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Islamic economics under *Wilāyat al-Faqīh*: Doctrinal foundations, governance structures, and the political economy of sanctions in the Islamic Republic of Iran

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ABSTRACT

This letter examines the intersection of Islamic economic thought, the constitutional doctrine of *Wilāyat al-Faqīh* (Guardianship of the Jurist), and the sustained impact of international economic sanctions on the Islamic Republic of Iran. Drawing on institutional economics, political economy, and Islamic jurisprudence (*fiqh*), this study argues that Iran's distinctive governance architecture, in which supreme jurisprudential authority is constitutionally empowered over all economic and financial affairs, has produced a hybrid economic system that is simultaneously ideologically constrained and structurally resilient. While the doctrinal foundations of Islamic economics, rooted in the prohibition of *ribā* (interest), the obligations of *zakāt* (alms tax), and the principle of *adl* (justice), provide a normative framework for economic governance, empirical evidence demonstrates that successive rounds of United States-led sanctions, particularly from 2012 and following the reimposition of maximum pressure in 2018, have severely disrupted macroeconomic performance. Per capita GDP declined from approximately USD 8,000 in 2012 to USD 5,000 by 2024 (World Bank, 2024), annual inflation reached 40–50% by 2023–2024, and the Iranian middle class contracted by an estimated 17–28 percentage points between 2012 and 2019. This study contributes to the literature by systematically situating these macroeconomic dislocations within the ideological parameters of the *Wilāyat al-Faqīh* governance model and assessing the adaptive strategies deployed by the state. The study discusses the policy implications for sanctions design, Islamic economic reform, and institutional resilience.

Keywords: economic resilience; institutional economics; Iran sanctions; Islamic economics; political economy of religion; *ribā* rentier state; *Wilāyat al-Faqīh*

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1. INTRODUCTION

The Islamic Republic of Iran constitutes one of the most consequential, and arguably most contested, experiments in applying Islamic economic doctrine to the governance of a modern nation-state. Since the 1979 revolution, which Ayatollah Ruhollah Khomeini framed not merely as a political transformation but as the inauguration of an entirely new *eqtesād-e Eslāmi* (Islamic economy), Iran has attempted to construct an economic order grounded in Shi'a jurisprudence, redistributive justice, and anti-imperialist self-sufficiency (Bakhash, 1984; Nomani & Rahnema, 1994). Central to this architecture is the constitutional doctrine of *Wilāyat al-Faqīh*, or the Guardianship of the Jurist, which designates a supreme jurisconsult, currently Ali Khamenei, as the highest authority over all branches of government, including economic policymaking. Under this model, economic legislation must conform to Islamic jurisprudence, as adjudicated by the Guardian Council, thereby embedding theological norms directly into fiscal, monetary and trade policy.

Scholarly literature on Islamic economics has tended to focus either on its normative content, particularly the theory of *ribā* (usurious interest), *ḥaḳāt* (obligatory charity), and the prohibition of *gharar* (excessive uncertainty in contracts), or on its practical implementation in banking and finance (Khan, 1994; El-Sheikh, 2011). In contrast, comparatively less attention has been paid to the political economy of Islamic governance itself, specifically, the manner in which theocratic institutions mediate, distort, or reinforce economic outcomes at the macroeconomic level. This gap is especially significant in the Iranian case, where the *Wilāyat al-Faqīh* doctrine uniquely fuses clerical authority with state power in a manner that has no precise precedent in Sunni political thought or other Muslim-majority states.

Compounding this governance complexity is Iran's acute and prolonged exposure to economic sanctions imposed by the United States and allied governments. From the initial post-revolutionary asset freezes to the comprehensive "maximum pressure" campaign initiated in 2018, these coercive measures have interacted with the ideological imperatives of the Islamic governance model in ways that warrant systematic scholarly analysis. The empirical evidence is stark: real GDP fell by 7.4% in 2012 alone (Ghasseminejad & Jahan-Parvar, 2020), per capita income declined by more than 37% between 2012 and 2024 (World Bank, 2024), and inflation oscillated between 30% and 50% annually during the 2018–2024 period (International Monetary Fund, 2024). However, the regime has survived, adapting through mechanisms such as shadow oil markets, barter trade, cryptocurrency, and expanded Islamic Revolutionary Guard Corps (IRGC) economic networks, which reflect both the resilience and pathologies of the *Wilāyat al-Faqīh* governance model.

