



By: *Djavad Salehi-Isfahani*

# Postwar Iran – Between militarization and economic development



The 12-day war that pitted Iran against two nuclear powers, Israel and the United States, is one of those **conflicts** that permits all sides to declare victory.

For the Islamic Republic, that declaration came quickly, and centered on the fact that the regime is still standing. Despite heavy losses and widespread damage, there was no collapse, no revolt, and no regime change.

To many Iranians, especially among the opposition abroad (some of whom – from the exiled crown prince, Reza Pahlavi, to the former armed group Mojahedin-e-Khalq – openly cheered the strikes), the scale of the onslaught suggested an intent to topple the government.

But a revolt was always unlikely, given who was calling for it. The urban middle class – the backbone of Iran's civic and professional life – was not going to rise up on behalf of the two foreign powers most associated with decades of coercion and violence in the region.

Thus, whether ordinary Iranians “won” or not will depend on what comes next: how the government responds, how quickly it can rebuild civilian infrastructure, and whether it offers concessions to a middle class that rallied around the flag in the face of a brutal bombing campaign.

## Strategic shift inward

Some change was already coming well before Israel attacked. Since mid-2023, the Islamic Republic has been showing signs of a **strategic** shift inward.

It did not directly enter the fray after Hamas's October 7th attack on Israel, nor in response to its allies in Lebanon and Syria coming under pressure.

Owing to mass protests in 2022, following the death of a young woman, Mahsa Amini, in police custody, the regime curtailed street-level enforcement of the unwritten dress code.

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When I visited Tehran and a few smaller cities last April, I was struck by how much the urban scene had changed.

Many women (though not most) went out with their hair uncovered, and mingled freely with young men in the coffee shops that have mushroomed across urban Iran.

Then came Masoud Pezeshkian's surprising election to the presidency in June 2024. A more reform-minded figure, he succeeded the conservative Ebrahim Raisi, who had made hijab enforcement a priority and cracked down violently on protests. (Raisi died in a helicopter crash the previous month.)

By contrast, when a new hijab law was passed, Pezeshkian refused to enforce it, allowing a new social norm to take hold.

## The economy has been slowly recovering

Moreover, the Iranian economy is not as weak as foreign media coverage often suggests. The data do not paint a rosy picture, but nor do they point to an imminent collapse.

Despite the draconian US sanctions imposed in 2018 (after Donald Trump abandoned the 2015 nuclear deal), the economy has been slowly **recovering**.

By 2024, GDP had surpassed its 2018 peak, and growth averaged around 3% per year – aided by oil exports that benefited from the Biden administration's lax sanctions enforcement.

Moreover, survey data **show** rising real (inflation-adjusted) per capita expenditures in recent years.

Pezeshkian's appointments – including a

progressive minister of welfare and labor and a young Chicago-educated economy minister – signaled a turn toward better economic management.

### Iran's rather measured response to the US attack on its nuclear sites shows where its leaders' priorities lie

Internally, there has been a major debate over whether Iran can meet the 8% growth target that is regularly listed in annual budgets and five-year plans.

The consensus among economists was “not without sanctions relief,” which in turn would require diplomacy, not missiles.

Still, the Pezeshkian administration's economic reforms – including the restoration of an innovative 2010 cash-transfer program – likely bolstered the urban middle class's willingness to stand with the government in the face of Israeli air strikes.

Iran's rather measured response to the US attack on its nuclear sites shows where its leaders' priorities lie.

They see renewed conflict as a distraction from their development mission, originally laid out in the 2005 Twenty-Year Vision Plan to place Iran among the region's top economies by 2025.

## Postwar Iran

The immediate question is whether the recent war will push Iran further toward militarization and an expanded role for the state in the economy, or toward greater freedom for civil society and the private sector.

Many will remember how the bloody eight-year war with Iraq in the 1980s led to entrenched rationing, central planning, and dominance by state-linked institutions. It took

nearly two decades of reform to reintroduce market principles and revive the private sector.



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Iran may be better positioned today, because the war was limited in scope, and the private sector and market institutions are more firmly established.

Just as the Iran-Iraq War led to vast development investments that acknowledged the contribution of rural communities, this one may catalyze a similar gesture of recognition for the urban middle class. If so, that would go far toward achieving the kind of social consensus (vefagh) that Pezeshkian is seeking.

Two decades ago, the joke in Iran was that the Islamic Republic had a consistent Korea strategy, except that sometimes it resembled the North, and sometimes the South. Now Iran faces a similar choice.

The North Korean model may seem attractive to some, with its nuclear deterrence, stifling of dissent, and closed borders. But most observers familiar with Iran's culture, religion, history, and temperament would not regard this as a viable option – even after a war that has exposed Iran's vulnerability in the absence of nuclear weapons.

Undoubtedly, there will be tensions between rebuilding the military and addressing civilian needs – from shoring up the water supply to distributing gasoline and dealing with youth employment.



Fortunately, unlike a military buildup, economic reconstruction can be advanced through broadly felt policies that attract private-sector engagement and reduce the budgetary trade-off between defense and development.

Assuming the cease-fire holds, the real question will not be who won or lost. It will be whether Iran uses the pause to double down on economic development, or whether the trauma of war will provoke an ideological hardening.

The pro-development option may be constrained by the nature of the regime; but the alternative – a permanent wartime posture – is economically and socially untenable.

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