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The Political Economy of Development in a Rentier State: Iran 1962-78

by
Amir M. Haji-Yousefi, B.A., M.A., M.A.

A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements of the degree of

Doctor of Philosophy

Department of Political Science

Carleton University
Ottawa, Ontario
December 1995
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submitted by

Amir M. Haji-Yousefi, B.A., M.A., M.A.

in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

Chair, Department of Political Science

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ABSTRACT:

This thesis presents a critical study of the failure of economic development in Iran during the 1962-1978 period. By a critical look at existing literature on economic growth and development in Iran, it argues that the main characteristics of the state during this period imposed basic constraints on economic development of the country. By criticizing the cultural and economic accounts of economic development failure, it places its emphasis on the characteristics of the Iranian state. In contrast to the literature which seeks to explain the economic development failure by conceptualizing the Iranian state either as "despotic" or "dependent", this thesis presents a theoretical framework in which three characteristics of the Iranian state, i.e., personalist-authoritarian, rentier, and client are considered to play a crucial role in thwarting the economic development of the country. Further, it will suggest that economic development policies benefitted the particularist interests of the Iranian state in autonomy, legitimacy, and property.

The Iranian state is characterized as personalist-authoritarian state since it was dominated by the person of the Shah, whose main goal was to centralize power at the cost of other societal groups. The Iranian state also is characterized as a rentier state, which on a regular basis received substantial amounts of oil revenues. Finally, the

state in Iran is characterized as a client one dependent on the United States. These characteristics, this thesis argues, influenced and shaped the economic development policies of the state in a way which, on the one hand, proved to have counter-productive consequences for economic development of the country, and on the other, benefitted the particularist interests of the Iranian state, particularly the Shah, in autonomy, legitimacy, and property. In demonstrating this argument, this thesis examines, on the one hand, the agricultural and industrial policies of the Iranian state during 1962-1978. On the other, it examines the measures taken by the Iranian state to serve its particularist interests. Having studied that, this study concludes that in order to explain sufficiently the economic development failure in Iran during the period under study, the Iranian state should be examined as an independent actor with an inner logic of its own. In so doing, this thesis is an effort to "bring the Iranian state back in" in the study of socio-economic evolution of the country.

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INTRODUCTION:

Since the early twentieth century, Iran has been provided with income from oil. The oil revenues, though very little at the beginning, increased through time. In the two decades before the Islamic revolution of 1978, oil revenues constituted about eighty to ninety percent of foreign exchange earnings of the Iranian state.

Availability of oil revenues, especially after the quadrupling of oil prices in the early 1970s, made it possible for the Iranian state to embark on an extensive economic development program. However, after two decades of remarkable economic growth, a sustained economic development based on non-oil production did not occur. In other words, if development is to be identified as the transformation of oil revenues into a "non-oil-based productive system which can become self-sustaining and self-generating of savings and state revenue",¹ the Iranian state failed to promote development of the country during the 1962-1978 period. Further, in spite of the economic growth during this period, a serious deterioration in the standard of living of the majority of population occurred.

By means of a case study, the fundamental problem that

we intend to address in this thesis is why Iran, in spite of the extraordinary resources that were available to it, did not promote sustained economic development based on non-oil production during 1962-1978 period. Since it was the state to which oil revenues accrued directly and thus enabled it to dominate the economy, we pay particular attention to the state.

The Iranian state of the 1960s and 1970s, we argue, resulted from a fusion of the historic state that had existed in the country for centuries with a modern state which emerged in the 1920s.² According to many specialists, the historic state in Iran can be characterized as a patrimonial one, in a Weberian sense, which survived by dispensing economic favours as well as positions of power and employment. One of the most noticeable aspects of patrimonialism in Iran was its personal character. Iranian society has frequently been ruled as if it were the personal possession of the shah.

This historic patrimonial state merged with a second state, the modern state. By "modern" state it is meant a state which is characterized by (1) its monopoly of the legitimate use of coercion, (2) the concentration of the forces of coercion under its control, and (3) its functioning as a service rendering organization in charge of development.³ The Iranian state in the post-1945 years, therefore, can be characterized by "multiple states", that

is three "states" in one.⁴ The first was the personalist-authoritarian state whose main goal was to centralize power at the cost of other societal groups. The second state was a client state. The Iranian state in this period relied heavily on the United States for its survival and continuity. Finally, the third state was a rentier state. Since the early 1960s, the Iranian state began to receive huge amounts of external rents which, in turn, produced a high degree of autonomy for the state.

The Iranian state, therefore, is regarded as the most important factor to hold clues for the economic syndrome in Iran. The problem we address is the role of the state in the process of economic development in the country. We will show how the realization of a sustained economic development was severely limited by the characteristics of the state. These characteristics, we argue, at best, halted, and at worst, impeded a process of diversified economic development in the country. Rather than development the economic policies benefitted the Iranian state interests in autonomy, legitimacy, and property.

In doing so, we use the theory of the rentier state. In our view, the nature of the sources of income of the state (oil in this case) influenced the basic rules of political life in the country. One of the most important effects of oil on the Iranian state was that it served to strengthen its autonomy. Because state revenues were not dependent on

domestic production, the decision-makers became much less constrained by the interests of civil society in general. This facilitated the pursuit of the state's particularist interests. In other words, the Iranian state which might have been the major force behind economic development of the country chose to pursue its own interests in legitimacy, autonomy, and property.

In addition to its rentier characteristic, Iran was also a U.S. client. Due to extensive U.S. support of the state in Iran, its power position was boosted. The autonomy of the state, thus, was further reinforced by this cliency relationship. The autonomy these two characteristics of the Iranian state produced reinforced its third characteristic, its personalist-authoritarian form. The state felt free of constraints, internal and external, to pursue its own particularist interests.

This autonomy of the Iranian state from civil society made it possible for various economic and social policies to be followed without much regard for societal interests. To analyze the economic effects and consequences of these characteristics, we examine the state's economic developmental policies (that is, agricultural and industrial policies) during the 1960s and 1970s. These policies were influenced and shaped by the three characteristics of the Iranian state in a way which proved to have counter-productive consequences for economic development of the

country. Further, we will suggest that these policies benefitted the particularist interests of the Iranian state in autonomy, legitimacy, and property.

Regarding this inquiry, however, a caveat is in order. Because this study deals with the motivations of political actors (the Iranian state) in suggesting that they were pursuing their particularist interests, and since it is impossible to account in a concise and verifiable fashion for the motives of actors, any causal links identified here can only be suggestive. What we attempt in this endeavour does not present conclusive proof but does provide plausible evidence, selected in good faith, that it was because of the personalist-authoritarian, rentier, and client nature of that state that sustained economic development of the country did not occur. The state even frustrated its own interest in legitimacy by failing to attract the loyalty of Iranian people and finally collapsing.

Chapter one provides a theoretical framework in which the state is treated as an independent actor with an inner logic of its own. In this chapter, three major accounts of the failure of economic development in the country, cultural, economic, and political, will be presented. Our approach, which mainly builds upon the political account but also extends on it, leans toward concentrating on the state as an actor which freely pursues its own particularist interests. In chapter two, we describe the emergence and

consolidation of the Iranian rentier state between 1941-1962. In this chapter, by focusing on the Iranian state, the process through which it acquired its rentier characteristic will be examined. Chapter three examines the main characteristics of this emergent state in Iran, identifying it as personalist-authoritarian, rentier, and client. Further, a brief examination of the dynamics of state-society relations in the country are presented.

Chapters four and five analyze the agricultural and industrial policies of the Iranian state between 1962 and 1978. The goal is to demonstrate the relationship between the state's characteristics and the economic development policies. In the final chapter, it will be suggested that although the economic policies of the state in Iran were influenced by its characteristics and thus did not bring about a sustained economic development of the country, they benefitted the particularist interests of the state, particularly the Shah, in autonomy, legitimacy, and property.

Endnotes

1.S. Farsoun, "Oil, State, and Social Structure in the Middle East", Arab Studies Quarterly, 10,2 (Spring 1988), p. 160.

2.I am indebted to Ahmad Ashraf for this idea. See Ashraf, "Historical Obstacles to the Development of Bourgeoisie in Iran", in M. A. Cook (ed.), Studies in the Economic History of the Middle East (Oxford: Oxford University Press, 1970), p. 328, ft. 109.

3.See S.A. Arjomand, The Turban for the Crown, The Islamic Revolution in Iran (Oxford: Oxford University Press, 1988), pp. 63-66.

4.On this point see S. Farsoun, "Class Structure and Social Change in the Arab World: 1995", in H. Sharabi (ed.), The Next Arab Decade (Boulder: Westview Press, 1988), pp. 229-233.

CHAPTER ONE:

THE RESEARCH PROBLEM

1) INTRODUCTION

By conventional wisdom one of the major obstacles to development in the Third World has been a severe lack of capital in the form of foreign exchange reserves. No such limitations, however, plagued the oil-exporting countries such as Iran which possessed huge amounts of petrodollars, especially after the oil price rise of 1973. Yet, they have not fully developed, either in terms of the creation of a permanent industrial infrastructure or in terms of a broad-based improvement in the standard of living.

After roughly two decades of economic growth in Iran (1962-1978), a close look at the indicators of economic development, including living conditions of most of the population in rural and urban areas, reveals that a serious deterioration in standards of living, rather than an improvement occurred. Furthermore, despite considerable economic growth in terms of GNP, sustained economic development independent of oil revenues did not occur.¹

This chapter develops an approach which will be used to answer theoretically the following central question: why was

Iran, in spite of the extraordinary resources that were available to it, unable to promote diversified economic development during the 1962-1978 period? In doing so, the approach argues that there is a relationship between the characteristics of the state and economic non-development in this period. Our main thesis is that the characteristics of the Iranian state caused its lack of capacity, on the one hand, and conviction, on the other, to establish the crucial conditions for economic development of the country.

In what follows, therefore, we first define carefully the key concept of economic development which recurs throughout the dissertation. Secondly, we demonstrate the centrality of the Iranian state to the process of national development. Thirdly, by means of a literature review, we examine the three major accounts for the failure of economic development in the country. Finally, by bringing to light the main shortcomings of these accounts, we propose our approach to accounting for economic development failure in Iran.

2) DEVELOPMENT

The concept of "development" has been one of the most controversial concepts in the political science literature. This concept for too long has been a catch-all phrase which, because it meant everything, meant nothing. Only if it is clear what precisely "development" is, does it make sense to

devise or criticize specific strategies. Only then is it possible to debate their respective merits and drawbacks.

In order to clarify this concept, we distinguish between economic growth (which is concerned with realized output) and economic development (which is concerned with productivity). "The one concerns actual production, the other potential production or capacity for production".² Economic growth simply means an increase in the output of economy, calculated in terms of gross national product (GNP). While economic growth is an essential component of development, it is not the only one. In part this is because development is not purely an economic phenomenon. Development, as we use the concept, is something more than economic growth and something more than the removal of economic and non-economic impediments to economic growth. Equating economic growth with development is a fundamental mistake and the difference between the two has been brought out by a number of early and recent contributions to the literature on economic development.³

The perspective on development and growth has changed. Instead of asking questions such as "How is economic growth achieved?" or "Is economic growth occurring?", some scholars ask "What is development?". Those who ask this question do not reject the importance of growth as a condition of development. Growth, however, is not development for them. As Bawa stated,

Development to us means not merely the production of wealth, but its distribution in an equitable manner. This includes provision for the fulfilment of minimum needs for all, instead of only a few individuals achieving a high standard of living.⁴

So what is development? Of course a concept such as development is highly normative and nobody can claim to define it in an absolute sense. But, in a general sense, as one author observed, "anyone could agree that development means an improvement in the standard of living which is achieved by an increase in the production and consumption of goods and services".⁵ We define development as a multidimensional process involving the reorganisation and reorientation of the entire socio-politico-economic system. National development as a comprehensive concept refers to human development, on the one hand, and economic development, on the other. The basic objective of human development "is to enlarge the range of people's choices", "while economic development is the process of creating the capacity to generate wealth. Successful national development is the creation of broadly based welfare in a process which raises individual and social productivity. In other words, development in brief refers to increasing the options available to people. This, as a prerequisite, necessitates economic development: the production of a given output with fewer inputs, and the introduction of new products and services.

In this dissertation we concentrate on the economic

dimension of development in Iran. This emphasis is not to discount human development but to suggest that, for all practical purposes, the former is a necessary if insufficient condition of the latter. Once people have attained a certain level of material welfare, they will demand and struggle for civil, economic, and political rights. This is so because as Arthur Lewis pointed out, economic development "increases the range of human choice ... that it gives man greater control over his environment and, thereby, increases his freedom".⁷ In this dissertation, therefore, we limit ourselves to economic development and examine the failure of the Iranian rentier state to achieve it.

With respect to Iran, development would imply two changes. One is the diversification of economy and a reduction in dependence on oil revenues. The other change would involve an equitable distribution of income. Economic development in our view not only requires self-reliant, autonomous growth but also greater social justice in the society. Therefore, we would consider economic development in Iran to have occurred if there were a transformation of oil rents into a productive system which, on the one hand, became self-sustaining and self-generating of savings and state revenues, and on the other, reduced the gap between the rich and poor in the country.

In contrast to the modernization school, we do not

assume that accelerating the rate of growth will generate greater national wealth which will trickle down to raise the living standards of all people in the society.

Unquestionably, Iran has since the early 1960s witnessed considerable economic growth. It is not our intention to belittle these achievements, only to suggest that they are prime examples of growth without development, economic or human. The impressive growth rates of the Iranian economy in this period created the illusion that the country was undergoing a genuine industrialization and economic process. However, as we will demonstrate later, a closer look at the Iranian economy reveals that growth without development happened.

3) STATE

As we will see in chapter 2, it was in the early twentieth century that emerged a modern state in Iran. The major difference with its predecessors was its economic centrality and thus its willingness to be involved in the economic development of the country. The modern Iranian state's engagement in economic activities does not mean that the traditional state in Iran had not pursued economic reforms. What it does mean, however, is that before the advent of Reza Shah in 1925 the efforts of the Iranian state to reform the country's economic system either were the noble acts of individuals or strong leaders, or were

undertaken in times of crisis.⁸

During Reza Shah's period (1925-1941), the Iranian state for the first time embarked upon relatively extensive reforms in order to bring about economic development. At that time, the role of the Iranian state in the economy started and its involvement as a main agent of development increased. The strategy of Reza Shah for economic development was apparently modelled on Kamal Ataturk's statist model.⁹ After Reza Shah's abdication in 1941, his son Mohammad Reza Shah came to power. It took him more than a decade to consolidate his power, and then from the early 1960s to the late 1970s, the Iranian state became a critically important element in economic performance of the country.

At least three factors can be mentioned to account for the growing importance of the Iranian state as an economic development agent. One is the accepted view of the Iranian people that the state should be an interventionist, strong agent in social life. As Richards and Waterbury aptly put the case of all Middle Eastern states, "it is conceded in the abstract that the state and its leaders have a right and an obligation to set a course for society and to use public resources to pursue that course".¹⁰ Regarding Iran, this is mainly because for twenty-five centuries, Iran lived under monarchical rule. The history of the country is marked by dominance of strong leaders (historically an autocratic

monarch) and acceptance of authority by the people. Although there have been some fluctuations in their power mainly because of the threat of other rivals, the shahs have managed to wield supreme political authority. As we will demonstrate in chapter 2, the shahs in times of strength attempted to subdue all society to their power and in times of relative weakness manipulated and neutralized all contending sources of power.¹¹

The second factor which may account for the strength of the state in Iran is the weakness of the private sector, and in particular the bourgeoisie. At least three objective obstacles to the growth of bourgeoisie in Iran can be identified. First, the existence of strong shahs and a strong centralized state meant that the economy was under the control of the state and thus all economic activities became dependent on the state. Since the state was in charge of the national economy, the modern bourgeoisie was created by the state; hence it was dependent on the state. Secondly, the pervasive economic insecurity because of, on the one hand, arbitrary confiscation of private property by the state, and on the other, the frequency of tribal invasions and their control of the countryside during times of the weakness on the part of the state, prevented the growth of a genuine and unified bourgeois class. Finally, colonial penetration via the penetration of Russian and British capital and manufactured goods during the nineteenth century

resulted in the destruction of Iranian crafts and manufactures and the creation of a dependent bourgeoisie.¹²

Finally, and most importantly the huge amounts of oil revenues which began to accrue directly to the Iranian state, especially since the early 1960s, set the stage for the emergence of a powerful state in Iran. Historically the Iranian state has been dependent on the collective agricultural surplus as its main source of income. The modern Iranian state, on the contrary, especially since the early 1960s, received oil revenues and thus became independent of the agricultural sector.¹³

Because of a huge influx of oil revenues, the state in Iran embarked on large public expenditure programs without resorting to taxation and without running into drastic balance of payments problems. The state directly participated in the economic process and its command over oil revenues and other sources of income made it the most salient actor in the national economy. Furthermore, the state conditioned and ordered social life not only through its political decision-making but also through its possession of oil revenues, its role as framer of the macroeconomic context, its role as direct producer or as controlling share-holder in many private enterprises, and as distributor of oil rent. The state determined how the revenues were channelled into the economy, which projects were given priority, and which social forces were given

privileged status. As Halliday aptly observed,

Iranian development has been fuelled by oil and it is a peculiarity of oil that the state alone is the recipient of the revenues from it. The state has therefore determined how the revenues have been channelled into the economy, which projects are provided with capital, and which social groups are given privileged access to the increased consumption possibilities oil provides. Discussion of the state and of the class interests represented in it is therefore essential to the analysis of the economic transformation Iran is undergoing.¹⁴

4) LITERATURE REVIEW: THREE ACCOUNTS

While the fall of the Shah has been examined in detail, the failure of the Iranian state to bring about economic development in the country during 1962-1978 has received scant attention.¹⁵ If scholars and specialists have attended to the problem of economic development failure in the country, their goal has been, more or less, to explain the economic origins of the Iranian revolution in 1978. In other words, the literature on the economic syndrome in Iran mostly examines the impacts as well as consequences of the economic policies of the state rather than seeking their causes. For example, arguments have been advanced that the revolution occurred as a result of "uneven development", i.e., combination of high levels of economic growth with low levels of political development.¹⁶ Furthermore, some other scholars have argued that uneven development in the country

signified the creation of a dual economy- a rapidly growing modern sector and a stagnant traditional sector- whose relationship was contradictory. According to this line of thinking, therefore, the Iranian state's lack of attention to agriculture, which comprised a most important segment of the traditional sector, was an important cause of the revolution.¹⁷ Indeed one author argues that the only cause of the Iranian revolution was economic. However, others support the idea that economic issue was a major cause of revolution in Iran.¹⁸

Consequently, we argue that at the present time there is a wide gap in the existing literature which stems either from a failure to distinguish the cause from the consequences or the failure of the authors to recognize the genesis of the development syndrome. This work attempts to bridge the existing gap. In so doing, we consider the economic development failure as a dependent variable whose causes are required to be explored.

In the literature available the failure of economic development in Iran has produced controversy. At first glance, because of the diversity of opinions and the numbers of unanswered questions, there seems to be as many accounts as there are scholars in this field of inquiry. Nonetheless it is possible to distinguish the common threads among prevailing views on the subject in order to be able to discern various theoretical lines and schools of thought.