This letter makes three specific contributions. First, it provides a synthetic account of the theological and jurisprudential foundations of Islamic economics, as operationalized within the Iranian constitutional framework. Second, it traces the institutional architecture through which *Wilāyat al-Faqīh*'s governance conditions economic decision-making. Third, it evaluates the macroeconomic consequences of international sanctions against this backdrop, arguing that the fusion of doctrinal inflexibility and political expediency characteristic of the Islamic Republic has both constrained and, paradoxically, partially insulated the economy from external pressure. The analysis proceeds through four sections: doctrinal foundations; governance and institutional architecture; the political economy of sanctions; and conclusions with policy implications.

2. DOCTRINAL FOUNDATIONS: ISLAMIC ECONOMICS IN SHI'A JURISPRUDENCE

Islamic economics, as a normative discipline, draws its foundational categories from the Qur'an, Sunna, and the accumulated body of Islamic jurisprudence (*fiqh*). The two most frequently cited structural principles are the prohibition of *ribā*, often translated as usury or interest, and the obligation of *ḥaḳāt*, a redistributive levy on wealth. *Ribā* is explicitly condemned in multiple Qur'anic verses (2:275–280; 3:130; 4:161) and numerous hadith traditions. Classical jurists understood *ribā* as unjustified enrichment (*fadl māl bilā 'iwad*), that is, the receipt of financial increment without a corresponding

productive contribution. This principle has been interpreted in modern Islamic finance as prohibiting both simple and compound interest on monetary loans (El-Sheikh, 2011; Khan, 1994).

In contrast, *zakat* represents an affirmative redistributive obligation. Calculated at 2.5% of qualifying net assets held above a minimum threshold (*nisab*) for one lunar year, it functions as both a welfare mechanism and a discipline against hoarding. In the Shi'a tradition, the additional fiscal instrument of *khums*, a 20% levy on annual net surplus income, which Khomeini expanded in scope and directed toward state religious institutions (*hawzas*) and social expenditure, has provided the clerical establishment with an independent revenue base that is formally outside state budgetary processes (Arjomand, 1988). This dual fiscal architecture, which combines state-administered *zakāt* with clerical-administered *khums*, creates a distinctive institutional duality at the heart of Iranian Islamic economics.

Beyond these specific instruments, Islamic economics in its Shi'a variant, as developed by Khomeini (2002) and his contemporaries, most notably Al-Sadr (1961) in his foundational text *Iqtisādumā* (Our Economics), articulates a broader social vision emphasizing *adl* (social justice), the prohibition of *israf* (extravagance and waste), and the condemnation of monopoly and economic concentration. Al-Sadr (1961) explicitly positioned Islamic economics as a "third way" between capitalism and Marxism, rejecting the profit-maximizing individualism of the former and the state ownership determinism of the latter in favour of a system predicated on divine ownership, human stewardship (*istikhlāf*), and bounded private property rights. This framework strongly influenced the economic provisions of Iran's 1979 Constitution, revised in 1989, which specifies that "the fundamental consideration [of the economy] will be fulfilment of the material needs of man in the course of his overall growth and development" rather than "the concentration and accumulation of wealth and maximization of profit" (Islamic Republic of Iran Constitution, 1989).

However, the practical translation of these principles into policy has been fraught with tensions and inconsistencies. In the first decade after the revolution (1979–1989), what economists have characterized as an "Islamist socialist" period prevailed: large-scale nationalizations, land redistribution, price controls, and expansive public subsidies were justified through Islamic redistributive norms (Wikipedia, Islamic economics). Following Khomeini's death in 1989, President Akbar Hashemi Rafsanjani initiated pragmatic liberalization, grounded in a reinterpretation of Islamic jurisprudential priorities (*maslahat*), moving toward privatization and market-oriented reform (Bakhash, 1984). By approximately 1990, the term *eqtesād-e Eslāmi* had, as scholars have noted, virtually disappeared from official Iranian policy discourse (Wikipedia, Islamic economics). This trajectory illustrates a recurring tension in the Islamic Republic between doctrinal fidelity to Islamic economic norms and pragmatic accommodation of economic realities, a tension that the *Wilāyat al-Faqih* governance model both reflects and perpetuates.

