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Hyperinflation stalks Iran while Israel wavers

By Victor Kotsev
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The freefall of Iran's currency, the rial, has triggered fears of hyperinflation in the Islamic Republic. It offers context to the comments of Israeli officials, especially Israeli Prime Minister Benjamin Netanyahu's speech at the United Nations last week, who have hinted that the international sanctions are producing an effect and they would be willing to postpone a military strike on Iran's nuclear program until next year. Meanwhile, speculation about two alternative options - a surprise attack or early elections in Israel, which would give Netanyahu an opportunity to compromise further with his militant rhetoric - has increased.

The collapse of Iran's currency, coupled with rising discontent of workers inside the country, is by far the biggest recent news in that respect. In the last few days, the rial lost 30% to 50% of its street value - 15% on Monday alone - sparking riots and clashes between police and protestors in Tehran Wednesday. Over the past year, the Iranian currency has depreciated by about two-thirds, severely affecting imports and financial stability in the country. American officials were quick to capitalize on the debacle, pointing to it as proof that the sanctions designed to curb the Iranian nuclear program were producing an effect.

Amid soaring food and other prices - even before these latest developments, the annual inflation rate in the country was close to 30% - the threat of hyperinflation and the effective destruction of the Iranian economy looms. In another sign of protest, a petition reportedly signed by over 10,000 Iranian workers adds pressure on the Tehran leadership.

As the Associated Press put it, "Iran's factory workers and laborers have provided the tipping points at pivotal moments. They gave vital populist backing to the 1979 Islamic Revolution and

generally sided with the ruling clerics when they were under threat by riots after [current Iranian President] Mr Ahmadinejad's disputed re-election in 2009." [1]

The Iranian elite, meanwhile, is engaged in an intense power struggle between several different factions. Iran's president, Mahmud Ahmadinejad, who has another eight months to go before his second term expires and cannot run for re-election, blamed the crisis on the sanctions and on "psychological warfare" by Western powers and domestic "speculators." His opponents, on the other hand, pointed to problems with his own financial policies, including mismanagement of the economy over the last years and a failed recent attempt to stabilize the exchange rate by opening a government-regulated currency exchange center.

In a sign of just how far the internal political intrigue in the country has gone, rumors circulate that the Iranian Supreme Leader, Ayatollah Ali Khamenei, is considering abolishing the office of the president altogether.

These developments help explain also the recent shift of rhetoric on the part of Israeli leaders. Several days ago, for example, the controversial foreign minister Avigdor Lieberman predicted "an Iranian-style Tahrir revolution" in the coming months, which would presumably halt Tehran's nuclear program.

"[The Iranian economy] is not collapsing, but it is on the verge of collapse," Israeli Finance Minister Yuval Steinitz chimed in. "The loss of income from oil there is approaching \$45-50 billion by the year's end."

Netanyahu's own speech at the UN General Assembly last week, featuring the now-famous cartoon bomb drawing, was widely interpreted as a softening of his stance. The Israeli prime minister proclaimed his determination to stop Iran from acquiring a nuclear weapon but told the Assembly that Tehran would likely not cross his red line before the next spring or summer.

While the simplistic drawing attracted considerable criticism from pundits, it arguably accomplished its main objectives - to draw attention, to convey a clear ultimatum to both Iran and US President Barack Obama, and to prepare global public opinion for a possible military campaign in the future. Domestic Israeli commentators, moreover, have picked up on another possible goal of Netanyahu's speech: to set the tone for an early elections campaign in Israel.

As the veteran political analyst Yossi Verter wrote in an article in the Israeli daily Ha'aretz, Thursday's speech also had political ramifications that presumably were not lost on the speaker: If, at the start of the Knesset's [parliament's] winter session in around two weeks, Netanyahu calls for early elections (probably in February) it's clear that the election campaign will be centered on the Iranian threat. In an election campaign that has a security-diplomatic, even existential character, less experienced politicians or political wannabes like Labor's Shelly Yacimovich and Yesh Atid's Yair Lapid, who are pushing a socio-economic agenda, will find themselves in terra incognita, with little to sell the public. [2]

Netanyahu is having trouble getting the 2013 budget approved, which could serve as a trigger for

early elections. Incidentally, such a vote would likely happen before his nuclear deadline expires, which could save the Israeli prime minister's political fortunes should he back down from his aggressive rhetoric.

For his part, the Iranian president hinted in recent interviews that a breakthrough in the nuclear negotiations could happen after the US presidential election next month.

Still, the war chatter has not subsided. On Tuesday, a senior Iranian lawmaker threatened in an interview with the Iranian English-language channel Press TV that if the talks with world powers failed, Tehran would increase uranium enrichment to 60% purity of the fissile material uranium-235, up from the current 20% enrichment and only a short technological leap away from the 90% level required for a bomb.

In comments published by the Times of Israel, an anonymous Iranian nuclear technician said that 30% purity had already been achieved, and "by next year, we hope to reach up to 50 or even 60%". He also shared that "More and more young graduates and people are brought in [the nuclear program] every day. ... We have been working non-stop." [3]

Meanwhile, a comprehensive recent report in Foreign Policy Magazine offers new perspectives on the Israeli military option against Iran and the US-Israeli relationship. Besides straight-forward air strikes, US planners have been concerned about two possibilities that have not received much attention so far, journalist Mark Perry reveals. One is regime decapitation, which "would almost certainly trigger an Iranian response targeting US military assets in the region, as it would leave the Iranian Revolutionary Guard forces in charge of the country".

The other one is an "extremely dangerous" commando raid against the nuclear facilities, broadly similar to the one in Entebbe, Uganda, in 1976, where Netanyahu's brother died in the operation to free Israeli hostages. An estimated 400 commandos would storm the main Iranian facilities, take the enriched uranium with them, and blow them up.

"There aren't three divisions near [the underground enrichment facility at] Fordow, there's one, and it's dug in," an American military source told Perry. "It wouldn't take the Iranians three hours to respond, it would take them three days." [4]

Since, as the Israeli experts and leaders have acknowledged, Israel can only delay Iran's nuclear program by a few years, for now it has an interest to wait. While Iranian currency reserves are getting depleted and unrest is on the rise, every week brings a palpable decrease in Iran's ability to rebuild its facilities. On the other hand, a strike now could spell the end of the sanctions regime.

There may be, therefore, a sliver of hope for the nuclear talks, as well as a few extra months on the Israeli military clock. Unfortunately, recent developments such as the Iranian threats to up enrichment and the US removing the Mujahadin-e-Khalq, a militant Iranian anti-government organization, from its terror list, do not point in a very conciliatory direction. The hope may well be short-lived.

1. Thousands of Iranians display rare protest over economy, AP, October 1, 2012.
2. In UN speech, Netanyahu pitches Iran as key selling point for early Israeli elections, Ha'aretz, September 28, 2012 (registration required).
3. Iranian source: Nuclear program hiring 'non-stop,' ramping up enrichment, Times of Israel, October 2, 2012.
4. The Entebbe Option, Foreign Policy, September 27, 2012.