With respect to the failure of economic development in Iran during this period, at least three main accounts are advanced. Some scholars argue that the main obstacles to economic development of the country are cultural. Another group of scholars, mainly economists, examine the economic trends in Iran and argue for the pertinence of economic factors in explaining the failure of a genuine development in the country. Finally, a third group of scholars maintain that there is a relationship between political factors and economic development failure. According to them, either the nature of the state or the dependency of Iran on the Western industrialized countries may account for this phenomenon.

In the subsequent sections, we first examine critically these cultural, economic and political accounts. Secondly, by arguing for the saliency of the state in explaining the economic non-development in the country, we propose our view which maintains that the personalist-authoritarian, rentier, and client characteristics of the Iranian state influenced and shaped economic policies, in ways which had counter-productive consequences for economic development of the country.

4-1- The Cultural Account

This view sees the backwardness of the country as a result of pre-modern Iranian culture, norms and values.¹⁹ The literature on the cultural impediments to economic

development in Iran, however, is not very extensive and, furthermore, it does not systematically or theoretically explain the relation between culture and economic development in the country. Nevertheless, many discussions of Iran have paid attention to culture. The scholars in this field of inquiry often use the "modernisation" school to explain the Iranian situation. They focus on the Iranian culture in general and political culture in particular as the most important variables to explain the underdevelopment (political as well as economic) syndrome in the country. They use the tradition-modernity dichotomy in one form or another as a tool of analysis. They argue that the ethos and organization of a traditional society are both a cause and an expression of underdevelopment. The cultural values of Iranian traditional society are postulated to be a hindrance to modernization.²⁰

In our view, this approach, although it contains some insights which may help us to understand the development problematic in Iran, is not very useful. We take issue mostly with this approach's insistence on modern values as a precondition of development. This disregards entirely the influence of indigenous institutions such as the state, and implicitly neglects the possibility that the very modern attitudes believed to be the prerequisite of economic development can, in fact, be only side-effects, generated by the economic development process itself. Furthermore, the

traditional values alleged to obscure economic development can be changed rapidly, though with difficulty, by a state that has a strong conviction to develop the country. These cultural characteristics of the Iranian people are not inherent vices, but on the contrary they are created by historical events and might be replaced with new ones. In other words, these cultural values can be regarded as effects not causes of backwardness.

4-2- The Economic Account

The economic view confines itself to more or less pure economic analysis of the Iranian situation. This approach which is mostly adopted by economists analyzes the Iranian economy by looking at various economic factors such as the strategy of Import Substitution Industrialization and its advantages and disadvantages, employment of technology, allocation of oil revenues, foreign trade, the labour force, employment and unemployment, economic growth in terms of GNP and GDP, distribution of income, etc. This approach, in other words, is limited to purely economic and statistical examination of the Iranian economy. From among many works using this approach, it suffices to mention a few such as those of J. Bharier, G. Baldwin, E. Razaqi, H. Pesaran, J. Amuzegar, A. Fekrat, R. Looney, K. Mofid, and H. Moetamen.²¹

There is one major methodological problem with this

approach worth mentioning. The adherents of pure economic analysis of Iranian economic development, although they soundly examine different aspects of Iranian economy, do not take into consideration the broad social transformations which occurred in Iran during the period under investigation. In other words, they study the Iranian economy and economic development planning in Iran without regard for indigenous or exogenous noneconomic (socio-political) determinants such as the class structure, the state and ruling class, international political conditions, etc. This pure economic analysis, in our view, stands in the way of a comprehensive investigation of economic problems, which are many-sided and interrelated. This is why we believe in the superiority of a political economy approach in which the saliency of the state is taken into consideration.

4-3- The Political Account

The political account of the failure of economic development in Iran focuses on the political causes of backwardness in the country. Two major views can be identified in this explanation. The first directs our attention to the importance of external factors, particularly the Western industrialized countries, in thwarting the economic performance of Iran. The second view looks at the state, particularly the Shah, and argues for

their importance in explaining the economic non-development in the country.

4-3-1- Dependency: There is a relatively extensive literature which tries to establish a relationship between Iran's backwardness and its position in the capitalist world economy. This school of thought, following the dependency and world system theories, concentrates on the factors in the global capitalist system which supposedly bear on Iranian backwardness.²² For the scholars of this school, the condition of Iran's backwardness should be understood as the result of the development process in the Western industrialized countries.²³

Accordingly, the political and economic domination of Iran by the British and Russians during the nineteenth and early twentieth centuries and the Americans after the Second World War are said to have impeded a genuine economic development of the country. A number of scholars have made an effort to apply the dependency approach in some form to Iran; A. Ashraf, P. Clawson, N. Keddie, A. Saikal, H. Pesaran, R. Motameni, M. Zavareei, B. Jazani, M. Soudagar, A. Akbari and J. Foran.²⁴ In order to examine the ways in which external economic structures have impeded Iran's internal economic development, Ashraf, for example, focused on the process of class formation in Iran as it was shaped during its nineteenth century domination by Britain and

Russia. In this regard, as he stated,

A semicolonial situation, superimposed upon Iranian society by the rival colonial powers in the latter half of the nineteenth century, however, set the stage for the beginnings of 'modernization' along the lines of dependent capitalism. The result was an uneven and flawed development of capitalism, leading to the emergence and growth of a dual societal type in Iran. ... the blemished development of capitalism in Iran, as in other dependent economies, entailed the rapid and uneven growth of a tertiary sector both in the public and private domains. Combined with sluggish growth in the modern primary and secondary sectors, and an accelerated growth in population, what eventually resulted was: (1) a distorted pattern of urbanization; (2) a proliferation of urban poor and rural migrants; (3) a rapid growth of a traditional petite bourgeoisie engaged in trade and services; (4) a relative weakness of the modern industrial bourgeoisie and proletariat, particularly in the private sectors, and finally, (5) a burgeoning of new middle classes, mainly those of the state agencies and dependencies.²⁵

Somewhat in the same lines, by studying the history of Iranian economy during the 1800-1914 period, Keddie concludes that the roots of dependent development in the twentieth century Iran can be found in the nineteenth century. According to her,

The impact of the West on Iran's economy was already significant. The period brought Iran definitively into the international market, ending its former relative self-sufficiency and making it dependent on international trade. Some landlords began to produce for the world market and to feel the need for more efficient means of exploitation and transport. Some merchants were able to take advantage of new conditions ... The power of the old ruling classes, with their heavy stake in decentralization and a weak central government was gradually undermined, as more

and more Persians became aware that a new type of government was needed to keep Iran from being economically and politically swallowed up by the West. Economic changes during the 1800-1914 period followed by the disruption and famine brought by World War I form some of the basic causes of the Iranian political upheavals that characterized the period 1905-1925 and culminated in a dictatorial, centralizing, and modernizing government.²⁶

Analyzing the historical domination of Iran by the West and its semi-colonization, Zavareei directs our attention to the period after the World War II and examines how internal socio-politico-economic evolution of Iran was determined by the United States imperialism. She argues that in the post-1953 period (when a CIA-led coup reinstated the Shah) the position of the Americans was enhanced. The entire political and economic scene was henceforth dominated by U.S. imperialism. According to her, the unconditional support afforded the monarchical dictatorship by the Americans attests to the intertwined interests of the comprador bourgeoisie and foreigners. As she points out,

This period (1941-1953) was ... the period of the United States's initial imperialist penetration by way of militarizing the Shah's regime. ... Since the overthrow of prime minister Mosaddeq in the CIA coup of 1953, the United States government began to pour the foundation of a client state via the Shah's regime. The underlying premise of this policy was to promote capitalist development on the one hand and suppress the opposition on the other. ... [During 1963-1977] a new combination of more severe political repression and the instigation of dependent capitalist development was introduced to consolidate the power of the Shah's regime. In less than a decade these policies had

effectively altered the social, economic, and political structure of the country. The sharp rise in the price of oil in 1973 accelerated this process of change. This new source of income was used to reinforce the dependent nature of the growth of the economy and to finance the unprecedented militarization of the Shah's regime.²⁷

Finally, one of the most comprehensive attempts has been made by J. Foran to apply the more sociologically sophisticated version of Cardoso and Faletto that gives due emphasis to both internal aspects of social structure and historical factors generally.²⁸ According to Foran, "this is not to argue simplistically that the West caused everything, but rather, that a complex and changing set of relations between internal and external factors and structures accounts in large part for the particular forms that development and social change have historically assumed in the Third World".²⁹

This dependency approach to explaining the backwardness of Iran has performed the important service of placing in a central position the exploitative economic relationship prevailing between Iran and the West and indicating how this relationship retarded a genuine economic development of the country. In our view, however, there is a significant shortcoming in this approach. Although it contains important insights which may help us to understand the roots of Iran's backwardness, it has by-passed the importance of the Iranian state as an agent of economic transformation. In other

words, because of its conception of the state as dependent, on the one hand, and as a representative of dominant economic classes, on the other, this dependency approach has given little autonomy to the Iranian state in its relations with the Western industrialized countries.³⁰ Our major problem with this approach, therefore, is its overestimation of the power of the international system in Iran's non-development and thus its underestimation of any influence of the state over its affairs. We, instead, argue that Iran's economic development failure can best be understood as a process in which the state played a significant role albeit within the constraints of the international system and its dependency.³¹

4-3-2- State: By examining the nature of the state and its policies, some scholars have attempted to explain Iran's social evolution including its economic backwardness.³² One attempt to provide an appropriate explanation for the role of the state in the country's socio-economic evolution and thus the failure of economic development focuses on the application of the concept of patrimonialism.³³ This concept owes its origins to Weber's typology of traditional political systems.³⁴ Weber distinguishes between the patriarchal and the patrimonial political systems: the former being "the core of all traditional systems and is generally confined to household kinship groups"; the latter,

which he used synonymously with 'sultanism', indicates a more refined and complex system in which the patrimonial authority is filtered through an identifiable network of administrative authority.³⁵ It should be noted that in both systems the emphasis is on absolute power and total submission by the subjects to the authority, although the patrimonial system is less personalistic and superstitious than that of sultanism.

In the case of Iran, a representative example of the application of Weber's typology belongs to Bill and Leiden whose view of the Pahlavi state as patrimonial rests on their notion of the patrimonial rule as "an extension of the ruler's household in which the relationship between the ruler and his officials remains on the basis of paternal authority and filial dependence".³⁶ According to them, Mohammad Reza Shah was in favour of change and modernization and embarked upon some reforms, but, since his "reform program was designed to protect rather than to transform traditional political patterns", it failed to bring about a genuine socio-economic transformation of the country. In other words, since the administration of reforms, including economic development programs, were implemented according to patrimonial patterns such as "personalism, rivalry, insecurity, distrust, and uncoordinated ad hoc decision making", a successful economic development of the country was prevented.³⁷

It is noteworthy that some scholars in this line of thinking argue that the main reason for economic non-development in patrimonial systems such as that of Iran is the lack of an independent bourgeois class. They maintain that since the patrimonial political system stifles the emergence of a bourgeois class, the development of modern capitalism is severely obstructed. Ashraf, for example, argues that,

The reason lies in the fact that 'the important openings for profit are in the hands of the chief and the members of his administrative staff'. Further 'under the dominance of a patrimonial regime only certain types of capitalism are able to develop ...'. The main historical obstacles to the development of a bourgeoisie under patrimonial regimes according to Weber are a 'traditional attitude to economic activities', 'arbitrariness in financial activities', and the lack of 'a basis for the calculability of obligations and the extent of freedom which will be allowed to private acquisitive activity'. Moreover, 'insofar as productive enterprises are directly administered by the governing group itself, the development of capitalism is thereby directly obstructed'.³⁸

Another model, directed more specifically at the nineteenth-century Iranian state but with important implications for its twentieth-century counterpart, concentrates on the concept of oriental despotism.³⁹ This model emphasizes the continuity in terms of both the functions and the structure of the state under the two Pahlavi shahs with the previous, pre-twentieth century dynasties. This model, further, emphasizes the absolute,

omnipotent nature of political power.⁴⁰

According to the oriental despotism model, the economic backwardness of Iran is related to dictatorship and despotism which generated contradictory government policies and a lack of economic planning and management. Therefore, dictatorship and despotism have been considered as the main obstacles to the economic development of Iran. Katouzian, for example, has observed that the forces of despotism and pseudo-modernism can explain all aspects of the Iranian situation. Accordingly, all Iranian ills, including its economic backwardness, are related to Iran's "most tenacious enemy -Iranian despotism".⁴¹

To substantiate this conclusion, Katouzian has argued for the impact of the despotic, arbitrary power in causing the weakness and discontinuity of all forms of private wealth and property.⁴² He has traced this to the alienability of the right to property. Accordingly, the ownership of land was a privilege, and not a right, that the Iranian landlords derived from their relationship to the state and "this privilege may be passed on to any one else at the state's pleasure".⁴³ Claiming that these features applied to the reign of both the Pahlavi shahs, Katouzian has put forward the idea of continuity between this and previous monarchies. According to him, "Iranian society has been run by a functional despotism for two and a half millennia".⁴⁴

Reminiscent of the model of oriental despotism, some scholars, by considering the despotic nature of the Iranian state, have concentrated on lack of planning as well as unrealistic and ambitious policies of the Iranian state in general and the Shah in particular. Vakil and Razavi, for example, have demonstrated the contradictions between dictatorship and economic planning and development in Iran. A. Saikal has spoken of contradictions between the Shah's desire for an economically and industrially diversified Iran and his appetite for personal power. R. Graham has discussed with detail the over-ambitious and unrealistic policies of the Shah. E. Hooglund has attributed the failure of the land reform to the political considerations of the Shah which were privileged over the socio-economic improvement of the rural areas. R. Cottam attributed the Shah's decision to attempt such rapid modernisation to a sense "that grandeur was the foremost motive giving direction to the domestic and foreign policies". In so deciding, however, the Shah "made the error of overestimating Iran's financial resources, underestimating country's ability to absorb surplus revenues and more serious still, of ignoring the social consequences of profligate spending".⁴⁵

Some other scholars, at the same time, have focused their attention on the crisis of participation in Iran. Accordingly, the Iranian state's attempt to modernize the country necessitated the creation of channels through which

people could participate in the process of decision-making. However, they argue, given the Shah's decisional style and apparent temperamental inability to share power, the Iranian state failed to create institutions that could satisfy the desire of Iranians to exercise influence over their destiny. This failure, in turn, obstructed further economic development of the country.⁴⁶

In the same line, they further argue that uneven development characterized Iran during the 1960s and 1970s. This means that the Iranian state attempted to modernize at the socioeconomic level but failed on the political level. Hence, not only did socioeconomic development not occur but also the Iranian state could no longer preserve its power based on repression and co-optation.⁴⁷

In our view, both the patrimonial and oriental despotism models, although they contain important insights which help us to understand the nature of the Iranian state and its relation to economic non-development of the country, suffer from a serious shortcoming. Both the patrimonial and oriental despotism models do not leave any autonomy for the society, that is they give complete autonomy to the state. Bill and Leiden's usage of the concept of patrimonialism, for example, by focusing on the personalism of political power in Iran, encompasses the society as well as the state.

According to them,

Patrimonial society rests upon personal relationships. The community or society is

essentially an enlarged household, and the personal ties that dominate in the household are the model for the ties in any other patrimonial unit. ... Formal organizations and institutions have seldom effectively intervened. Even when institutions such as formal bureaucracies have developed and expanded, the real business of ruling and political decision making has resided in personal networks. These networks tend to hold together groups of people, and it is through these networks that the leader has attempted to establish as wide a range of contacts as possible.⁴⁸

At the core of the patrimonial model is the idea that fathers, husbands, employers, teachers, etc., all represent the microcosms of a state power which represents the interests of the patrimonial elite. This model, in other words, perceives the state as the source or point of confluence of power, a power which is homogenous for every level or domain- family, state, education, production, etc. Bill and Leiden's argument that the Shah "perfected the mechanisms of patrimonialism" fails to take into consideration the fact that the Iranian state, despite the omnipotence of its apparatuses, was always far from being able to occupy the whole field of actual power. The Iranian state, in other words, despite its high degree of autonomy from civil society, was not a strong state. By emphasizing only the strength of the Iranian state, the patrimonial model not only ignores other domains of power in the society but also fails to explain the nature of contradiction between the state and civil society in Iran, which permitted the fall of the Shah in 1978.⁴⁹

The oriental despotism model also overestimates the activism and strength of the state in Iran. According to this model, the Iranian state is able to penetrate deeply into society and not only shape it but also contain the contradictions that may come from the socio-economic changes of the country. Accordingly, for example, Katouzian argues that the availability of oil revenues and the state's control over them produces not only the socio-economic autonomy of the state with respect to the private economic sector, but also they make the private sector dependent upon the state for direct and indirect welfare gains from oil revenues. Thus, as he maintains, "the state has become the exclusive fountain of economic and social power, a power, moreover which is independent of the productive effort of the community".⁵⁰ This aspect, he argues, is related to the "clientele" feature of Iran's socio-economic structure. For Katouzian this clientele feature means that "the classes with the highest potential independence from the state (by virtue of tradition, property, or education), display the greatest actual degree of dependency on the latter".⁵¹

Therefore, by using the oriental despotism model in order to explain the state in Iran, Katouzian views the state as a wilful agent that grants and withdraws social favours at will. This state, further, is believed to be completely immune from class struggle, a totally autonomous object directly controlled by the Shah and royal family.

Our main critique of this view is that it is oblivious to the fact that the Iranian state's policies, in this case economic development policies, can be, and as we will see, have been, influenced by other factors outside the circle of the state, internal or external. The land reform of the early 1960s, for example, illustrates this point. As we will point out in chapter 4, the land reform as a part of the state's survival strategy, was triggered by both internal and external factors. Unable to see this, Katouzian and other Iranologists who applied the oriental despotism model have ended up viewing the state as a strong independent variable and the society as a passive dependent variable.⁵² They also ignore insight of dependency theorists about external factors.

5) TOWARD AN ALTERNATIVE VIEW

Dissatisfaction with the patrimonial and oriental despotism models leads us to advance our view which directs attention to the phenomenon of the rentier state. Although most scholars studying the Iranian economy and society have focused on the overwhelming significance of oil revenues, fewer have consciously used the concept of the rentier state.⁵³ The conceptualization of the Iranian state as rentier, we argue, makes a major contribution in understanding the economic source of the Iranian state's autonomy, its heavy intervention in the economy and its

promotion of industrialization. Yet in doing so, we shall avoid the main weakness of this theory, which like the patrimonial and oriental despotism models, tends to portray the state as an entity totally immune from civil society. In the following, thus, we first define the concept of the rentier state. Secondly, our modified conceptualization of the Iranian state will be advanced. Finally, the analytical implications of our conceptualization of the Iranian state as simultaneously rentier, personalist-authoritarian, and clientele will be explored.

5-1- The Rentier State as Concept

The literature on economic development considers the state as an abstract entity whose policies are regarded as exogenous variables. That is they are not considered as closely related to the economic structure and social realities of the country. The assumption that the state is neutral and homogenous entity and that all states are alike, is one of the major shortcomings of a purely economic approach. Its rejection is the basis of a political economy approach.