3. WILĀYAT AL-FAQĪH: GOVERNANCE ARCHITECTURE AND ITS ECONOMIC DIMENSIONS

The doctrine of *Wilāyat al-Faqih*, which may be translated as the "Guardianship" or "Trusteeship" of the Islamic Jurist, constitutes the theological core of Iran's constitutional order. The concept's modern politicized formulation originates principally with Ayatollah Khomeini's 1970 lecture series in Najaf, subsequently published as *Hukūmat-i Islāmī* (Islamic Government). In this work, Khomeini argued that during the Occultation of the Twelfth Imam, the eschatological period in which the Hidden Imam is held to be absent from worldly governance, comprehensive authority over all public affairs, including economic regulation, must devolve upon the most qualified Shi'a jurist (Khomeini, 2002). This position represented a significant departure from the quietist tradition of Twelver Shi'a Islam, which had historically maintained a separation between clerical religious authority and state political power (Arjomand, 1988; Buchta, 2000).

In its absolute form, *Wilāyat al-Mutlaqa al-Faqih*, as institutionalized in the 1989 constitutional revision, the Supreme Leader (Vali-ye Faqih) exercises authority that supersedes all other branches of the state, including elected institutions. Under Article 110 of the Constitution, the Supreme Leader

determines the general policies of the state, commands the armed forces, appoints the heads of the judiciary, and oversees national broadcasting and state-controlled media. Critically, for economic governance, the Leader has the constitutional authority to determine the overall direction of the state economy, adjudicate disputes between executive and legislative institutions over economic policy, and issue decrees, known as *bukm-i hukūmati*, that override normal legislative procedures in the public interest (*maslahat*). This architecture was deployed, for example, when Khomeini in 1988 issued a ruling that the state's authority to intervene in economic life could override specific Qur'anic injunctions, a ruling that shocked many traditionalist clerics but was constitutionally sanctioned under the doctrine of absolute guardianship (Guardianship of the Islamic Jurist, Wikipedia).

The institutional architecture of the Islamic Republic's economic governance further includes the Expediency Discernment Council (*Majma'-e Tashkhis-e Maslahat-e Nezām*), created in 1988 to resolve conflicts between the Majles (parliament) and the Guardian Council over economic legislation. Historically chaired by Rafsanjani and subsequently under Khamenei's direct influence, this body has repeatedly intervened to reconcile doctrinal requirements with economic pragmatism, authorizing, for example, a de facto interest rate system in Islamic banking that employs profit-sharing (*mudaraba* and *musharaka*) contracts as functional substitutes for prohibited interest-bearing loans (Nomani & Rahnama, 1994). The result is a "dual-track" economy in which nominally Islamic financial instruments coexist alongside informal markets, large state enterprises, and the IRGC's economic empire.

The IRGC's economic role deserves particular emphasis as an institutional embodiment of *Wilāyat al-Faqih*. Under Supreme Leader Khamenei's strategy, particularly following the reformist presidency of Khatami (1997–2005) and the disputed 2009 elections, the IRGC has progressively displaced both the clerical establishment and the traditional merchant class (*bazāaris*) as the dominant economic actor. Thousands of IRGC officers have been integrated into parliamentary positions, ministry directorates, and government procurement processes (ALDosari, 2019). The IRGC's construction and engineering conglomerate, *Khatam al-Anbija*, is estimated to control between 30% and 40% of Iran's GDP across sectors, including energy, telecommunications, and infrastructure (Buchta, 2000; ALDosari, 2019). This consolidation of economic and security power within a single institution, directly accountable to the Supreme Leader rather than the elected government, represents a structural feature of the *Wilāyat al-Faqih* model, with profound implications for both market efficiency and sanctions vulnerability.

