forbes* put his personal wealth in excess of \$1.0 bn.⁴ This accumulation of wealth suggests he may have used his power for personal enrichment as well.

Although always a contradictory character, his presence and credibility helped keep Iran partially engaged in the world and moderated the Hardline and Traditional factions. With his death, these factions will undoubtedly gain power.

Ramifications

The combination of the loss of Rafsanjani, a sophisticated and influential voice in the Iranian government, with the entry of the Trump government, which is still establishing its policies, is potentially troublesome. Already the Trump government has indicated it is planning to implement sanctions against Iran for a recent missile test. Without Rafsanjani's moderating influence, the likelihood of escalation is higher because the dominant groups in Iran are disinclined to have relations with the West.

⁴<http://www.economist.com/news/obituary/21714314-iranian-politician-was-82-obituary-akbar-hashemi-rafsanjani-died-january-8th>

If tensions remain elevated it should be positive for crude oil. OPEC has managed to lift prices over the past few months based on production cutbacks. If Iran finds that tensions with America undermine its engagement with the global economy, Iranian oil production may stagnate and, over time, may even decline.

If conditions deteriorate into an open conflict, gold and U.S. Treasuries will likely benefit. Although this outcome is unlikely, the odds of such an event have probably increased with the Hardline and Traditionalist factions gaining more power. In terms of historical waves, Rafsanjani was something of an anomaly. Although one could make the case that the Supreme Leader, Ayatollah Khamenei, has tended to

vacillate from the Hardline faction to the Pragmatist faction in order to govern, he may be more inclined to lean away from the Pragmatists now that Rafsanjani has died. If so, this will be an unwelcome development.

Perhaps the best way to think about Rafsanjani is that he was powerful enough to slow the dominant trend in Iran that supported more power to the Hardline and Traditionalist factions. If the Iranian government becomes increasingly dominated by these factions, relations with the West and with regional Sunni powers will likely deteriorate. If so, stability in the region will be undermined.

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