Within the political economy approach, nevertheless, the state is viewed mainly with regard to its internal or external linkages, i.e., its relations with other states or with the major domestic classes. In the Marxist tradition, the state is viewed as the intentional or unintentional

captive of class interests and in the final analysis as the instrument of class domination. The dependency approach has developed as well a theory of dependent classes which generate a dependent state.⁵⁴

The concept of the **rentier state** is in these traditions but concentrates attention on the importance of sources of state revenue. In other words, as Beblawi and Luciani observed, the concept of the rentier state is an effort "to innovate both on the Marxist tradition and on the *dependencia* approach because it concentrates attention on the structure of public finance rather than purely on class relations or on external economic linkages".⁵⁵

Therefore, although the economic conditions may not explain all aspects of the behaviour of the state, the nature of the sources of income of the state influences the basic rules of political life in the country. This, furthermore, draws attention to the importance of revenue extraction and its impact on coalition building in state construction. The starting point of such analyses is that the impact of the oil phenomenon on the role of the state and on economic behaviour in general was so profound as to justify special attention. In other words, the idea that states which are dependent on rents are substantially different from states which are dependent on domestic taxation has led to the proposition of the concept of rentier state. Consequently, the concept of a rentier state

was chosen to characterize the prominence of the oil revenues in the oil-exporting countries of the Middle East.

This concept was first suggested with reference to Iran by Hussein Mahdavy. Rentier states, according to him, are countries that receive substantial amounts of external rents on a regular basis, paid by foreign governments or foreign concerns. As he observed, the distinguishing characteristic of the rentier state is that: "the oil revenues received by the governments of the oil-producing and exporting countries have very little to do with the production processes of their domestic economies. The inputs from the local economies -other than raw materials- are insignificant".⁵⁶

The most rigorous and complete treatment of the rentier state is that of Beblawi and Luciani (eds.), The Rentier State.⁵⁷ The main characteristics of the rentier state, as Beblawi observed, are as follows. First, because each and every economy has some elements of rent, the rentier state should be defined as one where rent situations predominate. Second, a rentier state is one which relies on substantial external rent. Third, in a rentier state, only a few are engaged in the generation of this rent and thus the majority is only involved in the distribution or utilization of it. Fourth, the government in the rentier state is the principal recipient of the external rent and plays a paramount role in distributing this wealth to the population.⁵⁸ The vast majority of states with these characteristics are found

among the petroleum exporters of the Middle East.

The external rent accruing directly to the state and without any substantial connection with domestic productive activities has several important effects on the state and its willingness to undertake economic development. One of the most important effects is that the rentier state's access to huge oil revenues serves to strengthen its autonomy.⁵⁹ In most non-rentier economies, the state derives revenues from taxing citizens, goods, and services. The rentier state, in contrast, becomes independent of the domestic economy and needs not to rely on taxation.⁶⁰ Because the revenues of the rentier state are not dependent on domestic production, its decision-makers are much less constrained by the interests of civil society in general.

This autonomy of the state from civil society, thus, makes it possible for various economic and social policies to be followed in the rentier state without much regard for societal interests. This is what we mean by autonomy when we use this concept throughout the dissertation. In a rentier state such as Iran, we argue that state officials developed their own interests which were at variance with the interests of other social groups.

5-2- The Iranian State as Concept

What is the Iranian state? First, the Iranian state was a rentier one, which "on a regular basis received

substantial amounts of external rent", or oil revenues.⁶¹ Secondly, like the prevailing view in the literature, we argue that the Iranian state was very closely associated with the person of the Shah, who monopolized the power of decision-making. This means that the Shah stood at the apex of a political system that was the fount of most of the important policies and strategies. However, in contrast to the prevailing view in the literature, the Shah's wielding of supreme power, in our view, does not suggest, as Bill and Katouzian have, that all policies and programs emanated from him. In our view, Bill and Katouzian neglect to consider seriously the fact that state policy was not the unified and totalistic project of the Shah, but the intricate balancing of the Shah's interests with those of the upper class's interests and also the American (patron) state's interests.⁶² What we argue is that the Shah responded to the confluence of these interests.

Thus, in our alternative view, the notion of the power of the Shah refers mainly to his mode of decision-making and less so to the real origins of economic development policies. The Land Reform Program of the early 1960s, as we will see in chapter 4, illustrates this point very well. This program mainly originated with, and encouraged by, the United States. This, however, is not to suggest that the power of the Shah remained the same in the period under study. In chapter 5, for example, we will demonstrate that

because of the oil price rise of the early 1970s, the absolute power of the Shah and his margin of independence from the United States were increased, so he was solely responsible for the revision of the Fifth Development Plan and the subsequent economic crisis.

Thirdly, the Iranian state in addition to being a rentier and personalist-authoritarian, was also a client state. The Iranian state was dependent on the United States. The foundation of this dependent relationship was laid after the 1953 coup against Prime Minister Dr. Mosaddeq.

Fourthly, in contrast to the prevailing conceptualization of the Iranian state in the literature as "strong" state, we argue that the state in Iran, despite its high degree of autonomy from civil society, was not strong. This was due to the fact that there existed in the country a strong civil society.⁶³ Although the rentier state seems completely autonomous from its society, the Iranian case bears witness to the fact that contrary to stipulation of the theory of rentier state, popular acquiescence may not be won solely via distribution of rents. The rentier state also needs a degree of legitimacy and support generated through representation. In other words, although the rents collected directly by the rentier state increase its autonomy and freedom of manoeuvre, much of this strength is illusory.⁶⁴ This consideration, in turn, helps us to explain the

collapse of the regime of the Shah in 1978.

Finally, like Theda Skocpol who attempted to bring the state to centre stage in the study of social revolutions by treating it as an autonomous structure, we argue that the Iranian state should be treated as an actor in its own right which is not the mere reflection of societal preferences but, on the contrary, develops its own interests which may be at variance with the interests of other social groups or classes. Skocpol treated the state structure as an autonomous one, i.e., "a structure with a logic and interests of its own not necessarily equivalent to, or fused with, the interests of the dominant class in society or the full set of member groups in the polity".⁶⁵ Accordingly, we argue that the economic development policies of the state in Iran benefitted its particularist interests. As we will see in chapter 6, this latter phenomenon was possible since the Iranian state had at its disposal huge amounts of oil revenues as well as the support of the United States.

5-3- The Iranian State and Economic Development: A Theoretical Framework

Although our conceptualization of the nature of the Iranian state differs from the prevailing views in the literature, somewhat in the same lines we argue that the state in Iran, more than any other internal or external factor, holds clues for the failure of economic development. Hence, the problem we will address is the role of the state

in the process of economic development in the country. Our central arguments, which will be empirically substantiated in the subsequent chapters, are that:

the characteristics of the Iranian state influenced and shaped its policies in a way which proved to have counter-productive consequences for the economic development of the country;

the Iranian state's autonomously designated and implemented economic development policies benefitted its particularist interests in autonomy, legitimacy, and property.

By examining the agricultural and industrial policies of the Iranian state in chapters 4 and 5 respectively, we seek to substantiate the first argument, i.e., the distorting effects of the characteristics of the Iranian state on its economic development policies. In chapter 6, by describing the main measures taken by the Iranian state to serve its particularist interests, we seek to substantiate our second argument.

As we pointed out earlier, the autonomy produced by the availability of oil revenues made the state in Iran the most important actor in the economy. The Iranian rentier state heavily intervened in the economy through development plans, general regulating, and direct investments. It claimed monopoly over economic regulation, it participated extensively in the production process through its own public enterprises, it controlled private enterprises considerably

through equity holding (basically by the royal family),⁶⁶ and finally it allocated resources (oil rents) freely. These extensive economic interventions made the Iranian rentier state the principal force in the performance of the economy.

This heavy involvement in the economy, in turn, had major benefits for the state in Iran. Its intervention in the economy : a) permitted the state to have discretion in focusing benefits and costs; b) created clientelist relationships of dependency between the state officials and outsiders and thus it was used as a way to generate legitimacy by coopting the societal elements; c) created huge opportunities for state officials to enhance their property; and finally, d) prevented the emergence of an independent bourgeoisie which might threaten the state's political and economic power base.

This, however, does not mean that the Iranian state did not intend to modernize or to industrialize the country. What it does mean is that instruments for industrialization privileged political considerations over purely economic considerations and constraints. In this situation in which the Iranian state privileged political considerations over economic rationality, interest in sound and efficient economic development rapidly waned. In other words, from this type of state, i.e., personalist-authoritarian, rentier, and client, followed policies which were anti-development. Some of the main policy consequences were as

follows:

- 1) development of clientelist relationships between the state and some social groups;
- 2) increase in the Iranian state's dependence on oil revenues;
- 3) massive investments in non-productive ways such as purchases of military hardware;
- 4) heavy reliance on import of food; because of windfall gains from oil exports and of an overvalued national currency, it became easier to import food than to stimulate local production.

The preference of political considerations over economic rationality, nevertheless, could only be sustained as long as the Iranian state, on the one hand, received the oil revenues steadily, and on the other, the United States continued its crucial support of the Shah. Any interruption in the influx of oil revenues to, or the U.S. support of, the Iranian state could create a serious crisis.

In sum, we argue that in order to understand the development syndrome of Iran, we must examine the state. Based on our conceptual framework we argue that the characteristics of the state had retarding effects on economic development of the country. In other words, the personalist-authoritarian, rentier, and client characteristics of the Iranian state interfered in the process of economic development policy-making in a way which proved to be counter-productive.

6) CONCLUDING REMARKS

The major issue raised in this chapter concerns the lack of economic development of Iran despite its extraordinary oil resources. Contrary to the existing literature on economic development in Iran, we argue that the main characteristics of the state in Iran can account for its lack of a sustained development independent of oil revenues. Its rentier, personalist-authoritarian, and client characteristics, in our view, not only have driven the Iranian state's economic policies but also have distorted and in some ways retarded economic development of the country. We propose to consider the Iranian state as an actor that pursued its own particularist interests. To substantiate our alternative view, we will first examine the real agricultural and industrial policies of the Iranian state during 1962-1978 period in chapters 4 and 5, respectively and then in chapter 6 we will describe the main measures taken by the Iranian state to serve its particularist interests in autonomy, legitimacy, and property.

7) A NOTE ON DATA SOURCES

Iran like so many other developing countries makes social scientists complain about the deficiency of data. In fact, so far there has not been a systematic and comprehensive attempt to solve this problem. However, since the early 1960s when the Iranian state began a plan for the

collection of annual data on vital economic statistics, the researchers' burden has somehow eased although not completely removed. The most comprehensive data are collected by the Central Bank of Iran (Bank Markazi Iran, BMI). In spite of their shortcomings, BMI's data are used by many international and domestic research centres. In addition to data published by BMI, there are other state agencies such as the Plan Organization, the Statistic Centre of Iran, the Ministry of Industry and Mines, and the Ministry of Cooperation and Rural Affairs which publish data concerning various socio-economic aspects of Iran. Unfortunately, however, because of lack of a systematic coordination among the data collecting agencies there are some differences in their definitions, classification procedures, etc. which make data deficient. It is within these limitations that we have undertaken the present study. In order to eliminate these difficulties, we will use BMI's publications as the major source of our data analysis.

Endnotes

1. See, for example, E. Abrahamian, "Structural Causes of the Iranian Revolution", MERIP Reports, 87 (May 1980), pp. 21-26; H. Katouzian, The Political Economy of Modern Iran: Despotism and Pseudo-Modernism, 1926-1979 (New York: New York University Press, 1981); and Parvin and Zamani, "Political Economy of Growth and Destruction: A Statistical Interpretation of the Iranian Case", Iranian Studies, 12, 1-2 (Winter-Spring 1979), pp. 43-77.

2. N.T. Uphoff and W.F. Ilchman (eds.), Political Economy of Development: Theoretical and Empirical Contributions (Berkeley and Los Angeles: University of California Press, 1972), p. 88.

3. See, for example, Dudley Seers, "The Meaning of Development", International Development Review, 11 (December 1969), pp. 2-3; D. Seers, "What Are We Trying to Measure?", Journal of Development Studies, 8,3 (April 1972), pp. 21-36; P. Streeten, Development Perspectives (London: Macmillan, 1981); J. Grant, Disparity Reduction Rates in Social Indicator (Washington, D.C.: Overseas Development Council, 1978); M. D. Morris, Measuring the Condition of the World's Poor: The Physical Quality of Life Index (Oxford: Pergamon, 1979); and P. Streeten et al., First Things First: Meeting Basic Needs in Developing Countries (New York: Oxford University Press, 1981).

4. V. K. Bawa, "What Kind of Development? Industrialization, Technology and the Environment", in John Augustine (ed.), Strategies for Third World Development (New Delhi: Sage Publications, 1989), p. 143.

5. Christer Gunnarsson, "Development Theory and Third World Industrialization", Journal of Contemporary Asia, 15,2 (1985), p. 184.

6. United Nations Development Program (UNDP), Human Development Report 1991 (New York: Oxford University Press for UNDP, 1991), pp. 1 and 13-21. On human dimension of development see, for example, Charles Wilber and Kenneth Jameson (eds.), The Political Economy of Development and Underdevelopment (New York: McGraw Hill, 1992), pp. 465-541.

7. A. Lewis, The Theory of Economic Growth (London: Allen and Unwin, 1965), p. 421.

8. The origins of modernization (political, economic, and social changes) in Iran may be traced back to the last years of eighteenth century. At this time many Iranian

intellectuals and some state officials began to pay attention to European social, economic, and political institutions. For a short and concise explanation of this see A. Hairi, "European and Asian Influences on the Persian Revolution of 1906", Asian Affairs, 62 (June 1975). Various reform movements also were initiated by the higher ranks of the state administration in pre-modern Iran such as Abbas Mirza, the Qajar crown prince and his assistant, Mirza Abu al-Qasim Qa'immaqam and Amir Kabir, the distinguished Grand Vizier (1849-51) of Naser al-Din Shah (1848-96). For more information on the impact of the first two see A. Lambton, "The Impact of the West on Persia", International Affairs, 33 (1957), pp. 12-25. For Amir Kabir's reform initiatives see F. Adamiyyat, Amir Kabir va Iran (Tehran: Khwarazmi, 1969). Also see M. Karshenas, Oil, State and Industrialization in Iran (Cambridge: Cambridge University Press, 1990), p. 43.

9.H. Razavi and F. Vakil, The Political Environment of Economic Planning in Iran, 1971-1983 (Boulder: Westview Press, 1984), pp. 19-20; A. Richards and J. Waterbury, A Political Economy of the Middle East (Boulder: Westview Press, 1990), chapter 7; and N. Keddie, Roots of Revolution, An Interpretive History of Modern Iran (New Haven: Yale University Press, 1981), pp. 93-112.

10.A. Richards and J. Waterbury, A Political Economy of the Middle East, p. 184.

11.For more detail see, for example, M. Behnam, Cultural Foundation of Iranian Politics (Salt Lake City: University of Utah Press, 1986), chapter 2.

12.See, for example, A. Ashraf, "Historical Obstacles to the Growth of Bourgeoisie in Iran", in M. A. Cook (ed.), Studies in the Economic History of the Middle East From the Rise of Islam to the Present Day (Oxford: Oxford University Press, 1970), p. 313.

13. For this notion of independence from the domestic economy see, for instance, H. Katouzian, The Political Economy of Modern Iran (New York: New York University Press, 1981), chapter 15, and A. Ashraf, "State and Agrarian Relations before and after the Iranian Revolution, 1960-1990", in F. Kazemi and J. Waterbury (eds.), Peasants and Politics in the Middle East (Miami, Florida: Florida International University Press, 1991), pp. 277-311.

14.F. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), p. 20.

15. For a review of the literature on the Islamic revolution in Iran see, for example, M. Yousefi, "Dimensions of the Iranian Revolution: A Review Essay", The Western Political Quarterly, 37,2 (1984) and S. Akhavi, "Reflections on a Decade of Scholarship on the Iranian Revolution", Middle East Journal, 43,2 (Spring 1989). For a brief and precise review of the economic thoughts in Iran during the Pahlavi era see M.R. Naficy, Negahi be Seyr-e Andisheh-e Eqtesadi dar Assr-e Pahlavi (A Look at Patterns of Economic Thoughts in Pahlavi Era) (Tehran: Tarh-e Now, 1992).

16. See, for example, E. Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982); M. Milani, The Making of Iran's Islamic Revolution: From Monarchy to Islamic Republic (Boulder: Westview Press, 1988); and G. Afkhami, The Iranian Revolution: Thanatos on a National Scale (Washington, D.C.: Middle East Institute, 1985).

17. R. Looney, Economic Origins of the Iranian Revolution (New York: Pergamon Press, 1982).

18. See, for example, H. Bashiriyeh, The State and Revolution in Iran, 1962-1982 (London: Croom Helm, 1984); H. Katouzian, The Political Economy of Modern Iran; and F. Halliday, Dictatorship and Development.

19. For more detail on Iranian culture in general and political culture in particular see S.M.A. Djamalzadeh, Kholghiyat-e Ma Iranian (Temperaments of We Iranians) (Winter Park, Fla.: Kanoun Marefat Publishers, 1985); R. Mottahedeh, The Mantle of the Prophet (New York: Pantheon Books, 1985); R. Behnam, Cultural Foundations of Iranian Politics; and A. Lambton, "Persia", Journal of the Royal Central Asian Society, 31 (January 1944). For a brief discussion of the cultural attitudes which assumably have retarded economic development in Iran see, for example, Richard Benedick, Industrial Finance in Iran (Boston: Harvard University, 1964), chapter 3; Norman Jacobs, The Sociology of Development: Iran as an Asian Case Study (New York: Praeger Publishers, 1966), chapter 9; and J. Amuzegar, "Iran's Economic Planning Once Again", Middle East Economic Papers (1957), p. 4. On discussions after the Islamic revolution of 1979 about culture and development in Iran see various issues of Farhang-e Touseah (Culture of Development) and also R. Davari, Molahezati dar Babe-e Farhang va Touseah (A Few Points about Culture and Development) Soureh, Nos. 9-10 (Fall 1993). On cultural impediments to post-war reconstruction in the Islamic Republic of Iran see H. Amirahmadi, Revolution and Economic Transition: The Iranian Experience (Albany: State University of New York Press, 1990), pp. 283-88.

20. The main cultural attitudes and value system of Iranians which supposedly hinder economic development include fatalism, individualism, bazaar mentality (quick profit), "personal government" rather than abstract law and impartial administration, aversion to planning, cynicism, distrust, nepotism, pessimism, and despotism. For a balanced explanation of characteristics of the Iranian society see Z. Heyat, Iran: A Comprehensive Study of Socio-Economic Condition (Eastern Publishing Society, 1983), pp. 371-73 and H. Amirahmadi, Revolution and Economic Transition, pp. 283-288.

21. J. Bharier, The Economic Development in Iran, 1900-1970 (London: Oxford University Press, 1971); J. Amuzegar, Iran: An Economic Profile (Washington: The Middle East Institute, 1977); Amuzegar and Fekrat, Iran: Economic Development Under Dualistic Conditions (Chicago: University of Chicago Press, 1971); R. Looney, The Economic Development of Iran (New York: Praeger Publishers, 1974); R. Looney, A Development Strategy for Iran Through the 1980s (Praeger, 1977); K. Mofid, Development Planning in Iran: From Monarchy to Islamic Republic (Cambridgeshire: Menas Press, 1987); E. Razaqi, Eqtasad-e Iran [Iranian Economy] (Tehran: Nashr-e Nei, 1992); and H. Motamen, Expenditure of Oil Revenue (London: Francis Pinter, 1979).