4. SANCTIONS, MACROECONOMIC DISLOCATIONS, AND ADAPTIVE RESPONSES

Iran's experience with international economic sanctions is among the most prolonged and comprehensive in modern history. Beginning with the asset freezes imposed by the United States following the 1979–1981 hostage crisis, the sanctions architecture evolved through multiple phases before reaching its most severe configuration in 2012 and again in 2018. The 2012 sanctions, imposed jointly by the United States and the European Union in response to Iran's nuclear program, targeted the Central Bank of Iran, suspended Iran from the SWIFT international banking messaging system, and imposed an embargo on Iranian crude oil exports that had previously averaged 80% of total export revenues (Farzanegan & Hayo, 2019; Farzanegan & Habibi, 2025). These measures produced an immediate and severe macroeconomic contraction: real GDP declined by 7.4% in 2012, inflation rose from approximately 10% in 2010 to over 36% in 2013, and the rial lost more than half of its value against the U.S. dollar within months of the sanctions' full implementation (Ghasseminejad & Jahan-Parvar, 2020; Farzanegan & Habibi, 2025).

Subsequent moderation occurred following the July 2015 Joint Comprehensive Plan of Action (JCPOA), which lifted major sanctions in exchange for restrictions on Iran's nuclear program. The consequent GDP growth of 12.5% in 2016, Iran's only double-digit growth in decades, unequivocally demonstrated the degree to which sanctions suppressed potential economic output (Economy of Iran, Wikipedia). However, President Trump's 2018 withdrawal from the JCPOA and the reimposition of "maximum pressure" sanctions returned the economy to acute stress. Oil exports fell by over 60% from their post-JCPOA peak (Middle East Eye, 2026). Annual inflation is expected to rise to 40–50% by

2023–2024 (International Monetary Fund, 2024; Farzanegan & Habibi, 2025). On a per capita basis, GDP contracted from approximately USD 8,000 in 2012 to USD 5,000 by 2024, a decline of 37.5%, representing one of the most severe sustained falls in living standards in a major middle-income country (World Bank, 2024, as cited in Middle East Eye, 2026).

Critically, the distributional consequences of sanctions have been particularly devastating for Iran's middle class, a social stratum whose development was itself a stated objective of Islamic economic doctrine's emphasis on distributive justice. Econometric analysis using synthetic control methods estimates that sanctions caused an average annual decline of 17 percentage points in the size of Iran's middle class between 2012 and 2019. By 2019, while the middle class would have constituted approximately 84% of the population absent sanctions, the actual share stood at only 56%, representing the forced downward economic mobility of millions of Iranians (Sajadi et al., 2025). This erosion was transmitted principally through three channels: currency devaluation eroding real wages, import restrictions constraining capital goods and intermediate inputs, and the monetization of fiscal deficits generating sustained inflationary pressure. As one structural model calculates, a 1% decrease in imports of capital goods produces a cumulative 0.68% reduction in GDP over an eight-year horizon (Mohammadshahi et al., 2025), compounding the immediate contraction with long-term productive capacity damage.

The government's primary adaptive responses to economic pressure have operated along three axes. First, the development of alternative oil export channels, particularly through shadow trading networks, ship-to-ship transfers, and discounted sales to China, has partially offset the formal decline in oil revenues, although at a significant efficiency and pricing cost. Iran's oil exports, which fell to below 300,000 bpd at the nadir of maximum pressure, partially recovered to an estimated 1.4–1.7 million bpd by 2024 through these informal mechanisms (Economy of Iran, Wikipedia). Second, the IRGC's vertically integrated economic empire has served as a sanctions-circumvention mechanism, leveraging its security mandate to operate outside normal regulatory and financial transparency requirements. Third, the regime has accelerated the development of domestic production capacity in strategic sectors, particularly pharmaceuticals, petrochemicals, and military equipment, under the ideological banner of the "resistance economy" (*eqtesād-e moqāvemāt*), a doctrine promoted by Supreme Leader Khamenei as an Islamic economic alternative to both globalized neoliberalism and unproductive rentierism (Khamenei, as cited in ALDosari, 2019).

However, these adaptive strategies have not been without severe costs. The expansion of the IRGC's economic control has reinforced the monopolistic tendencies that the Islamic economic doctrine nominally condemns. Reliance on monetary expansion to finance budget deficits has fueled the inflationary dynamics that erode the welfare of the lower and middle classes, whose protection Islamic redistributive norms prioritize. Government employees and the public sector account for approximately 85% of GDP, creating fiscal pressures that necessitate monetization when oil revenues decline (Middle East Eye, 2026). The resulting inflation-recession dynamic constitutes what economists have described as a "vicious cycle": sanctions reduce oil revenues, inducing deficit monetization, which accelerates inflation, which devalues savings, which increases demand for foreign currency, which further depreciates the rial, which amplifies inflation further (Middle East Eye, 2026). This structural vulnerability is largely a product of the *Wilāyat al-Faqīh* governance architecture, particularly the concentration of economic power in non-transparent, security-linked institutions that are inherently resistant to market discipline and international financial integration that might otherwise mitigate these dynamics.

5. DISCUSSION: DOCTRINAL TENSIONS, INSTITUTIONAL PATHOLOGIES, AND REFORM PROSPECTS

The foregoing analysis illuminates a set of deep structural tensions within Iran's political economy that have been exacerbated, though not created, by international sanctions. At the doctrinal level, a persistent disjunction exists between the normative aspirations of Islamic economic thought, social

justice, redistribution, elimination of exploitation, and balanced development, and the institutional outcomes produced by the *Wilāyat al-Faqīh* governance model. The consolidation of economic power within the IRGC, the persistence of structural inflation that disproportionately harms lower-income Iranians, the documented rise in absolute poverty by nearly 45% in the first six years following the revolution (Islamic Government, Wikipedia), and the emergence of endemic corruption at elite levels, memorably acknowledged by former President Rafsanjani in 1998 (Islamic Government, Wikipedia), all constitute significant departures from the redistributive justice that Islamic economic doctrine mandates.

At the institutional level, the *Wilāyat al-Faqīh* system creates what institutional economists would recognize as a "dual accountability deficit." On one dimension, elected institutions, the Majles and the presidency, are constitutionally subordinate to the Supreme Leader and the Guardian Council, limiting the degree to which popular economic grievances can be transmitted into policy reform through normal democratic channels. On another dimension, the economic activities of the IRGC and Leader-affiliated foundations (bonyads) operate largely outside formal state budgetary oversight, creating parallel fiscal and economic circuits that are systematically resistant to public accountability or external scrutiny. This architecture creates what may be described as an "insulated rentier-theocracy," a state whose revenues derive primarily from oil exports and whose allocation of those revenues is governed by a fusion of security imperatives and clerical legitimacy rather than market efficiency or democratic mandate.

The question of whether meaningful Islamic economic reform is possible within this constitutional framework is actively being debated. The reformist camp, as exemplified by the Khatami and Rouhani presidencies, has argued for greater market openness, integration with global financial systems, and a more technocratic approach to Islamic banking regulation, positions that have been repeatedly frustrated by the Guardian Council's jurisprudential vetoes and the IRGC's institutional interest in economic insularity. In contrast, the conservative camp invokes the *Wilāyat al-Faqīh* mandate and the "resistance economy" framework to legitimize economic autarky and state direction (ALDosari, 2019; Ebrahimian, 2020). The empirical record strongly suggests that the macroeconomic costs of the latter approach, particularly under sustained sanctions, fall disproportionately on the economically vulnerable populations that Islamic economic doctrine most explicitly seeks to protect.

From a broader comparative perspective, Iran's experience raises important questions about the relationship between theocratic governance, institutional economic capacity, and external coercive pressure. The existing sanctions literature demonstrates that prolonged, broad-based sanctions reliably inflict long-term social damage, undermining development and stability, irrespective of the target regime's governance structure (Sajadi et al., 2025; Bapat & Morgan, 2009). However, the Iranian case also illustrates that theocratic governance architectures may exhibit distinctive forms of resilience, rooted in ideological legitimation, informal institutional networks, and the economic integration of the security apparatus, making them less responsive to standard mechanisms of sanctions-induced behavioral change. This has implications not only for sanctions policy design but also for scholarly understanding of the conditions under which religious-ideological governance models adapt or resist economic duress.

Another issue that deserves closer attention is the distinction between regime and societal resilience. Much of the literature on Iran under sanctions has focused on whether the Islamic Republic can survive prolonged economic pressure, maintain essential state functions and preserve its strategic posture in the region. However, this standard can be analytically misleading. A state may remain institutionally intact even when the social foundations of long-term development deteriorate. In the Iranian case, the endurance of the governing order should not be conflated with the health of the broader economy or ordinary citizens' welfare. The ability of the political system to reproduce itself under sanctions may depend on adaptive mechanisms that impose cumulative hardship on households, small firms, and salaried workers. This distinction is especially important in evaluating claims that the resistance economy has succeeded in achieving its goals. If success is measured only by regime continuity, the bar is set too low. A more meaningful measure would ask whether the system has preserved productive capacity, protected vulnerable populations, and sustained the ethical commitments of Islamic distributive justice under conditions of exceptional external pressure.