22. Various critiques of the dependency school have been developed in the literature which for the convenience of analysis may be grouped into three levels of concern: the empirical-methodological, theoretical and paradigmatic. Empirically-methodologically, the dependency school is said to have de-emphasized, discredited and ignored a) characteristics of dependency that are also present in the supposedly non-dependent countries and b) examples of independent industrialization and capitalist development in the Less Developed Countries (LDCs). Theoretically, the dependency school has been charged for its insufficient Marxist orientation, such as its non-Marxist definition of capitalism, and its relegation of class structure, class struggle, and the state to a derivative role in the determination of dependency in the LDCs. Paradigmatically, dependency has been regarded as an inadequate alternative to the "modernisation" paradigm, since it has simply inverted the latter's theoretical principles and assumptions without transcending its methodological problematic. For these various critiques of dependency school see, for example, S. Lall, "Is Dependence a Useful Concept in Analyzing Underdevelopment?", World Development 3, 11-12 (1975), pp. 799-810; G. Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?", World Development, 6 (1978), pp. 55-85; R. Brenner, "The Origins

of Capitalist Development" A Critique of Neo-Smithian Marxism", New Left Review, 104 (1977), pp. 25-92; Cristobal Kay, Latin American Theories of Development and Underdevelopment (London: Routledge, 1989); C. Leys, "Underdevelopment and Dependency: Critical Notes", Journal of Contemporary Asia, 7,1 (1977), pp. 92-107; A. Lipietz, Mirages and Miracles: The Crisis of Global Fordism (London: Verso, 1987); and T. Skocpol, "Wallerstein's World Capitalist System: A Theoretical and Historical Critique", American Journal of Sociology, 82,5 (1977), pp. 1075-1090; Tony Smith, "The Underdevelopment of Development Literature", World Politics, 31,2 (1979), pp. 247-288; and Scott Werker, "Beyond the Dependency Paradigm", Journal of Contemporary Asia, 15,1 (1985), pp. 79-95.

23. For more detail see A. Akbari, Elal-e Zaaf-e Tarikhi-e Bourgeoisie-e Iran (The Reasons for Historical Weakness of the Iranian Bourgeoisie) (Tehran: Sepehr, 1979); B. Jazani, Capitalism and Revolution in Iran (London: Zed Press, 1980); F. Halliday, Iran: Dictatorship and Development; M. Zavareei, "Dependent Capitalist Development in Iran and the Mass Uprising of 1979", Research in Political Economy (1982); P. Clawson, "The Internationalization of Capital and Capital Accumulation in Iran", in P. Nore and T. Turner (eds.), Oil and Class Struggle (London: Zed Press, 1980); M.R. Nakhaie, "Development of Capitalism in Iran", Ph.D. Dissertation, University of Waterloo, 1986; and L. Shaashani, "Capitalism, Land Reform, and Agricultural Development: The Case of Iran", Ph.D. Dissertation, Michigan State University, 1985.

24. A. Ashraf, "The Roots of Emerging Dual Class Structure in Nineteenth-Century Iran", Iranian Studies, 24,1-2 (Winter-Spring 1981); P. Clawson, "The Internationalization of Capital and Capital Accumulation in Iran", in P. Nore and T. Turner (eds.), Oil and Class Struggle, pp. 143-171; N. Keddie, Roots of Revolution, An Interpretive History of Modern Iran, pp. 143-144; A. Saikal, The Rise and Fall of the Shah (Princeton: Princeton University Press, 1980), pp. 5-6; H. Pesaran, "The System of Dependent Capitalism in Pre- and Post-Revolutionary Iran", International Journal of Middle East Studies, 14,4 (November 1982), pp. 501-522; Reza Motameni, "An Inquiry into Iran's Underdevelopment: A Quarter Century of Dependent Development", Ph.D. Dissertation, Department of Government, Claremont Graduate School, 1981; M. Zavareei, "Dependent Capitalist Development in Iran"; B. Jazani, Capitalism and Revolution in Iran; and A. Akbari, Elal-e Zaaf-e Tarikhi-e Bourgeoisie-e Iran (The Reasons for Historical Weakness of Bourgeoisie in Iran).

25. A. Ashraf, "The Roots of Emerging Dual Class Structure in Nineteenth-Century Iran", pp. 5, 24.

26. Nikki Keddie, "The Economic History of Iran, 1800-1914. and its Political Impact: An Overview", Iranian Studies, 5 (Spring-Summer 1972), p. 76.

27. M. Zavareei, "Dependent Capitalist Development in Iran and the Mass Uprising of 1979", p. 140.

28. John Foran, Fragile Resistance: Social Transformation in Iran From 1500 to the Revolution (Boulder: Westview Press, 1993).

29. J. Foran, "The Concept of Dependent Development as a Key to the Political Economy of Qajar Iran, 1800-1925", Iranian Studies, 22, 2-3 (1989), p. 9.

30. In their dependency approach Cardoso and Faletto also argue that economic development is a process in which the state plays a significant role. However, our approach varies from them because we understand the state in Iran to have a high degree of autonomy. This makes the Latin American experience, about which they theorize, less useful in understanding Iran. Therefore, although some scholars within this approach have considered the importance of the Iranian state, they do not treat the state as the most important factor in explaining development. See especially Foran, Fragile Resistance.

31. One of the main critiques of the dependency paradigm is that it has overestimated the power of the international system in the Third World underdevelopment and thus, it has underestimated the real influence of the state in those countries over their own affairs. Tony Smith, for example, observed that, "in order to understand the nature of their specificity apart from the international system, the primary single structure of southern countries to be studied is the organization of the state". See Tony Smith, "The Underdevelopment of Development Literature: The Case of Dependency Theory". On the issue of the importance of the state in explaining economic development, particularly in the newly industrialized countries of east and south Asia see, for example, Alice Amsden, Asia's Next Giant: South Korea and Late Industrialization (New York: Oxford University Press, 1989) and Cal Clark, "The Taiwan Exception: Implications for Contending Political Economy Paradigms", International Studies Quarterly, 31 (1987), pp. 327-356.

32. For the classification of theories of state in Iran into patrimonial and oriental despotism see, for example, A. Akhavi, "Shi'ism, Corporatism, and Rentierism in the Iranian Revolution", in Juan Cole (ed.), Comparing Muslim Societies: Knowledge and the State in a World Civilization (Ann Arbor:

The University of Michigan, 1992), pp. 261-293. For various conceptualizations of the state in Iran see, for example, Val Moghadam, "The Neopatriarchal State in the Middle East: Development, Authoritarianism and Crisis", in Haim Bresheeth and Nira Yurval-Davis (eds.), The Gulf War and the New World Order (London: Zed Books, 1991), pp. 199-210; Val Moghadam, "Oil, the State, and Limits to Autonomy: The Iranian Case", Arab Studies Quarterly, 10,2 (Spring 1988), pp. 225-238; S. Akhavi, "State Formation and Consolidation in Twentieth-Century Iran: The Reza Shah Period and the Islamic Republic", in Ali Banuazizi and Myron Weiner (eds.), The State, Religion, and Ethnic Politics (Syracuse: Syracuse University Press, 1988), pp. 198-226; A. Najmabadi, "Depoliticization of a Rentier State: The Case of Pahlavi Iran", in H. Beblawi and G. Luciani (eds.), The Rentier State (London: Croom Helm, 1988); F. Moshiri, "Iran: Islamic Revolution Against Westernization", in Goldstone, Gurr, and Moshiri (eds.), Revolutions in the Late Twentieth Century (Boulder: Westview Press, 1991); and A. Perlmutter, Modern Authoritarianism (New Haven: Yale University Press, 1981), pp. 172-173.

33.J. Bill and C. Leiden, Politics in the Middle East (Boston: Little Brown, 1984).

34.Max Weber, The Theory of Social and Economic Organization (New York: Oxford University Press, 1947).

35.J. Bill and C. Leiden, Politics in the Middle East, pp. 148-149. Weber also refers to the feudal system which was the dominant traditional system in Western societies.

36.Bill and Leiden, Politics in the Middle East, p. 158.

37.Bill and Leiden, Politics in the Middle East, pp. 203-211. On the vulnerabilities of patrimonial states see Jack Goldstone, "Revolutions and Superpowers", in J. Adelman (ed.), Superpowers and Revolution (New York: Praeger, 1988), pp. 39-48.

38.A. Ashraf, "Historical Obstacles to the Development of Bourgeoisie in Iran", p. 312.

39.E. Abrahamian, "Oriental Despotism: The Case of Qajar Iran", International Journal of Middle East Studies, 3,4 (October 1972), pp. 317-334 and K. Katouzian, "The Aridisolatic Society: A Model of Long-Term Social and Economic Development in Iran", International Journal of Middle East Studies, 15 (1983), pp. 259-281.

40. While we disagree with the first emphasis and argue that the modern state in Iran under the Pahlavi shahs differs considerably from the pre-modern state in Iran in terms of functions and structure, the latter emphasis is well taken, though we also have some reservations about the accuracy of the claim that they held absolute power.

41. H. Katouzian, The Political Economy of Modern Iran, chapter 1.

42. H. Katouzian, The Political Economy of Modern Iran, p. 19.

43. H. Katouzian, The Political Economy, pp. 236-237.

44. H. Katouzian, The Political Economy, p. 21.

45. Razavi and Vakil, The Political Environment of Economic Planning in Iran; A. Saikal, The Rise and Fall of the Shah; R. Graham, Iran: The Illusion of Power; E. Hooglund, Land and Revolution in Iran, 1960-1980 (Austin: University of Texas Press, 1982); and R. Cottam, Iran and the United States: A Cold War Case Study (Pittsburgh: University of Pittsburgh Press, 1988).

46. E. Abrahamian, Iran Between Two Revolutions; G. Afkhami, The Iranian Revolution; and M. Milani, The Making of the Islamic Revolution.

47. For more detail see H. Katouzian, The Political Economy of Modern Iran; E. Abrahamian, Iran Between Two Revolutions; M. Milani, The Making of Iran's Islamic Revolution; H. Razavi and F. Vakil, The Political Environment of Economic Planning in Iran, 1971-1983; K. Mofid, Development Planning in Iran: From Monarchy to Islamic Republic; and R. Looney, Economic Origins of the Iranian Revolution.

48. Bill and Leiden, Politics in the Middle East, p. 159.

49. I am indebted to Elia Zureik for this point. See E. Zureik, "Theoretical Considerations for a Sociological Study of the Arab World", Arab Studies Quarterly, 3,3 (Autumn 1981), pp. 229-259, particularly pp. 238-241.

50. H. Katouzian, "Oil Versus Agriculture: A Case of Dual Resource Depletion in Iran", Journal of Peasant Studies, 5 (April 1978), p. 349.

51. H. Katouzian, "Oil Versus Agriculture", p. 349.

52. I am indebted to M. R. Naficy for this point. See Naficy, Negahi be Seyr-e Andisheh-e Eqtesadi dar Asr-e Pahlavi, chapter 4.

53. H. Mahdavy, "Patterns and Problems of Economic Development in Rentier States: The Case of Iran", in M.A. Cook (ed.), Studies in the Economic History of the Middle East from the Rise of Islam to the Present Day (Oxford: Oxford University Press, 1970).

54. For an overview of various theories of state see Martin Carnoy, The State and Political Theory (Princeton: Princeton University Press, 1984).

55. H. Beblawi and G. Luciani (eds.), The Rentier State (London: Croom Helm, 1987), p. 4.

56. H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran".

57. H. Beblawi and G. Luciani (eds.), The Rentier State.

58. H. Beblawi, "The Rentier State in the Arab World" in Beblawi and Luciani (eds.), The Rentier State, pp. 51-52.

59. R. Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan", Canadian Journal of Political Science, 15,1 (1992) and H. Katouzian, The Political Economy.

60. Two other effects of the availability of oil rents at the disposal of the rentier state on economic development, although heavily interrelated with the phenomenon of autonomy, are worth mentioning. One is the fact that although the rentier state is autonomous in its domestic context to make whatever decisions it desires, it, however, is severely constrained by, and linked to the rhythms of the global economy. The continued dependence of most rentier states means that they do not control the financial resources critical to their survival, however much they may enjoy autonomy from domestic social groups. The other fact is that since the rentier state, in contrast to non-rentier states which derive revenues from taxing citizens, goods, and services, becomes independent of the strength of the domestic economy and needs not to rely on taxation. This autonomy of the state from taxation base results in a progressive narrowing of the politically relevant body of decision-makers, which ultimately in most conditions reduces to one person. For more detail see, for example, Philippe Cardin, "Rentierism and the Rentier State: A Comparative Examination", M. A. Thesis, McGill University, 1993; Val Moghadam, "Oil, the State, and Limits to Autonomy: The

Iranian Case"; pp. 225-238; Rex Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World"; Kiren Chaudhry, "The Price of Wealth: Business and State in Labour Remittance and Oil Economies", International Organization, 43,1 (Winter 1989), pp. 101-145; and Hootan Shanbayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran", Comparative Politics, 26,3 (April 1994), pp. 307-333.

61.H. Mahdavy, "The Patterns and Problems of Economic Development In Rentier States: The Case of Iran", p. 428.

62.The Shah and his family, the courtiers, high ranking state and military officials as well as a group of industrialists with close economic connection to the royal family and the imperial court comprised the upper class.

63.On the weakness of most Third World States and their failure to achieve predominance in their societies see Joel Migdal, Strong Societies and Weak States (Princeton: Princeton University Press, 1988).

64.In the literature it is assumed that because of availability of oil revenues, the rentier state can release itself from accountability ordinarily exacted by taxation. In Iran, on the contrary, the state could not release itself from civil society. We shall have more to say about the limitations of the state due to the strength of civil society in Iran in chapter 3.

65.T. Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russia, and China (Cambridge: Cambridge University Press, 1979), p. 27.

66.We will return to this issue in chapter 6.

CHAPTER TWO:

**THE EMERGENCE AND CONSOLIDATION OF
THE IRANIAN RENTIER STATE,
1941-1962**

1) INTRODUCTION

This chapter traces the origins of the modern state in Iran back to the early twentieth century and explains the way this state, on the one hand, has differed from the pre-modern, particularly nineteenth century state and on the other, has acquired its rentier character.¹ In other words, by seeking the origins of the modern state in Iran, this chapter describes how the modern state emerged and was consolidated in the period of 1941-1962. We examine how the combination of historical inheritance factors with new national and international necessities after 1941 produced a particular type of state in Iran. We hold that the nature of the state in Iran can best be analyzed as the product of the interaction of three factors: (1) historical inheritance factors, (2) the domestic situation particularly from 1941 to the early sixties and, (3) the external international political and economic situation, particularly the impact of Western countries on Iran.

The role of the state in economic development in all

societies has been a matter of controversy. But an emerging theoretical effort has been made in recent years to "bring the state back in", which among other issues, considers the state as a key promoter of economic development.² The central thesis associated with this effort, which is classified as "institutionalist", is that states are playing very important roles in their societies. As Amsden aptly argued in the case of South Korea, "it is frustrating to model builders in 'backward' countries to learn that Korea's success rests heavily on a strong state. ... It is frustrating because countries are backward mostly because their state is weak".³

Accordingly, we also argue that one should analyze the state. As Ekekewe has observed, "we can not fully understand the national economy and the social classes which exist in it without reference to the state structure and its role in the social formation".⁴ This role is even more significant in countries like Iran, because the oil revenues accrue directly to the state and make it almost independent of its own society. In other words, the examination of the emergence and consolidation of the rentier state in Iran in this period is essential to the analysis of developments it underwent in the following decades.

This chapter is divided into three sections. In the first section, we give a brief description of the nature of the pre-modern state in Iran during the Qajar period (1795-

1925). This will help us to appreciate the major features of the pre-modern state which continued to characterize the Iranian state throughout the twentieth century. As we demonstrate in the following sections, the inheritance factor played a significant part in shaping the state which emerged and consolidated in this period. In the second section, we investigate the emergence of the modern state in Iran in the inter-war period (1925-1941). In this section, we focus our attention on the fact that the Iranian modern state relied heavily upon naked coercion for its survival. In section three, the emergence and consolidation of the Iranian rentier state are analyzed. In addition to considering the significance of the inheritance factor, we examine the major national and international factors during 1941-1962 which had a significant role in producing a particular state in Iran.

2) THE NATURE OF THE PRE-MODERN STATE IN IRAN

The pre-modern Iranian state during the Qajar period (1795-1925) was in the Weberian sense a "patrimonial state"; it was a personal, arbitrary, and non-rational clientelistic way of rulership, with absolute authority whereby the arbitrary decision of the despot prevailed.⁵ As Katouzian observed, the distinctive feature of the Iranian state was that "it monopolised not just power, but arbitrary power - not the absolute power of laying down the law, but the

absolute power of exercising lawlessness".⁶ In this situation, the shahs wielded supreme political authority, the state was in control of the economy, and civil society was weak and fragmented.

The strength of the Iranian state in the nineteenth century, however, was not due to an extensive, viable, and centralized bureaucracy nor a large standing army. On the contrary, the Qajars stayed in power mainly because of the fragmentation of the Iranian society along geographic lines, ethnic differences, and religious cleavages. As E. Abrahamian aptly put it,

If any one term could describe the population, it would be "communal diversity". For there was diversity in the way of life among the villagers, the nomadic tribesmen, and the urban inhabitants. There was diversity in religious beliefs,.... Moreover, there was diversity in languages and dialects, especially among Persians, Azeris, Turkomans, Kurds, Baluchis, Gilakis, and Mazandarani.⁷

The Qajar dynasty continued its patrimonial rule for a long period. This was partly due to the Persian tradition of sacred kingship based on the concept of divine right of the monarch. Indeed, the Iranian people considered the shah as the "shadow of the Almighty" whose words were law.⁸ Another important factor which should be mentioned is the role the ulama (clergies) played in legitimizing monarchical power in Iran. Although theoretically the Shiite belief in Imamate (rulership of the successor of the Prophet Mohammad, Imam

Ali and his descendants) posed a potential threat to the monarchy, in practice the ulama accepted the existence of the monarchical power "simply because of their not being powerful enough to take over the government".⁹ In this context, the monarchy was not considered something to protest against, to reject or to overthrow. However, with the assassination of Naser al-Din Shah, who ruled the country for almost fifty years (1848-1896), this philosophy of political authority and legitimacy was shaken and the absolutist state began to disintegrate.¹⁰

Two other factors were also instrumental in helping the Qajars to stay in power. One was the extensive support they received from Tsarist Russia. This patron-client relationship, however, was terminated by the 1917 October Revolution in Russia. The other was their ability to manipulate differences in the society. This policy of divide and rule was mainly possible, as we mentioned earlier, because the Iranian people were fragmented into small units -"into villages, tribes, and town quarters, separated from each other by geography, language, religion, blood ties, and the competition for vital offices and scarce economic resources".¹¹

The patrimonial state of Qajar, however, began to disintegrate, due to compounded internal and external factors. One major factor which shook the pillars of the Qajar absolutism was its incapability to build a viable,

lasting economic base from which it could earn revenues. The state obtained much of its revenues from taxing Iranian society via "the land tax, the poll tax, the tax on the profit of master craftsmen, and customs duties, with land tax undoubtedly contributing the lion's share".¹² The shah claimed ownership of all lands and intervened in all aspects of the economy. As Bashiriyeh observed,

The Persian despot was in possession of the means of production, i.e. land, and as a result, in Persian absolutism in contrast to Western feudalism, no established hereditary landed nobility developed. Land-holding was bureaucratic and the ruler granted land assignments (tuyul). But this was temporary in nature and there was no contract between the ruler and the assignee (tuyuldar).... Besides bureaucratic land-holding, absolutism also meant the interference of the state in trade and commerce. The bazaar guilds, originally imposed from above, were channels for the administration of the bazaars, which were subordinated to the absolutist state.¹³

In this context, therefore, the country became desperately poor and the economic situation got worse, for mainly two reasons: on the one hand, the perpetuation of this socio-economic situation which had a disruptive impact on the Iranian political economy in the long term; on the other, the impact of Western imperialism which began as early as 1800, resulted in economic penetration of Iran. As Katouzian observed, "(T)he Iranian economy, as also its polity, was inescapably jolted out of 'equilibrium' in the nineteenth century, when the agents of imperial rivalry,

free trade, modern technology, political democracy, and so forth, made their presence felt in the country".¹⁴

The two major consequences of this poor economy were what N. Keddie and R. Sheikholeslami have called the period of "concession-hunting" and "sale of offices" respectively.¹⁵ The poor, corrupt governments in this period, particularly during the reign of Naser al-Din Shah (1848-1896), resorted to sale of offices and to granting concessions to foreigners. As Abrahamian put it, "caught between spiralling expenses and stagnating incomes, between the need to find additional revenues and the political dangers of levying new taxes, Naser al-Din Shah increasingly resorted to the sale of titles, patents, privileges, concessions, monopolies, lands, tuyuls ..., and, most detrimental of all, high offices -judgeships, ambassadorships, governorships, and even ministries".¹⁶

The concession-hunting era was commenced in 1872 by an agreement between the government and Baron Julius de Reuter, a British citizen.¹⁷ A comprehensive monopoly of railway construction, banking, and mining was granted to him. According to Curzon, this concession was "the most complete surrender of the entire resources of a kingdom into foreign hands [that] has ever been dreamed of, much less accomplished, in history".¹⁸ The generosity of the Qajars in granting concessions to foreigners, particularly British and Russian subjects, as well as systematic sale of state

lands and offices contributed directly to the disintegration of the Qajar state and growing power of the landlords, merchants, and clergy.¹⁹ The fragmentation of the Qajar polity into contending classes and interests due to internal socio-economic situation and the political, cultural, and economic penetration of Iran by Western countries, led to the Constitutional Revolution of 1905.