This distinction also helps clarify why sanctions have had uneven political effects. Classical sanctions theory often assumes that rising economic pain translates into political pressure for policy change. However, this mechanism presupposes a relatively direct relationship between public suffering and the decision-making authority. In Iran, this relationship is heavily mediated by the constitutional hierarchy of *Wilāyat al-Faqīh*, the selective coercive capacity of the state, and the fragmented structure of economic governance. Consequently, social pain does not automatically generate policy recalibration. Instead, economic distress may be absorbed through repression, ideological framing, selective subsidy distribution and the expansion of informal survival networks. This does not mean that sanctions are politically irrelevant; rather, it means that their effects are refracted through a governance model designed to shield core centers of power from ordinary channels of accountability. Consequently, the burden of sanctions becomes socially generalized, while the political leverage they create remains institutionally constrained.

These dynamics also have a temporal dimension. In the short term, sanctions produce visible shocks, including exchange rate instability, inflation spikes, import shortages, and abrupt contractions in oil revenues. However, in the medium and long term, deeper effects may be even more consequential. These include the erosion of professional classes, disinvestment in productive sectors, human capital flight, deterioration in business expectations, and the normalization of informality as an economic survival mode. Such processes are difficult to reverse because they reshape the economy's incentive structure. A system repeatedly forced into sanctions evasion, emergency adjustment, and politically mediated allocation may gradually lose the institutional habits required for transparent development. What emerges is not merely a sanctioned economy, but a sanctions-conditioned political economy whose routines, beneficiaries, and governing logic are increasingly detached from the normative aspirations of Islamic economic justice.

Another tension lies in the state's use of moral language to justify its actions. Islamic economics derives much of its legitimacy from its promise to organize economic life around fairness, reciprocity, restraint, and social obligations. However, when the language of justice is deployed alongside rising inequality, elite insulation, and institutional opacity, it risks becoming symbolically powerful but materially hollow. This is not a trivial rhetorical matter. In systems where political legitimacy is partly grounded in religious claims, the disjunction between professed ethics and actual outcomes can produce a deeper legitimacy deficit than in purely secular authoritarian settings. Economic hardship is then experienced not only as deprivation but also as a moral contradiction. This may partly explain why socioeconomic grievances in Iran have repeatedly expanded to broader critiques of governance, corruption, and institutional hypocrisy. When a state explicitly claims ethical superiority, citizens are more likely to evaluate performance not only by material outcomes but also by fidelity to declared principles.

Therefore, the Iranian case raises a broader theoretical question for the study of Islamic economics: can an economic order remain recognizably Islamic if its institutional logic consistently reproduces hierarchy, opacity, and unequal exposure to risk? One response might be that no system can fully embody its ideals, especially under external coercion. That is certainly true. However, the issue is not imperfect implementation alone. A more serious concern is that some of the institutions claiming to protect Islamic norms may simultaneously block the reforms needed to realize them in substantive terms. If so, then the challenge is not simply to defend Islamic economics from external critics but to examine how its invocation within state structures can be used to legitimate arrangements that undermine its moral core.

This point becomes clearer when considering the position of the private sector in the economy. A healthy and socially productive private sector need not contradict Islamic economic thought, particularly where enterprises are coupled with rules against monopoly, exploitation, and speculative excess. However, private initiatives in Iran have often faced a twofold constraint: external restrictions linked to sanctions and internal distortions linked to preferential access, arbitrary intervention, and politically connected competition. Under such conditions, the private sector cannot easily serve as a stabilizing engine for employment, innovation, and non-rentier growth. The resulting vacuum is filled by actors

with privileged access to state power. This reinforces a circular pattern in which economic concentration justifies further state security involvement, which in turn weakens the space for independent productive activity. From a development perspective, this is extremely costly. From an Islamic economic perspective, this is equally problematic because it entrenches power asymmetries that the tradition's distributive ethic is meant to restrain.