The Constitutional Revolution was the manifestation of, on the one hand, the decadence of the Iranian state and, on the other, a significant growth of civil society and its political awakening. In this Revolution, an alliance was forged among the merchants, the ulama, the modern intelligentsia, and some landed-nobles and tribal chiefs against despotism and foreign influence in Iran. As Abrahamian observed, "the Constitutional Revolution was a movement of the bazaar. Its rank-and-file came from the guilds, its financial backing from the merchants, its moral support from the religious authorities, and its theorizing from a few Westernized intellectuals".²⁰ The most important goal of this Revolution was to replace the tyrannical regime with parliamentary representation and constitutional government.

This Revolution remarked a significant transformation of the state in Iran. As we mentioned earlier, one of the basic characteristics of the pre-modern state was that shahs ruled arbitrarily and without institutional restrictions,

being the "Shadow of God on earth". In other words, a major feature of this state was the lack of a firmly based rule of law. The Constitutional Revolution primarily sought to institute the rule of law in Iranian society and bring about justice and social welfare. It was intended to change the patrimonial way of governance into a kind of legal-rational authority in the Weberian sense. As the participants of this Revolution realized, the rule of law was necessary if the despotism that was characteristic of the Iranian pre-modern state was to be eliminated. The Constitutional Revolution's main achievement, therefore, was to set the stage for the emergence of a new order that would be marked by the supremacy of the legal process. In fact, the Revolution brought about a kind of constitutional monarchy in which the Majlis (parliament) and the cabinet comprised the new political system alongside the shah. More importantly, for the first time in the Iranian history, the principle of parliamentary representation as well as the state's accountability to the society became established.²¹

Nevertheless, due to compounded internal and external causes the Constitutional Revolution, despite its main aim to establish a democratic regime, ended up in Reza Shah's military authoritarianism in the 1920s. Internally, the most important factor appears to be splits among the main groups involved in this Revolution, particularly splits between liberal and conservative ulama-led forces. Externally, the

most important factor responsible for the Revolution's failure was the Anglo-Russian accord of 1907 and the Russian intervention against the Revolution, with British acquiescence.²²

This external factor was the result of international changes. The Qajars stayed in power in part because of the support they received from Tsarist Russia. Their demise therefore came when this situation was reversed particularly with the outbreak of the First World War as well as the removal of the Qajars' main patron by the October Revolution in Russia. By 1919 there was no central government of any adequate kind in Iran: separatist movements were in power in three provinces of Khuzistan, Gilan, and Khorasan and various parts of the country were occupied by Russian, British, and Turkish troops.²³

As a consequence of the October Revolution in Russia, Britain was favourably disposed toward the creation of a strong nationalist state in Iran to withstand the threat of communism. With British encouragement, therefore, Reza Khan, the commander of the only organized standing army, conducted a bloodless coup on 21 February 1921.²⁴ Two factors above all helped Reza Khan to establish himself as the dominant political personality in the country. First, fear of communist expansion from the north helped bring about a loose coalition among the ulama-landlord-merchant conservative forces who dominated the fourth Majlis, in

support of the creation of a strong centralized state.²⁵ Secondly, this internal situation in Iran coincided with what the British government sought for the safeguard of its interests in the region.²⁶ All these internal and external dominant interests, therefore, began to support the creation of a centralized government capable of resisting the threat of communism and limiting the social revolution in Iran.²⁷

3) EMERGENCE OF THE MODERN STATE IN IRAN, 1925-1941

By the time Reza Shah came to power in 1925, a modern state had emerged which in many respects had substantive differences with its traditional predecessors. It is true that Iran has had shahs and monarchies for several centuries, but one can argue that to some extent the modern state founded by Reza Shah ruled in a manner different from that of the shahs. This is mainly because of the pressures originating from national and international contexts. In this section, we seek to examine the main characteristics of the modern state in order to understand its main differences and similarities with the pre-modern Iranian state and the legacy it left in the post-1945 years.

Three basic characteristics of this emergent modern state can be identified. First, there was a monopoly of the legitimate use of force. This state, with its nationally centralized army and administration, was the first state since the Safavi dynasty (1501-1722), which could reach all

parts of the country.²⁸ Second, its power rested upon a large standing army, a well established bureaucracy, and extensive court patronage.²⁹ The pre-modern state originated mainly in tribal movements and in some respects retained its primary, tribal characteristics as time passed. The modern state during Reza Shah, on the contrary, was not a tribal-based state. Furthermore, it was also not a class-based state in that it did not enjoy a firm civilian foundation. It was a military-bureaucratic state which stayed in power in part by means of naked coercion. Third, the modern state was also a service-rendering organization in charge of development. The modern state, thus, should be categorised as a capitalist state in the sense that its policies were geared toward establishing, expanding, and sustaining capitalist development in the country, whereas the previous states were mainly pre-capitalist.³⁰ Reza Shah, as many have observed, established state capitalism in Iran. He embarked on relatively extensive reforms in order to promote economic development, whereas his predecessors neglected it.³¹

Despite these differences between the modern state established by Reza Shah and that of Qajars, there was still a substantive continuity; in the modern political structure the forces of traditional patrimonialism were still prevalent. This was partly because no class, especially the bourgeoisie, in Iran had the economic presence or political

capability and will to shape the state.³² Consequently, we hold that the modern state under Reza Shah was a fusion of traditional Iranian patrimonialism and legal rational authority in which the force of the former often outweighed the force of the latter. Despite the main legacy of the Constitutional Revolution that was the rule of the law, little progress was made to disengage the modern state from patrimonial encumbrances. In order to demonstrate this point, we will briefly describe Reza Shah's policies with regard to the economy and society from the point of view of the saliency of the force of inherited patrimonialism.

The modern state under Reza Shah with its increasing centralized power attempted to embark upon some extensive cultural, social, and economic reforms in Iran. We argue that the basic goal of these reforms was to centralize power and strengthen the state and to weaken the civil society as well as secularize it. A. Banani best explains this situation,

The ideals underlying the changes that took place in Iran from 1921 to 1941 were threefold: a complete dedication to the cult of nationalism-statism; a desire to assert this nationalism by a rapid adoption of the material advances of the West; and a breakdown of the traditional power of religion and a growing tendency toward secularism, which came as a result of the first two ideals.³³

Due to the significant impact of historical antecedents, we argue, the modern state's reform and modernization programs

of the 1920s and 1930s went hand in hand with the strengthening of Reza Shah's personal rule and the establishment of his "neo-patrimonial" dictatorship.³⁴ The Majlis, thus, became the rubber stamp for the Shah's dictates.

3-1- State and Economy

At the time of Reza Shah's accession to power, the Iranian economy, already strained by the First World War, was near collapse.

To get the Iranian economy moving a 'big push' was required, and Reza Shah provided this by abolishing the capitulations and commercial treaties, repealing or revising the concessions, and concentrating his efforts on the development of transport and industry, the reform of fiscal and financial institutions, and the control of foreign trade.³⁵

The state's ambitious projects were financed in a number of ways. In this period, the oil industry played a marginal role. As Issawi put it, "as late as 1937/38, oil revenues accounted for only 13 percent of total government receipts and almost all were spent on military equipment".³⁶ During Reza Shah's period, thus, expenditures were financed mainly through taxation; indeed, the cost of whole development projects was met by tariffs and taxes, with the latter accounting for about two-thirds of total government revenues. Earnings from state monopolies as well as deficit financing were two other ways through which the

state financed its projects.³⁷ According to many critics of Reza Shah's economic policies, in his attempts to accelerate development, there was a considerable waste as well as high cost to the consumer and taxpayer.³⁸

Despite considerable increase in roads and communication networks, industrial plants, the use of modern technology, modern educational institutions, and so on, the most striking characteristic of this period is the "failure of any changes to extend beyond a fairly superficial level".³⁹ In other words, while the state undertook ambitious initiatives to promote economic development of Iran, all of these initiatives were designed less to affect real, lasting improvements in the economy than to increase the power of the state, particularly its ruler Reza Shah, his wealth and international prestige. This mainly was predictable, we argue, due to the particular nature of the Iranian state.

3-2- State and Society

Despite its impressive institutions, the basic weakness of this modern state was that it "had no viable class bases, no sound social props, and was thus without firm civilian foundations".⁴⁰ Its class base among the large landlord, the new bureaucratic/ professional middle class, and top army officials was too narrow to afford the state continuing existence. In this period, therefore, the modern state under

Reza Shah could perpetuate itself mainly because of its repressive policies.

The importance of the force of inheritance can best be realized if we take into account that Reza Shah's economic development projects began when he finished the work of consolidating his power by silencing all oppositional forces in the society. With regard to the upper-class families, as Abrahamian indicated, the policy of the state under Reza Shah was to co-opt some and push aside the others. At the same time, landlords could win the Shah's confidence and became a fully-developed and well-established class during this period. Although they were politically subordinated to the military, they were among the most powerful groups in the country. Reza Shah himself was the guardian of the landlords since, on the one hand, he did not plan for a land reform in the country and, on the other, he rewarded reliable landlords with high positions in the Majlis, the cabinet, the diplomatic corps, or the newly established state enterprises. Reza Shah's support of the landlords, however, did not mean that the state was under their control.⁴¹

Despite his successful policy in co-opting a segment of the old upper class, Reza Shah did not enjoy any significant support from the traditional middle class. As for the merchants (the bazaar), although they benefited enormously from the centralisation policies of the state, introduction

of military security, the building of new communication networks, roads, railways, etc., "they were suppressed and the public sector in the modern sense began to emerge in the context of the world economic crisis of the 1930s".⁴² Their business activities, furthermore, came under partial state supervision and intervention, through the introduction of certain state monopolies, pricing policies and taxation laws.

The ulama were drastically affected by Reza Shah's policies. They had a very special place in the Iranian society particularly under the Qajars. They managed the only schools, which were religious (maktabs). They also administered the legal affairs of the Iranian society with regard to marriage, divorce, custody, endowments, etc. They, furthermore, through religious taxes paid to them directly by the Muslim community, were financially independent. Introduction of modern schools instead of traditional ones, enactment of new taxation and civil laws, and the setting up of a judicial system independent from the traditional religious courts, undermined many of the important traditional social functions of the ulama. As a result, all formal and informal measures implemented by Reza Shah demonstrated his goal of weakening the ulama and placing them on the defensive.⁴³

As for the tribes, they suffered enormously under Reza Shah's policies. In order to enhance the reach of the state

into the periphery, his policy was to defeat all tribes by imprisoning their leaders, implementing the policy of forced sedentarization, and, thus, to ensure their permanent subjection. This policy towards the tribes was a product of a number of considerations. "These included the relative size of the tribes, their ideological orientation, their access to resources in competition with the state, and, possibly, their political structure".⁴⁴

The social and economic reforms of Reza Shah, however, caused the emergence and growth of two new classes: the new professional/bureaucratic middle class and the industrial working class.⁴⁵ The new professional/bureaucratic middle class was different from the old middle class which had consisted mainly of the merchants of the bazaar and members of the religious classes.⁴⁶ The common characteristic of this new middle class was its members' expertise (professional, administrative, technical, cultural, intellectual) acquired through a modern education on Western lines.⁴⁷ The emergence of this class was a direct result of Reza Shah's economic and social reforms.

The origins of the newly ascendent industrial working class must also be sought in the Reza Shah period, for it was he who embarked on laying the foundations of industrial development of Iran. An industrial working class was born mainly as a result of increasing number of modern industrial plants. In fact, the number of these plants, not considering

the oil industry, increased as much as sevenfold during the reign of Reza Shah. By 1941, the number of modern plants had reached 295.⁴⁸

Reza Shah's policy of absorbing the periphery into a centralized state resulted in crushing any independent source of political power within the Iranian society. As Akhavi put it, "he slighted the process of having regionally or locally based groups establishing organic ties to the centre, thus fostering a rather brittle state-society relationship that became unravelled upon his departure from the scene".⁴⁹

This increasingly atomized society, parallel to the centralization of the state's power resulted in a situation in which the state, because it did not enjoy firm civilian foundations or legitimacy, relied increasingly upon naked coercion⁵⁰. It resorted to violence in order to control the opposition. The Anglo-Soviet invasion of Iran in August 1941, finally, brought to an end Reza Shah's rule and he was forced to abdicate and his son Muhammad Reza Shah assumed power.

4) EMERGENCE OF THE RENTIER STATE IN IRAN, 1941-1962

As we pointed out in chapter 1, a rentier state receives substantial amount of external rents on a regular basis, paid by foreign governments or foreign concerns. During 1955 to 1960 Iran became a rentier state, in the

sense that oil revenues accounted for the largest part of government revenue. Although the oil industry has existed in Iran since the first decade of the twentieth century, it has not affected the Iranian economy in any appreciable way until the mid-fifties. Between 1913 and 1949, oil revenues totalled \$316 million, while between 1955 and 1960 the revenues increased to \$1.16 billion. During this period, oil revenues constituted 42 percent of government revenues.⁵¹ Thus, the period of 1955-1960, which constitutes a turning point in the history of Iranian state and economy, is the date this study chooses to define Iran as a rentier state.⁵²

In the following section, we seek to describe the main mechanism through which the rentier state emerged in Iran. In order to accomplish this task, we will explain how the combination of inheritance, national, and international factors produced a particular instance of a rentier state in Iran.

4-1- The Inheritance Factor

As we have already mentioned, the modern state in Iran had some fundamental differences with its traditional predecessors. It was a capitalist state which was empowered by a standing army and an established bureaucracy. Thus, it could establish its control all over the Iranian national territory and embark on ambitious social and economic

transformations of the country. The modern state, however, inherited a major characteristic from its predecessors, its patrimonialism. Therefore, this state was a combination of modern and traditional institutions. It blended traditional Iranian patrimonialism and modern legal rational authority which resulted from the Constitutional Revolution of 1905. As a result, some scholars have described this state as "neo-patrimonial".⁵³

As Eisenstadt observed, a neo-patrimonial state is a partially modernized state in which the head of the state depends primarily on an extensive system of personal patronage, rather than acceptance of and obedience to impersonal law, to preserve his authority.⁵⁴ Accordingly, the Iranian modern state can be described as a neo-patrimonial state. This neo-patrimonialism continued after 1945. In addition, with the oil revenues at his disposal Mōhammad Reza Shah was able to establish a very strong system of court patronage.⁵⁵ Although the Iranian state had a democratic facade of Majlis, political parties, elections, etc., the Shah had the supreme power. In other words, the personalist authoritarian state continued through the first half of the twentieth century, and it was characterized by the nearly complete centralization of power and authority in the hands of the monarch. The Shah was not only the centre of power and decision-making, but also used classical patrimonial tactics such as divide and rule and the creation

of elaborate sets of overlapping and competing institutions, to consolidate his power.⁵⁶

Due to his personal control of the state and methods Mohammad Reza Shah used in order to consolidate his power, therefore, the Iranian state can be characterized as a neo-patrimonial one. However, in characterizing this state, it would be wrong to stop here. We shall argue that the structure of the Iranian state and its relationship with its society was different from the patrimonial rules of the past. In other words, the Shah's power was not based on "the inner support in the subjects' compliance with the norms ... [which] derive from tradition".⁵⁷ Rather, it was fundamentally perpetuated on the basis of economic rewards and repression. Furthermore, the formation and consolidation of the Iranian state under the Shah were also related to demands originating on a global level. Therefore, to characterize the Iranian state in this period, we shall not only examine the significant role inheritance factor played, but also to consider the national and international contexts in which this state evolved. These domestic and international contexts are what we describe in the following sections.

4-2- The Domestic Context

Reza Shah's dictatorship was terminated by the Allied invasion of Iran in August 1941. With regard to the main

objectives of the Allied invasion of Iran, it can be argued that they invaded Iran for the following reasons: 1) to provide the Soviet Union with military support by opening a new way through Iran, 2) to secure the oil industry vital to the British war effort, 3) to prevent the Germans from using Iran as a base against the Soviets, and 4) to preempt "any pro-Axis officers who might have been tempted to oust the unpopular shah and install a pro-German regime".⁵⁸ At the outbreak of the war, German influence in Iran was paramount and Reza Shah's sympathy for the Germans was obvious.⁵⁹ This sympathy generated concern among the Allies once the German Nazis attacked the Soviet Union in June 1941. Because Reza Shah had demonstrated sympathy towards Germany, he was sent into exile.

All in all, the invasion almost washed away two of the three foundations upon which the Iranian state rested, namely the bureaucracy and the court patronage. The bureaucracy came under the direct control of the ministers who were, in contrast to the Reza Shah's period, responsible to the Majlis. When the royal estates were handed over to the government, the system of court patronage also suffered a severe blow. As a matter of fact, in order to consolidate his power, the new Shah, Mohammad Reza Pahlavi, transferred much of his landed inheritance to the government to be redistributed later among the previous owners. Furthermore, the state was politically discredited as a result of its

failure to resist the Allied armies and was undermined by the political freedoms brought about as a result of Allied occupation of Iran.

The main political consequence of the Allied invasion and occupation of Iran, therefore, was the decentralization of power. As a result of this "diffusion and fragmentation of despotic power", the Iranian Majlis found itself more powerful than before, the judiciary recovered a good deal of its independence, and competitive political groups, factions, and parties emerged.⁶⁰ As Abrahamian observed,

During the preceding sixteen years, power had been centred firmly round one man. But during the next thirteen years, from the fall of Reza Shah's military monarchy in August 1941 until the rise of Muhammad Reza Shah's military monarchy in August 1953, power was to shift back and forth between five separate poles: the court, the Majlis, the cabinet, the foreign embassies, and the general public.⁶¹

The disintegration of Reza Shah's dictatorship, thus, resulted in a period of limited political and economic liberalism which continued until the 1953 coup. Due to decentralization of power, the masses of Iranian people entered politics. Over the next thirteen years, Iranian politics once again became the arena of open interaction between different social groups. This period witnessed two important events. One was the proclamation of two autonomous communist republics of Azerbaijan and Kurdistan inside the

zone still occupied by Soviet troops. The other was the oil nationalization and the popular movement under the banner of the National Front. While the former was primarily a challenge to the sovereignty of the Iranian state, the latter was a direct challenge to the Shah's rule.⁶²

In this period of 1941-1953, which we call a period of parliamentary and cabinet rule, it appears that Mohammad Reza Shah competed with other groups and classes for control over the state apparatus.⁶³ The main conflict for the domination over the state, however, was not fought by the lower classes against the ruling class. It was the middle classes, both traditional and new, who fought for supremacy in the 1940s and early 1950s. In this section, therefore, we briefly examine the attempts of the Shah to consolidate his power vis-a-vis other contending groups and the attempts of the Iranian middle class to control the state apparatus. We seek to describe the impact of the Shah's victory over other societal groups on the particular form of the state which emerged after the 1953 coup.

The new Shah's main occupation during this period (1941-1953) was to hold his place against challenges for power from other groups in the society. He attempted to strengthen his position by appealing to internal as well as external supports. He first won the confidence of the Allies, which resulted in signing a treaty of alliance in which the Allies implicitly guaranteed the Shah's rule and

explicitly promised to evacuate Iran within six months of the end of the war.⁶⁴

The Shah, secondly, tried to win the confidence of the Iranian people through several means. All political prisoners were freed, all religious lands taken away from the ulama during the reign of Reza Shah were returned to them, much of the royal lands were transferred to the government in order to be redistributed to their previous owners, parliamentary immunity for deputies was reintroduced and Majlis was given the right to participate in forming cabinets. Under Reza Shah, the Majlis, whose deputies he handpicked, had been become a rubber stamp for his measures. But in this period the parliamentary body acquired the right to elect first a premier and then, with the Shah's approval, the premier could ask the Majlis for a vote of confidence. The Shah, thirdly, was helped by his ability to retain the military as a royal preserve. He worked hard to keep the loyalty of the whole army and this actually paid off later when the Shah successfully crushed the two communist republics in the north and defeated the nationalist movement in 1946 and 1953 respectively.

In this period, the Iranian middle class also sought to control the state, in order to realize two important goals: first to secure and strengthen the sovereignty of Iran by reducing its dependence upon the Western countries; second to limit the arbitrary power of the Shah. The power

of the Shah had continued to increase until the establishment of the National Front by Dr. Mosaddeq in 1949.⁶⁵ This was a coalition of several nationalist-liberal groups, the bazaar, the ulama, and a fraction from within the Majlis.⁶⁶ The National Front primarily sought to limit the power of the Shah and was opposed to the reestablishment of dictatorship. Later, it "launched the movement for the nationalisation of the Anglo-Iranian Oil Company which since 1907 had exploited Iranian oil resources on the basis of concessionary agreement".⁶⁷ Consequently, a popular movement emerged which rallied its support behind the goals of the coalition. The major consequences of this nationalist movement were the nationalization of the Iranian oil industry and the establishment of a government by the National Front. Dr. Mosaddeq, as a member of the Majlis and the head of the National Front who had a fundamental role in the oil nationalization movement, was carried to power on a wave of popular support and was made Premier in May 1951.⁶⁸

Despite popular support for the nationalist movement, its victory was short-lived. Because the oil dispute with Great Britain remained unresolved, despite Mosaddeq's attempts to win U.S. support, and as the economic situation deteriorated following the end of oil revenues, Mosaddeq's government was faced with more opposition from landed and mercantile interests, especially with regard to its economic policies.⁶⁹ The National Front also splintered into

squabbling factions. The major split was between the secular groups of the modern intelligentsia and the bazaar-ulama coalition. The latter's defection from the coalition was in reaction to Mosaddeq's tolerance of the Communist Party of Iran (Tudeh) and his appeal to the United States for support and financial assistance in Iran's dispute with Great Britain. Without the ulama's support, Mosaddeq's popular support also declined. Finally, on 19 August 1953, the US-backed coup d'etat brought an end to Mosaddeq's government. As a result, the Shah emerged stronger than he had been prior to the oil nationalization movement.⁷⁰

The failure of the National Front of Dr. Mosaddeq and the Shah's success, nevertheless, had two lasting effects on state-society relations in the following decades in Iran.⁷¹ First, this failure was a severe blow to democracy, of which the Iranian people had dreamed for decades. It prepared the way for the resurgence of dictatorship by the Shah.⁷² It prompted the state under the Shah to follow a policy of repression and depoliticization of the society. This, as we see later, could be sustained by strengthening the state through foreign (mainly American) support and availability of oil revenues.⁷³ Second, the menace of democracy and pluralism under Mosaddeq led the Shah to form an alliance with the United States for the protection of the Iranian state against external and internal threats.⁷⁴ As Cottam observed, "had American support been withdrawn, the regime

would in all likelihood have been overthrown".⁷⁵ This, on the one hand, caused an increasing dependency of the Iranian state on American support, and on the other, led the Iranian people to view the Shah and his state as American clients, and thus illegitimate. The failure of the National Front, thus, set the stage for the emergence of a personalist-authoritarian and client state dependent on support from the United States, and a certain amount of delegitimation.

4-3- The International Context

The emergence of a personalist-authoritarian, rentier, and client state in Iran during 1941-1962 was also due to the changing world context. In other words, the emergence of this particular state in Iran was also related to demands originating on the international level. The political demands especially arose from Iran's closeness to the Soviet Union and the need to stabilize its position within the context of the Cold War. For the United States, policy towards Iran was only considered in the general context of policy towards the Soviet Union. For the political and strategic defense of the U.S. interests in the region, therefore, it was necessary to prevent Iran from falling under Soviet control. Iran along with Turkey and Greece became countries where the USA declared it would assist anti-communist forces.

This American interest prepared the ground for the

emergence of Iran as a client state, as one sees when one considers the American role in protecting the Shah. In the post-coup period, two important developments occurred. First, American economic and financial loans to Iran dramatically increased. Faced with internal opposition and lack of support, the Iranian state under the Shah became heavily dependent on the U.S. military and economic assistance. As Cottam indicated, after the 1953 coup Iran became as an American client state heavily dependent on the United States. "U.S. policy after August 19, 1953, was effectively to give the new regime total and unquestioning support".⁷⁶

Having denied any assistance to the Mosaddeq government, the U.S. provided the Shah with a \$45 million emergency grant-in-aid, and \$23,500,000 grant under the United States technical assistance program.⁷⁷ As Bharier observed, in this period the American economic and military loans and grants to Iran totalled \$920 million, of this \$520 million was given for economic reorganization and the rest paid for the militarization of Iran.⁷⁸ These generous loans and grants to the Iranian state resulted in a client state which was heavily dependent on the American support.

Secondly, an international consortium of Western oil companies replaced the Anglo-Iranian oil company in order to control the production, pricing, and marketing of Iranian oil. This consortium was composed of British and American

companies with 40 percent of shares each, and French and Dutch companies, which received the remaining 20 percent. By August 1954, the agreement was signed, according to which the consortium took charge of the operation of the Iranian oil industry for a period of forty years on a fifty-fifty profit-sharing basis. The consortium was given exclusive control over oil production and marketing. As Halliday aptly puts it,

The oil industry was, formally, still nationalized but this was little more than a legal fiction since effective control over the two main issues, price and output, still lay with the international consortium that replaced the oil company.⁷⁹

This agreement had two important consequences for Iran. First, the Iranian state obtained a small share in production by taking over what were called non-basic operations (servicing). In addition, the state was given the right to distribute oil inside the country. The most important change was, however, that the British company lost its monopoly position. "It was above all this internationalization of oil operations that distinguished the pre-1951 position from that which followed 1953".⁸⁰

Under the agreement of 1954, therefore, the Shah agreed to the principle of sharing the profit equally with the international companies. As a result of the new agreement, Iran's oil revenues increased from \$34 million in 1954-55 to

\$181 million in 1956-57, \$358 million in 1960-61, and \$437 million in 1962-63.⁸¹ In fact, the revenues of the Iranian state amounted to "more than five times Iran's total foreign-exchange receipts for the whole of the previous twenty years".⁸²

In short, the increase in oil revenues as well as the political, economic, and military assistance the Iranian state received from the United States not only made it easier for the state, particularly the Shah, to centralize power by crushing the opposition, but also laid the foundation of Iran's cliency relationships with the United States in the following decades.

5) CONCLUDING REMARKS

In this chapter we traced the origins of the Iranian modern state back to the early twentieth century in order to understand its main characteristics. The argument we have made so far suggests that the combination of three factors namely, the historical inheritance, the national context, and the changing global situation produced a state in Iran which was a particularly clear-cut instance of a personalist-authoritarian, rentier, and clientalistic state.

In the following chapter, we will examine these three characteristics of the Iranian state in more detail as well as the main reasons for its weakness. This examination begins to explore why the oil rents neither increased the

power of the Iranian state nor made it immune from domestic challenges to its authority. It was forced to resort to coercion for the purpose of social control.

Endnotes

1. By "modern" state it is meant a state which is characterized by (1) its monopoly of the legitimate use of coercion, (2) the concentration of the forces of coercion under its control, and (3) its functioning as a service rendering organization in charge of development. See S.A. Arjomand, The Turban for the Crown, The Islamic Revolution in Iran (Oxford: Oxford University Press, 1988), pp. 63-66.

2. Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (eds.), Bringing the State Back In (Cambridge: Cambridge University Press, 1985).

3. Alice Amsden, Asia's Next Giant: South Korea and Late Industrialization (New York: Oxford University Press, 1989), p. 14.

4. E. Ekekewe, "State and Economic Development in Nigeria", in A. Ake (ed.), Political Economy of Nigeria (London: Longman, 1985), p. 53.

5. Under the Qajars, the kingdom was an extension of the royal household and thus subject to the shah's personal authority. It was routine to delegate administrative authority to the members of the royal family and to personal servants and stewards of the royal household. The royal family, indeed, was comprised of hundreds of princes. The second shah of the Qajar, for example, had 102 sons and many of these sons had from ten to eighty children. As Fraser observed, "every chief town and district, nay, every petty balook and considerable village, comes to be assigned to one or other of these royal scions.... Nor is this all -each of these princes, taking an example from his father and grandfather, must have a huge harem filled with women of all sorts- a perfect hotbed of profligacy...". See J.B. Fraser, An Historical and Descriptive Account of Persia (Edinburgh, 1834), quoted from S.A. Arjomand, The Turban for the Crown, The Islamic Revolution in Iran (Oxford: Oxford University Press, 1985), p. 24.

6. H. Katouzian, The Political Economy of Modern Iran, 1926-1979 (New York: New York University Press, 1981), p. 21.

7. E. Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982), p. 18.

8. Reza Shabani, Mabani-e Tarikh-e Ijtimai-e Iran (The Foundations of the Social History of Iran), (Tehran: Qums, 1990), pp. 213-215. For a detailed analysis of the origins of this tradition see P. Flippiani-Ronconi, "The Tradition of

Sacred Kingship in Iran", in G. Lenczowski (ed.), Iran Under the Pahlavis (Stanford: Hoover Institute Press, 1978).

9.A.H. Hairi, Shiism and Constitutionalism in Iran (Leiden, Netherlands: E.J. Brill, 1977), p. 60. For a full discussion of this see, for example, S.A. Arjomand, "The Shiite Hierocracy and the State in Pre-Modern Iran: 1785-1890", European Journal of Sociology, 22 (1981); H. Enayat, Modern Islamic Political Thought (Austin: University of Texas Press, 1982); H. Algar, Religion and State in Iran (Berkeley: University of California Press, 1970); and S. Akhavi, Religion and Politics in Contemporary Iran: Clergy-State Relations in the Pahlavi Period (New York: State University of New York Press, 1980).

10.F. Rajaei, "Falsafah-e Siyasat va Moshkelah-e Ma" (The Political Philosophy and our Problem), Ettela'at-e Siyasi-Eqtisadi, No. 61-62 (1992).

11.E. Abrahamian, "Oriental Despotism: The Case of Qajar Iran", International Journal of Middle East Studies, 5 (1974).

12.H. Katouzian, The Political Economy of Modern Iran, 1926-1979, p. 32.

13.H. Bashiriyeh, The State and Revolution in Iran (London: Croom Helm, 1984), p. 7.

14.H. Katouzian, The Political Economy of Modern Iran, 1926-1979, p. 45. It is beyond the scope of this dissertation to go into the details of the impact of the West, particularly the Russian and British rivalry, on Iranian political economy. For an analysis of intervention by foreign governments in Iran see F. Kazemzadeh, Britain and Russia in Iran: 1864-1914 (New Haven, Conn.: Yale University Press, 1968). For the history of capitalist infiltration of Iran see N. Keddie, "The Economic History of Iran, 1800-1914, and its Political Impact: An Overview", Iranian Studies, 5 (Spring-Summer, 1972), pp. 58-78.

15.N. Keddie, Religion and Rebellion in Iran: The Iranian Tobacco Protest of 1891-1892 (London: Frank Cass, 1966) and R. Sheikholeslami, "The Sale of Offices in Qajar Iran, 1858-1896", Iranian Studies, 4 (Spring-Summer 1972).

16.E. Abrahamian, Iran Between Two Revolutions, p. 56.

17.As N. Keddie observed, "In general, concession-hunting in Iran was a game of speculators and adventurers, out for quick profits, whose wits were matched against those of wily courtiers and the Shah, who equally wanted as little

trouble as possible". See N. Keddie, Religion and Rebellion in Iran; The Iranian Tobacco Protest of 1891-1892, p. 7.

18.G. Curzon, Persia and the Persian Question (London: Longmans, 1892, 2 Vols.), p. 480. A. Ashraf summarizes the major economic concessions as follows: "A maximum 5 per cent customs duty for imported goods was extended to other European countries under the 'most favoured nation' clause of the treaty with Russia. Immunity from road-tolls and internal transit taxes which were collected from Persian merchants was given to foreigners. A comprehensive country-wide monopoly of railway construction, mining, and banking was given to a British subject.... A concession went to Britain to organize the Imperial Bank of Persia with a monopoly in issuing currency and another to Russia to establish the Banque d'Escompte, A railroad concession from Julfa to Tabriz, and a Caspian Sea fisheries monopoly were granted to Russia. A British subject obtained a tobacco concession and another the D'Arcy concession. Persia finally granted the right of capitulation to the colonial powers". See A. Ashraf, "Historical Obstacles to the Growth of Bourgeoisie in Iran", in M. A. Cook (ed.), Studies in the Economic History of the Middle East From the Rise of Islam to the Present Day (Oxford: Oxford University Press, 1970), pp. 322-23.

19.H. Bashiriye, The State and Revolution in Iran, p. 8.

20.E. Abrahamian, "The Crowd in Iranian Politics, 1905-1953" in H. Afshar (ed.), Iran: A Revolution in Turmoil (Albany: State University of New York Press, 1985), p. 128. For more detail see, for example, Katouzian, The Political Economy of Modern Iran, chapter 4; Abrahamian, Iran Between Two Revolutions, chapter 2; and S.A. Arjomand, The Turban for the Crown, chapter 2. For the important role merchants and shopkeepers of the bazaar played in this Revolution see M.R. Afshari, "The Pishivaran and Merchants in Pre-capitalist Iranian Society: An Essay on the Background and Causes of the Constitutional Revolution", International Journal of Middle East Studies, 15 (May 1983): 133-155 and A. Ashraf, Mavane-e Tarikhi-e Roshd-e Sarmayadari dar Iran: Doreh-e Qajariyeh (The Historical Obstacles to the Development of Capitalism in Iran, Qajar Period) (Tehran, Zamineh, 1980).

21. See, for example, S.A. Arjomand, The Turban for the Crown, pp. 40-48.

22. See S.A. Arjomand, The Turban for the Crown, chapter 2.

23. As S. Akhavi observed, by this time, "Iran had come perilously close to the threshold of total state collapse, facing a situation of foreign domination, internal

immobilism, notoriously corrupt elite behaviour, the complete absence of central authority, and tribal assertiveness among Turkomans, Bakhtiari, Qashqa'is, Baluchis, Kurds, Lurs, and Arabs". S. Akhavi, "State Formation and Consolidation in Twentieth-Century Iran", in A. Banuazizi and M. Weiner (eds.), The State, Religion, and Ethnic Politics: Afghanistan, Iran, and Pakistan (Syracuse University Press, 1986), pp. 198-226.

24. Reza Khan's coup received support from, and was to some extent encouraged by, the British General Ironside, the commander of British forces in Iran. For a discussion of this period and Ironside's role see R.H. Ullman, Anglo-Soviet Relations 1917-1921, Vol. III, The Anglo-Soviet Accord (Princeton, Princeton University Press, 1972), chapter 9.

25. Abrahamian, Iran Between Two Revolutions, chapter 3.

26. N. Keddie, Roots of the Revolution (New Haven: Yale University Press, 1981), p. 87.

27. M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution (New York: Columbia University Press, 1993), p. 39.

28. F. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), pp. 29-30.

29. Abrahamian, Iran Between Two Revolutions, p. 149.

30. Halliday, Iran: Dictatorship and development; Zavareei, "Dependent Capitalist Development in Iran and the Mass Uprising of 1979", Research in Political Economy, (1982), pp. 139-188; and P. Clawson, "Capital Accumulation in Iran", in P. Nore and T. Turner (eds.), Oil and Class Struggle (London: Zed Press, 1980). For a detailed analysis of the development of capitalism in Iran see M.R. Soudagar, Roshd-e Ravabet-e Sarmayeh-dari dar Iran (The Growth of Capitalism in Iran), (Tehran: Andisheh, 1990).

31. For a succinct and brief analysis of this form of state capitalism see A. Ashraf, "Historical Obstacles to the Development of a Bourgeoisie in Iran". For these reforms see, for example, A. Banani, The Modernization of Iran, 1921-1941 (Stanford: Stanford University Press, 1961) and A. Lambton, Landlord and Peasant in Persia (London: Oxford University Press, 1953).

32. For a detailed analysis of the obstacles to the development of bourgeoisie and capitalism in Iran see A. Ashraf, "Historical Obstacles to the Development of a

Bourgeoisie in Iran"; A. Ashraf, Mavane-e Tarikhi-e Roshd-e Sarmayadari Dar Iran, Doreh-e Qajariyeh; and A. Akbari, Ellal-e Zaef-e Tarikhi-e Bourgeoisie-e Iran (The Reasons for Historical Weakness of the Iranian Bourgeoisie, (Tehran: Sepehr, 1971).

33.A. Banani, The Modernization of Iran, p. 45.

34. In section three of this chapter, we will explain what is meant by a neo-patrimonial state.

35.C. Issawi, "The Iranian Economy 1925-1975: Fifty Years of Economic Development", in G. Lenczowski (ed.), Iran Under the Pahlavis, p. 131. A detailed analysis of these developments under Reza Shah can be found in A. Banani, The Modernization of Iran.