It is also important to note that the sanctions issue cannot be reduced to a binary choice between external blame and internal responsibility. Both matter and interact. External sanctions have inflicted major structural harm to Iran's economy, and any serious analysis must acknowledge this fact directly. Simultaneously, the severity and social distribution of harm are mediated by domestic institutions. Sanctions did not create inflationary financing, parastatal opacity, or weak accountability from nothing; rather, they intensified the vulnerabilities already embedded in the system. This means that even if sanctions are eased, many economic problems will persist unless institutional reforms address the internal mechanisms through which shocks are transmitted and absorbed. In other words, sanctions are a powerful accelerant, but they are most destructive when the domestic architecture is already brittle, exclusionary, or resistant to correction.

For that reason, reform prospects should be understood less as a question of ideology in the abstract and more as a question of institutional redesign. The key issue is whether Islamic economic values can be translated into transparent, reviewable, and socially measurable procedures. A system serious about justice would need more than doctrinal declarations; it would need credible limits on monopolistic concentration, clearer oversight of parastatal wealth, greater consistency in fiscal management, and stronger protection of the purchasing power and dignity of ordinary citizens. These are not secondary technical issues. These are the institutional conditions under which any claim to Islamic economic legitimacy must ultimately be tested.

In this sense, Iran's experience is analytically valuable beyond Iran itself. This demonstrates that the success or failure of a religiously framed economic model cannot be judged solely by constitutional language, ideological commitment, or symbolic legal forms. It must be judged by how power is organized, how losses are distributed, and whether institutions remain corrigible when outcomes contradict the declared moral aims. The central lesson is therefore not that Islamic economics is inherently unworkable, nor that sanctions alone explain economic suffering, but that doctrine without accountable institutions is unlikely to produce the justice it promises. That conclusion should remain central to any serious discussion of Iran's political economy and future debates on the viability of Islamic economic governance under conditions of both domestic concentration and international coercion.

6. CONCLUSION

This letter argues that the political economy of Islamic governance in the Islamic Republic of Iran cannot be adequately understood by examining either its theological premises or its macroeconomic outcomes in isolation. The *Wilāyat al-Faqīh* constitutional doctrine creates a distinctive governance architecture that mediates between the normative aspirations of Islamic economics, distributive justice, prohibition of exploitation, and balanced development and the institutional realities of a heavily sanctioned, oil-dependent, and theocratically governed state. The empirical evidence of the sanctions era demonstrates that this architecture has proven insufficiently robust to prevent severe macroeconomic deterioration: the collapse of per capita incomes, the erosion of the middle class, and the persistence of double-digit inflation represent structural failures with direct implications for the Islamic economic norms the system claims to embody.

This analysis has three policy implications. For sanctions designers, the Iranian case reinforces the evidence that broad-based economic coercion inflicts severe distributional damage on civilian populations, particularly the middle class, whose existence the target regime's own normative commitments require, while the political elite and security-linked economic actors are relatively insulated through informal adaptive mechanisms (Sajadi et al., 2025). Targeted sanctions aimed at specific actors and networks within the IRGC's economic empire may better achieve behavioral modification while

limiting humanitarian spillovers. For scholars of Islamic economics, Iran's trajectory highlights the critical importance of institutional context: Islamic economic principles operationalized through theocratic governance structures with weak accountability mechanisms may produce outcomes, monopoly, inflation, and patronage networks, that are antithetical to the very values they claim to instantiate. For scholars of Iranian political economy, the *Wilāyat al-Faqīh* governance model's economic legacy remains a central and underexamined variable in explaining both the Islamic Republic's adaptation to external pressure and the persistent socioeconomic discontent that has fueled repeated cycles of mass protest, most recently in the 2022 "Woman, Life, Freedom" movement.

Future research should longitudinally examine the relationship between Supreme Leader succession dynamics and economic policy orientation, the role of cryptocurrency and digital assets in sanctions circumvention within the Islamic financial framework, and a comparative analysis of the Iranian model against other cases of religiously grounded governance and economic autarky. The intersection of Islamic jurisprudence, political authoritarianism, and international economic coercion remains among the most consequential and theoretically understudied domains in the contemporary political economy.

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Not Applicable

Informed Consent Statement

Not Applicable

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