36.C. Issawi, "The Iranian Economy, 1925-1975", p. 131.

37. Abrahamian, Iran Between Two Revolutions, p. 148. For sources of the government revenue during the reign of Reza Shah see S.A. Arjomand, The Turban for the Crown, The Islamic Revolution in Iran, chapter 3.

38. For detailed analysis of Reza Shah's developmental policies see R. Ghods, "Government and Society in Iran, 1926-1934", Middle Eastern Studies, 27,2 (April 1991); Katouzian, The Political Economy of Modern Iran, 1926-1979; Abrahamian, Iran Between Two Revolutions; and Issawi, "The Iranian Economy, 1925-1975".

39.R. Ghods, "Government and Society in Iran, 1926-1934".

40. Abrahamian, Iran Between, p. 149. This does not mean, however, that Iran lacked classes altogether. This also does not mean that the upper strata did not extract surplus value from lower strata in Iran. It means, nevertheless, that in the Iranian political entity, major communal ties, especially those based on religion, stifled class consciousness and blurred the class lines. As a patrimonial entity, the Iranian political structure lacked class dynamics. In other words, the political structure in Iran was not a class-based entity in the sense of the Marxist definition of class.

In 19th century Iran, three major classes existed: the landed upper class, the propertied middle class, and a class of urban wage-earners. Nonetheless, the predominance of communal ties prevented the formation of manifest, subjective, sociopolitical classes. Abrahamian best explains the situation:

Thus communal ties -especially those based on

tribal lineages, religious sects, regional organizations, and paternalistic sentiments-cut through the horizontal classes, strengthened the vertical communal bonds, and thereby prevented latent economic interests from developing into manifest political forces. Insofar as numerous individuals in early nineteenth-century Iran shared similar ways of life, similar positions in the mode of production, and similar relations to the means of administration, they constituted socioeconomic classes. But insofar as these individuals were bound by communal ties, failed to overcome local barriers, and articulated no state-wide interests, they did not constitute sociopolitical classes. This absence of viable classes had far-reaching political consequences; for, as long as the central government was not confronted by state-wide forces, the Qajar dynasty was able to dominate society in the typical manner of, to borrow a nineteenth-century term, oriental despots [Abrahamian, Iran Between Two Revolutions, p. 36].

The Constitutional Revolution of 1905, as we stated earlier, was a result of some social developments in Iran by which separate nation-wide classes came to existence who were conscious for the first time of their own common interests. This, however, did not end with the conquest of the state apparatus by a particular class. The state which was established by Reza Shah was not in any Marxian meaningful sense a class-based state. Although Reza Shah strongly supported the upper landed class, it did not mean that the state was under the control of landlords.

41.M. Karshenas, Oil, State and Industrialization in Iran (Cambridge: Cambridge University Press, 1990), p. 68.

42.Bashiriyeh, The State and Revolution in Iran, p. 10.

43.See S. Akhavi, Religion and Politics in Contemporary Iran, p. 38.

44.S. Akhavi, "State Formation and Consolidation", p. 210.

45.For detailed analysis of this development, particularly regarding the new middle class, see J. Bill, The Politics of Iran: Groups, Classes and Modernization (Columbus, Ohio: Merrill Publishing, 1972).

46. See Abrahamian, Iran Between Two Revolutions, p. 50 and R. Savory, "Social Development in Iran During the Pahlavi Era" in G. Lenczowski (ed.), Iran Under the Pahlavis, p. 94.

47. J. Bill, The Politics of Iran, p. 54.

48. J. Sedaqat-Kish, Sanaye'i dar Toseah-e Eqtesadi-e Iran (The Role of Industry in Economic Development of Iran), (Tehran: Khusheh, 1973).

49. S. Akhavi, "State Formation and Consolidation", p. 205.

50. Abrahamian, Iran Between Two Revolutions, p. 149.

51. H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran", in M. Cook (ed.), Studies in the Economic History of the Middle East, p. 432.

52. Although the initial and terminal dates of this period are arbitrarily chosen, they are not without foundation. As we will mention later in this chapter, the 1954 Consortium agreement between the Shah and the foreign companies resulted in a rapid rise in Iranian oil revenues. As H. Mahdavy observed, after 1955, oil revenues began to become the major source of revenue for government expenditures. See also M. Karshenas, Oil, State and Industrialization, p. 88.

53. See, for example, F. Moshiri, "Iran: Islamic Revolution Against Westernization", in Goldstone, Gurr, and Moshiri (eds.), Revolutions in the Late Twentieth Century (Boulder: Westview Press, 1991) and A. Perlmutter, Modern Authoritarianism (New Haven: Yale University Press, 1981), pp. 172-173. For a discussion of neo-patrimonial state see L. Goldstone, "Revolutions and Superpowers", in J. Adelman (ed.), Revolutions and Superpowers (New York: Praeger, 1986), pp. 38-48.

54. S.N. Eisenstadt, Revolution and the Transformation of Societies: A Comparative Study of Civilizations (New York: Free Press, 1978).

55. F. Moshiri, "Iran: Islamic Revolution Against Westernization", p. 118.

56. See M. Zonis, The Political Elite of Iran (Princeton: Princeton University Press, 1971), chapter 4.

57. Max Weber, Economy and Society (New York: Bedminster Press, 1968), p. 1007.

58. Abrahamian, Iran Between Two Revolutions, p. 164; M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution, p. 35; and R. Greave, "1942-1976: The Reign of Muhammad Riza Shah", in H. Amirsadeghi (ed.), Twentieth Century Iran (London: Heinemann, 1977), p. 56.
59. Iran has had a long standing desire to involve an element of third force in its foreign relations in order to ameliorate the pressure and influence of Britain and Russia. Reza Shah's sympathy towards Germany and Dr. Mosaddeq's efforts to involve the United States in the Anglo-Iranian oil dispute in part demonstrate this desire.
60. Katouzian, The Political Economy of Modern Iran, 1926-1979, p. 142.
61. A. Abrahamian, Iran Between Two Revolutions, p. 170.
62. J. Madani, Tarikh-e Siyasi-e Muasir-e Iran (The Contemporary History of Iran), (Tehran: Islami Publisher, 1980).
63. S. Siavoshi, Liberal Nationalism in Iran: The Failure of a Movement (Boulder: Westview Press, 1990), pp. 75-76 and F. Farhi, States and Urban-Based Revolutions: Iran and Nicaragua (Urbana: University of Illinois Press, 1990), p. 28.
64. M. Amjad, Iran: From Royal Dictatorship to Theocracy (New York: Greenwood, 1989), p. 48 and R. Greave, "1942-1976: The Reign of Muhammad Riza Shah", p. 53.
65. The National Front was not a political party in that it did not have an independent structure and network of members and activities. It was a coalition of several groups and classes, particularly the bazaar, the ulama, and the intelligentsia, which came together to prevent the reestablishment of dictatorship and oppose foreign interventions in Iran.
66. See M. Parsa, Social Origins of the Iranian Revolution (New Brunswick: Rutgers University Press, 1989), p. 39; Bashiriyeh, The State and Revolution in Iran, p. 17; Moaddel, Class, Politics, and Ideology in the Iranian Revolution, p. 40; and N. Keddie, "Class Structure and Political Power in Iran Since 1798", Iranian Studies, 11 (1978), pp. 318-19.
67. Bashiriyeh, The State and Revolution in Iran, p. 17.
68. Katouzian, The Political Economy of Modern Iran, 1926-1979, pp. 164-182.

69.M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution, pp. 48-49.

70.For detailed analysis of this failure see S. Siavoshi, Liberal Nationalism; M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution; and H. Katouzian, The Political Economy of Modern Iran, 1926-1979.

71.Despite of the two mainly political effects, one important cultural effect can also be realized. As one scholar observed, the failure of the oil nationalization movement can be conceived as the beginning of polarization of the Iranian society into two opposing camps: one which supported Western values and their influence in Iran and the other which opposed the cultural influence of Iran by Western countries. This polarization had significant impacts on the developments of state-society relations underwent in the following decades. See F. Rajaei, "Moruri bar Bardashthay-e Iranian as Gharb" (An Overview of Iranians' Attitude Towards the West), Ettela'at-e Siyasi-Eghtesadi, 5,10-11 (August-September 1991).

72.H. Katouzian, The Political Economy of Modern Iran, 1926-1979, pp. 179-180.

73.F. Farhi, States and Urban-Based Revolutions, p. 36.

74.M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution, p. 55.

75.R. Cottam, Nationalism in Iran (Pittsburgh: University of Pittsburgh Press, 1964), p. 323.

76.R. Cottam, Iran and the United States: A Cold War Case Study (University of Pittsburgh Press, 1988), p. 115.

77.A. Saikal, The Rise and Fall of the Shah (Princeton: Princeton University Press, 1980), pp. 47-48.

78.J. Bharier, The Economic Development of Iran, 1900-1970 (London: Oxford University Press, 1971), p. 119. The United States and Iran signed a Mutual Security Act (1953-1963) according to which the amount of grants to Iran for military equipment was the largest military grant to a non-NATO ally. Under this agreement, over 10,000 American personnel came to Iran in order to reorganize and expand the Iranian military. For this see A. Saikal, The Rise, p. 54.

79.Halliday, Iran: Dictatorship and Development, p. 141.

80.Halliday, Iran: Dictatorship and Development, p. 142.

81.F. Fesharaki, Development of the Iranian Oil Industry
(New York: Praeger, 1976), p. 133.

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203.

CHAPTER THREE:

THE IRANIAN RENTIER STATE, 1962-1978

1) INTRODUCTION

The previous chapter examined the historical process of state formation in Iran up until the early 1960s. We concluded that in the early 1960s a personalist-authoritarian, rentier, and client state existed. As we pointed out in the first chapter, the literature on the rentier state generally suggests that the oil rents engender almost complete autonomy of the rentier state from the society. The major assumption is that since the rentier state can use the oil wealth for the purpose of political control of society, it situates itself beyond the constraints of indigenous socio-political forces. This autonomy, in turn, places the rentier state beyond the influence of social forces.

While some rentier states can possibly use the oil revenues for the purpose of political control of society, the Iranian state did not use them effectively for this purpose. Although the oil rents accrued directly to the state, it did not translate the oil rents into political legitimacy and hence political power.

Herein lies the puzzle which this chapter seeks to address. In spite of the literature's suggestion that oil revenues do in fact strengthen the rentier state, and hence enable it to coopt civil society and bring about political stability, why did the Iranian rentier state fail to do so? To answer this question, we suggest that pre-existing characteristics of the state in Iran intervened. In doing this, we will situate the Iranian state within a historical perspective in order to examine different historical characteristics it possessed as well as different sets of socio-political forces to which it had to respond. This examination helps to explore why the oil rents did not make the state immune from domestic challenges to its authority.

The discussion that follows is divided into two parts. The first explains the effects of the external rent on the state. Given the availability of the external rents, as the literature suggests, the Iranian rentier state became autonomous from civil society. The second part of this chapter seeks to explore the reasons for the weakness of the Iranian rentier state. In doing this, it will examine the other two characteristics of the state, its personalist-authoritarian and client nature as well as the fact that the Iranian society was strong. Our main argument is that the weakness of the Iranian rentier state mainly stemmed from three factors: the predominance of the Shah over the state; the Iranian state patron-client relationships with the

United States and finally, the existence of a strong civil society in Iran which was culturally and ideologically at odds with the Shah.

2) THE EFFECTS OF EXTERNAL RENT ON THE STATE

The main feature of the Iranian state was its rentier character. To begin with what is a rent? It is "a payment to a factor in excess of what is necessary to keep it to its present employment".¹ A rentier state, therefore, is "any state that derives a substantial part of its revenue from foreign sources and under the form of rent i.e., because specific conditions allow it to be the direct beneficiary of income derived from selling goods or services at prices well above their production costs".²

The above definition, however, distinguishes the rentier state from non-rentier state by using the vague criterion of "substantial parts of its revenues". Therefore, following some other scholars in the literature, we classify states which obtain 40 per cent or more of their total revenue from rent as rentier states.³ In regard to Iran, as it was mentioned in the previous chapter, between 1955 and 1960, its oil revenue constituted more than 40 per cent of government revenue.⁴ In 1954, oil accounted for only 11 per cent of government revenues. After the formation of the international consortium in 1954, the share of oil in state revenues increased at a rapid pace and by 1960, oil exports

contributed 42 per cent of the total state revenue. Therefore, the period 1955-1960 is the date we choose to define Iran as a rentier state because it is in this period that oil rents became increasingly significant for the state. As Mahdavy aptly observed in the case of Iran, "during the prewar period, expenditures were financed mainly through taxation ... whereas after 1955, the oil revenues began to become the major source of revenue for government expenditures".⁵ Thus, we argue, since oil rents began to constitute the major source of revenue for the Iranian state during 1955-1960, Iran can be called a rentier state from this period onward.

Having explained what a rentier state is as well as when the Iranian state became rentier, we turn to examine the impacts of the external rent on the state itself. The primary impact of the external rent on the state is that it makes the rentier state financially autonomous from its society.⁶ This is because the oil rents are transmitted directly to the state. The income from oil constitutes a very large part of national income which is neither in the form of tax on internal resources nor a contribution by the nationalised enterprises to the state budget. As Katouzian observed,

[The] oil revenues accrue to the state directly as large and independent sources of finance: the state does not even have to depend on the domestic means of production for this revenue.... Once these revenues rise to a high level, making up at least 10 per

cent of the national output, they begin to afford the state an unusual degree of economic and political autonomy from the production forces and the social classes of the country [Therefore, the] entire system -economic, social, and political, together with their various elements- depends on the size and strategy of state expenditure.⁷

This process, therefore, "transforms the socio-economic autonomy of oil into the socio-economic autonomy of the state".⁸

Unlike other states, rentier states do not exist by extracting surplus from the local population. While in most non-rentier economies the state derives revenues from taxing citizens, goods, and services, the rentier state, in contrast, gains autonomy from the domestic economy. It does not need to rely on taxation since most of its financial needs can be covered by the oil revenues.⁹ Thus a second important effect of the rent on the rentier state is the decline of the extractive and redistributive functions of the state.

Due to the availability of oil revenues, the rentier state never develops an efficient taxation system. The full consequences of the underdevelopment of the taxation system becomes evident when the oil revenues decline or the state faces an economic slow down. Moreover, the failure to develop an efficient taxation system costs the rentier state the control over internally generated capital, thereby the state loses control over some segments of the civil society.

As we demonstrate later, this is what happened in Iran with regard to the state-bazaar relationship.¹⁰

In line with these two widely accepted effects of the external rent on the state, we would expect the Iranian rentier state to exhibit the same characteristics. In other words, the state in Iran should have decreased its reliance on domestic taxes while its oil revenues were increasing. Tables 3-1 and 3-2 show a summary of the Iranian rentier state revenues.

Two basic features stand out: (1) the relative share of oil and gas revenues in total government revenues has increased; (2) with the increase in government oil revenues particularly after 1973, the relative share of direct and indirect taxes decreased, though in absolute terms, they increased.

Table 3-2 gives an indication of the high share of oil revenues and low share of taxes in the Iranian government revenues. The share of oil revenues in total Iranian state revenues increased from 11 per cent in 1954 to about 86 per cent in 1974. At the same time, the relative share of domestic taxes in total state revenues was very low, since the state did not need to increase taxes. While the relative share of tax revenues was 41 per cent of total state revenues in 1970, it decreased to 11 per cent in 1974. Because of economic crisis in 1976, however, the Iranian state resorted to a policy of high taxation. As indicated in

Table 3-2, therefore, the share of taxes increased from 1976, reaching around 29 per cent in 1978.

It is important to note that even among the figures comprising taxation, the highest contribution came from state corporations as shown in Table 3-3. Furthermore, the indirect taxes constituted the lion's share of the whole tax revenues.¹¹ By examining these Tables, we can conclude that first, the tax income constituted a low share of government revenues, second, the share of indirect taxes were more significant than the direct taxes, and finally, direct taxes came mostly from state corporations. Tax on land and real estates, business, and wealth constituted a very low portion of the state revenues.

3) THE IRANIAN WEAK STATE AND STRONG SOCIETY

According to the literature, having almost complete autonomy from the society, the rentier state can translate the oil rents into political legitimacy and hence political power. However, in contrast to this proposal, the Iranian rentier state failed to use oil revenues to strengthen itself as well as to acquire political control of the society. The Shah was unable to preserve his rule despite having used oil revenues to build one of the largest and most powerful armed forces in the world. To explain this paradox, what we suggest is to situate the Iranian rentier state within a historical perspective. In doing this, we

should examine the historical characteristics of the pre-rentier state in Iran as well as the characteristics of the social forces it had to respond. In what follows, three characteristics of the state and civil society will be considered namely, the predominance of the Shah over the state, the Iranian state patron-client relationships with the United States and finally, the strength of the civil society in Iran. We will argue that these three characteristics constrained the capacity of the Iranian state, preventing it from co-opting civil society and assuring political stability.

3-1- The Predominance of the Shah

As we indicated in chapter 2, the Iranian state of the 1960s and 1970s resulted from a fusion of the historic state that existed in the country for centuries with a modern state which emerged in the 1920s.¹² As we saw earlier, the historic state in Iran was a patrimonial one which survived by dispensing economic favours as well as positions of power and employment.¹³ One of the most noticeable aspects of patrimonialism in Iran has been its personal character. Iranian society has frequently been ruled as if it were the personal possession of the monarch. Therefore, throughout Iranian history, from the early dynasties to that of the Pahlavi's, there has been wide acceptance that the Shah has the legitimate right to intervene as the final arbiter in

almost any social and political affair. The actual practice of the monarch's power could go as far as his temperament, personal ambition, and capability might take him.¹⁴ The two Pahlavi Shahs were willing to use this personalist aspect of patrimonialism to its fullest.

While in the past the authoritarian monarchy used agricultural surpluses to maintain its domination over a powerless and poor society, during the second shah of the Pahlavi dynasty oil revenues were used to sustain predominance over a strong and diversified society. Oil revenues, in other words, were used as a vehicle of cooptation. However, as we will see, the Iranian rentier state failed to co-opt its society. At best it succeeded in co-opting some elites from within the society. The process of elite cooptation recruited into the top leadership of the Iranian state relatives, close friends and royal persons. It is this process that gave the Iranian state its elitist character with a narrow social base.¹⁵

This historic patrimonial state merged with a second state- the modern state. In the 1920s and 1930s the modern state in Iran centralized power at the expense of other major societal forces, relying on repression to maintain that centralization. In the 1960s and 1970s, this state became a self-contained caste that aimed at protecting the Shah and his family, the ruling elite and the propertied social forces. It was also a modern bureaucracy assigned two

important tasks: economic planning and distribution of the rent through welfare management. While the former aimed at building the infrastructure and conditions for rapid capital accumulation, the latter aimed at co-opting the Iranian society. At the same time, a large bureaucracy created many government jobs which could be used to build support for the regime. This section examines the personalist-authoritarian characteristic of the Iranian state in detail.

One of the most important characteristic of the Iranian rentier state was its close association with the person of the Shah. Traditionally, one of the most noticeable aspect of political authority in Iran has been its personal character. Indeed, if the Iranian state is constituted of several institutions namely the Shah and royal family, the court, army and bureaucracy, the Shah was the most important. As one author noted, "At its narrowest [social base], it [the Iranian state] could be reduced to the Shah himself, and there is much evidence to substantiate this interpretation, the significant decision-making power of the Shah, his huge wealth and central position among the economic elites and the general tendency to credit (or conversely to blame) him for everything that 'the state' made happen".¹⁶ What were the foundations of his power?

After Mohammad Reza Shah acceded to the throne in 1941 he attempted to consolidate his power and establish solid bases of political support. At first his power depended on

the support of the army. "For despite the efforts of Mosaddeq and the Iranian communist party, the Tudeh, the Shah had never totally lost control over the military, a control that was then augmented by a burgeoning program of US technical and military assistance".¹⁷ The addition in 1957 of an extensive secret-police system (SAVAK) permitted the Shah to rid himself of internal opposition to his rule.¹⁸ If from 1954 to 1963 he "pursued a policy of consolidation through coercion and thus adopted political tactics reminiscent of those used by his father in the 1930s",¹⁹ by the early 1960s the Shah had achieved domination over the main components of the Iranian state, including the court, army, the bureaucracy and the executive and legislature.²⁰

With this consolidation, the Shah became the most powerful actor in the Iranian polity and economy. With the nearly complete centralization of power and authority in his hands, the Shah also became the most important actor within the state.²¹ He had constructed a system of personalist authoritarianism, reliant on military and security apparatuses internally, as well as control over other institutions. The omnipresence of the Shah made one author observe that,

In both relative and absolute terms, this monarch is more powerful than his father and than any previous Iranian ruler. This King of Kings can, in no political sense, be considered merely the "first among equals". He, personally, without the aid of advisory

councils, alter egos, or close confidants, makes the thousands of decisions that allow the government to function. From the appointment or promotion of officers in the army to the decisions as to whether or not to pave the main street of Tabas, His Imperial Majesty is the arbiter.²²

Nevertheless, since the Shah could not possibly rule Iran single-handedly, the practical basis of the state included other institutions such as the court, army, and bureaucracy.²³ These institutions provided the main political and administrative pillars for the Shah's rule.²⁴

Traditionally, the Imperial Court has been one of the most important institutions responsible for the consolidation and functioning of the monarchy. During the period under study the Court was the centre of decision making in the Iranian political system. Because the Court enjoyed the full weight of the Shah's authority, it was an extremely powerful institution.²⁵ The Court Ministry under the direct tutelage of the Shah, controlled all affairs of the country. In regard to its official functions, Graham observed that,

One branch of the Court Ministry is devoted exclusively to looking after the private affairs of the Shah and the Pahlavi family. The other main branch concerns the organization of the Shah's daily schedule. While the official duties of the Court Ministry are more ceremonial, the Special Bureau has the primary responsibility of ensuring that the Shah's orders are carried out. It also acts as the final filter for all the multiple channels of administration and control that the Shah employs.²⁶

The Court Minister ranked on a par with, if not above,

the Prime Minister. He was in charge of the Special Bureau and enjoyed the privilege of direct and daily access to the Shah. Asadollah Alam, Court Minister for a long time, was an archetypical figure in this position upon whose advice the Shah relied.²⁷ In his memoirs, General Fardoust, a boyhood friend of the Shah wrote that "Alam was the most important person advising the Shah with regard to internal affairs of the country. In fact, he guided the Shah and was his most trusted consultant".²⁸

The activities of the royal family can also be included under the court. The Empress Farah had her own special bureau, with a staff of almost 6000, exercised a significant amount of patronage within the fields of the arts, charity, culture, and education.²⁹ The delegation of some of the Shah's responsibilities to the Empress in these areas promoted an image of a philanthropic dynasty. The Empress' power and influence stemmed from her access to the Shah. Because she could speak frankly with him, and had regular access to him, she was considered as an alternative means of gaining access to the Shah.³⁰

Princess Ashraf, the twin sister of the Shah, was also very powerful, playing a significant role in internal and external policies of the Iranian state. As Fardoust noted, she was credited with having the most astute mind in the royal family and any time the Shah encountered a serious problem, she was the most important person to handle it.³¹

Princess Ashraf was also useful to the Shah for she had at her disposal a wide network of friends who had significant jobs in the administration. They could serve as alternative channels of information for the Shah. As Graham observed, for instance, Princess Ashraf's third husband, who used to live in Paris, was instrumental in arranging the sale of French nuclear reactors to Iran.³²

Using the court and other members of the royal family, the Shah strengthened his control over the state and society by dispensing vast array of rewards. Of course, court patronage depended on the huge amount of money which the Shah controlled. As we will demonstrate in chapter 6, the fortune accumulated by the Shah and royal family was estimated by foreign sources to be between five and twenty billion dollars,³³ coming from farm lands amassed by Reza Shah and the royal family's business investments.³⁴ In addition, the Pahlavi Foundation and the oil revenues provided a great deal of money.³⁵

The second power base of the Shah was the army and the intelligence services. The Shah, like his father, was heavily dependent on the Iranian armed forces for a support base as well as for the survival of his regime. As we have seen, the Shah was brought to power by the help of the Iranian army in the 1953 coup. In the immediate post-coup years, the U.S. government extended massive military aid to the Iranian state.³⁶ Furthermore, a Mutual Security Act

(1953-1963) was signed between the two countries. During the period of this agreement, the Iranian army under the U.S. direct supervision was expanded from 100,000 to 190,000; and a modern navy and an air force were formed headed respectively by 4000 and 8000 specially trained personnel.³⁷

The Iranian military's share of the budget ranged between 25 and 40 per cent from the 1950s to the 1970s. "Between 1953 and 1970, defense expenditures rose from \$67 million to \$844 million, a more than twelve-fold increase; between 1970 and 1977, they rose by almost the same portion again to \$9,400 million".³⁸ As one author noted, "By 1977, Iran had the largest navy in the Persian Gulf, the most up-to-date air force in the Middle East, and the fifth largest military force in the world".³⁹

Although U.S. military aid to Iran were justified on the grounds that Iran needed it to ward off an external threat (i.e., a Soviet attack), they were essentially aimed at suppressing the internal opposition to the Shah. "As U.S. senator Hubert Humphrey put it in 1960: 'Do you know what the head of the Iranian army told one of our people? He said the army was in good shape, thanks to U.S. aid - it was now capable of coping with the civilian population'.⁴⁰

However, the task of domestic repression was more specifically the domain of SAVAK, the *Sazeman-e Ettela'at va Amniyate-e Keshvar* (Information and Security Organization of

the country), which was organized in 1957 and the other police and intelligent services.⁴¹ SAVAK was established with the help of the CIA, FBI, and Israeli intelligence.⁴² Its major task was first to identify and remove opposition to the regime. "SAVAK was active in censorship, in the government-run trade unions, in screening state employees including teachers, and in directly confronting political critics and opponents of the regime.... SAVAK arrested and held suspects at will, without time limits; trials were secret, conducted in the absence of defense witness before SAVAK or military judges".⁴³

The fact of SAVAK brutality has been known for years. As the Secretary General of Amnesty International observed in 1975, "No country in the world has a worse record in human rights than Iran".⁴⁴ SAVAK eventually became the most important instrument of repression by the Iranian state. "By means of random arrests, tortures, and executions, it spread a deep sense of fear, suspicion, disbelief, and apathy throughout the country" and in so doing it became an integral part of state-society relations in Iran.⁴⁵

A less repressive but equally important institution of the Iranian state was the bureaucracy. The formation of an orderly bureaucracy in Iran dates back to the Reza Shah period. By the enactment of the Civil Service Law of 1922, the initial steps toward the creation of a centralized bureaucracy were taken. However, with the continuing

expansion and diversification of government activities as well as the growing expectation that the government had to function as the prime provider of jobs for the public, efforts were made to restructure the bureaucracy. In 1966 a comprehensive state employment law was enacted.⁴⁶

Increased oil revenues fuelled the growth of the bureaucracy as the state became the most important agent intervening in the economy. The state owned and controlled the total heavy industry, oil industry, and the infrastructure.⁴⁷ It distributed water, power, gas, kerosene, gasoline, and electricity. Health services, social welfare, and the educational system all were administered by the state. The bureaucratization of the society, furthermore, covered the countryside. As we will see later, the Land Reform of 1962 brought the state to the rural areas. The peasants, as a result, became dependant on the state for loans, credits, fertilizers, water distribution, education, and security. Through the state-run cooperatives, all rural areas came under the administration of the state.⁴⁸

As a result of these new activities, the bureaucracy expanded. "The civil service grew from twelve ministers and 150,000 civil servants circa 1963 to nineteen ministers and 304,000 employees in the late 1970s".⁴⁹ As Abrahamian observed,

In the towns, the state expanded to the point that it hired as many as one out of every two

full-time employees. By the mid-1970s, the regime had the power to give to thousands of citizens-and, if necessary, to withhold from the same thousands-not only their salaries and wages, but also a widening range of social benefits, including medical insurance, unemployment insurance, student loans, pensions, and even low-income housing.⁵⁰

The growth of the bureaucracy, however, could not be solely explained by the state's intervention in the economy. Political control over redistributing some of the oil rents was another important factor that resulted in the growth of the bureaucracy. The dramatic growth of public employment and the expansion of public goods and services therefore constituted an important instrument of redistribution of oil rents among various groups within the society. In this state like in other rentier states public-sector employment often acted as an "employer of last (or first) resort".⁵¹

Public employment also served to co-opt the educated and intellectuals within the society, since their number had been increased as a result of modernization programs. As Ayoubi observed, "for the rulers of the oil-rich states, the bureaucracy serves as a respectable and modern looking method of distributing part of oil revenues. Unlike traditional, straightforward handouts, bureaucracy provides a more dignified way of disbursing largesse camouflaged in the language of meritocracy and national objectives".⁵²

The Iranian bureaucracy, therefore, became a vehicle of co-opting civil society especially the new professional middle class. Rise of this class in Iran occurred because of

increased educational opportunities, economic development, and contacts with the West.⁵³ This new class was perceived by the Iranian state as a force to be considered, not only because of its increasing number, but due to its very nature. They as a group had shown antipathy and nonacceptance of the absolutist way of rule by the Shah. As we saw earlier, the National Front and the Communist party of Iran (Tudeh) were mainly led by and composed of the professional middle class.

Therefore, regardless of economic resources, it was felt that the cooptation of this new class into the governmental bureaucracy was a necessary method of control to counter political subversion.⁵⁴ It was a truism that "an educated man with a government position, any government position, no matter how unrewarding, is not a political subversive, and conversely, that an educated man without a government position is apt to be subversive in the hopes of reversing a political situation unfavourable to himself".⁵⁵ As a result of this perception the Iranian government was enlarged, regardless of rational need, to the point that it became the major source of employment.

The executive and legislative sections of the Iranian state also should be mentioned. Except for the Mosaddeq era, the Prime Minister and the cabinet have enjoyed very restricted power in the Iranian political system. The weakness of the Prime Minister and the cabinet, in fact,

stemmed from the overall domination of the Shah over the state. Since major aspects of political, economic, and social policy, not to mention many other minor decisions, were determined by the Shah, the Prime Minister and the cabinet were not the focal point for broad policy leadership, control, and coordination.⁵⁶ At best they acted as a forum for working out the application of decisions "reached in advance by the Shah in private audiences either with the Prime Minister or with individual Ministers or heads of agencies".⁵⁷ Except during the premiership of Dr. Mosaddeq and Dr. Amini in the early 1950s and 1960s, respectively, all prime ministers were the confidants of, and subservient to, the Shah.

The weakness of the Prime Minister and the cabinet also was directly related to the weakness of the Iranian Majlis. The Majlis had no say in the appointment and dismissal of the Prime Minister and the cabinet. Although the Iranian Constitution had introduced full legislative power for the Majlis, several amendments by the Pahlavi dynasty as well as the strength of the Shah considerably diminished the power of the Majlis.⁵⁸ Therefore, as a result of concentrating all powers in the hands of the Shah as well as electoral manipulation, the Majlis became simply a rubber stamp for the Shah's dictates.⁵⁹

In short, the Iranian state during the 1960s and 1970s can be characterized as personalist-authoritarian one. The

Shah became the central power and all other institutions of the state became dependent on, and subordinate to, him.

3-2- The Client State

Another important characteristic of the Iranian state was its patron-client relationship with the United States. After the 1953 CIA-backed coup, the U.S. established a strong client relationship with Iran which continued until the collapse of the Shah in 1979. To understand this patron-client relationship, as we demonstrated in chapter 2, we should consider the nature of the global political and strategic milieu in which this relationship fit. Furthermore, we must look at the domestic situation of Iran in order to demonstrate how this relationship was intertwined with the Iran's domestic politics. In this section, we briefly explain the weakening effect of this relationship on the Iranian state.

As a result of growing tensions between the U.S. and the Soviet Union, U.S. security interests in Iran began to increase in the early 1950s. The American attitude can be inferred from the following: "Iran is important to the United States for political, economic, and military reasons. It has 1200 miles of common border with the USSR, occupies a strategic location in the Middle East ... and controls an important part of the world's proven oil reserves".⁶⁰ Therefore, Iran was considered by the United States policy-

makers as a prime candidate for political, economic, and military support. The Shah of Iran sought increasing U.S. involvement in Iran to bolster his regime against the challenge of domestic political opposition. Restored to the throne, the Shah sought to consolidate power by crushing the forces of opposition. This remarkable coincidence of American and Iranian interests helped to bring about this patron-client relationship which, though subject to ups and downs, continued until the Islamic revolution of 1979.

This patron-client relationship had at least two major consequences. First, the socio-economic development of Iran was tied to the interest of the U.S. In other words, the Shah's dependence "implied a narrowing of the regime's policy options to a pro-Western, mainly pro-American, stance in both domestic and foreign policy behaviour".⁶¹ As we will see in the case of the 1962 Land Reform and the government industrial policies, the push toward modernization and reform by the Iranian state quite definitely came more from the outside (the U.S. Government) than from the indigenous social forces. Thus, according to J. Bill, "many of the reforms in fact adopted by the Shah were identical to those recommended by the U.S. Department of State".⁶²

Secondly, this dependence delegitimized the Iranian state and therefore isolated it further from the Iranian society. Because of the obvious involvement of the U.S. in

the 1953 coup, the Iranian state in general and the Shah in particular were seen by the Iranian society as a dependent, foreign dominated institution. The growing links between the Iranian state and the U.S. after the coup reinforced this view. The widespread perception of this patron-client relationship resulted in a loss of political legitimacy of the Iranian state and social protest against the Shah.⁶³

In sum, as we pointed out, because of its dependence on the United States for political, economic, and military support, the Iranian state can also be characterized as a client one. This cliency relationship not only influenced the Iranian state's economic development policies, as we will see in chapters 4 and 5, but also contributed to its loss of legitimacy.

3-3- The Existence of a Strong Civil Society

The existence of a large and vibrant civil society in Iran as well as its access to a relatively developed and diversified economic base also can explain why the Iranian state failed to use the oil revenues to co-opt civil society as a way of political control. While we will discuss this in the sixth chapter, it suffices here to describe briefly the strength of the Iranian society.

As we mentioned in chapter 2, the historical state in Iran was only one group among other strong societal groups, although the most powerful single one. Also powerful were

tribal leaders, the ulama, landlords, and merchants (bazaar).⁶⁴ It was during the Reza Shah's rule which a change from a relatively decentralized structure of power to one in which power is concentrated in the centre (state) happened. The emergence of the modern state in Iran, thus, meant fundamental changes in the structure of power and in class relations in the country. As we have seen, Reza Shah's policies of the 1920s and early 1930s broke the power of the tribal chiefs and eliminated many of them. The ulama came also under fierce attack by the Reza Shah's centralizing state, though they could survive his state-building. The landlords were the only group which not only survived Reza Shah's state-building but were in fact helped by its legal reform.

The abdication of Reza Shah, as indicated in chapter 2, brought about the revitalization of the societal groups and their regaining of power. As we saw, the Shah among other social groups contested for the conquest of the state power. The difficulties the Shah encountered to consolidate his power demonstrates that there existed in Iran a strong civil society.

Given his power over the army and intelligence services, Mohammad Reza Shah could suppress all these groups who were challenging his supremacy. From 1953 to the early 1960s, efforts to change the social and class structure of the country were piecemeal. Following the rise of opposition

to the Shah in the early 1960s, as we will see in chapter four, the Shah, with apparent U.S. encouragement, launched a series of reforms among which the Land Reform of 1962 was the most important, since it drastically helped change the social and class structure of the country. The Land Reform resulted in the partial dispossession but complete liquidation of the landlords as a group. Furthermore, it caused an extensive wave of migration of poor peasants from rural areas to larger cities, particularly Tehran. The industrial developments which followed also resulted in creation of other classes such as an industrial/entrepreneurial group, backed by a strong army and a large bureaucracy.

However, the centralization of the state was not complete; at least four elements of the civil society escaped it: (1) the ulama, (2) the bazaar, (3) urban communities who were influenced by the ulama and Bazaar, and (4) the new urban communities created by those poor peasants who migrated to larger cities. In contrast to other groups which were dissolved under the Pahlavi rule, the ulama and bazaar with the support of the other two groups not only retained their autonomous institutional and financial bases but also reacted to the expansion of the state.⁶⁵

In chapter 6, we will explain briefly the dynamics of state-society relations in Iran as well as the reasons for the state's collapse in 1978. In order to demonstrate the

continuing viability and importance of the civil society in spite of brutal state suppression, it suffices here to examine briefly the bazaar as a main societal group the Iranian state never could co-opt.⁶⁶

Despite the growth of a new group of entrepreneurs nurtured by the state and the state's general hostility toward the traditional entrepreneurs of the bazaar, the latter were able to maintain their economic power. As one author has observed, the bazaar remained important for a number of reasons.

First, the bazaars ... numbered as many as 250,000 shopkeepers and controlled as much as two-thirds of the country's retail trade ... Second, the bazaars ... had been able to retain their organization ... Third, the bazaar entrepreneurs exercised considerable influence not only over their store assistants and workshop employees, but also over thousands of peddlers, small retailers, and petty brokers. Fourth, the influence of the bazaar also reached into the countryside ... Finally, the bazaars had social, financial, political, ideological, and historical links with the religious establishment.⁶⁷

Furthermore, not only was the bazaar able to maintain its economic position, but it was also able to keep its economic resources away from state control. First, most of those involved in the traditional sector were self-employed (67% of them were self-employed in 1976).⁶⁸ Second, the kind of activities that they engaged in required little state intervention. Finally, because of the deficiencies of the state extractive capacity the bazaris profited from an

unregulated market. Tax-evasion was particularly high among the bazaaris who in face of a regime whose legitimacy they questioned did not see any reason to contribute to the coffers of the government.

However, it would be a mistake to conclude that the main grievance of the bazaaris was economic. In fact, there existed a cultural and ideological distance which separated the Iranian state from the bazaar. In the Shah's version of the modern society there was no room for the traditional bazaar. This view is best summed up in the Shah's own words,

Bazaars are a major social and commercial institution throughout the Middle East. But it remains my conviction that their time is past...The bazaaris are a fanatic lot, highly resistant to change because their locations afford a lucrative monopoly. I could not stop building supermarkets. I wanted a modern country. Moving against the bazaars was typical of the political and social risks I had to take in my drive for modernization.⁶⁹

For the Iranian state there was no room for the traditional bazaaris in a modern society, while the political and cultural norms of the regime were unacceptable to the bazaaris. For the Shah modernity was synonymous with westernization. The bazaaris, on the other hand, found the Shah's views offensive and contrary to their own beliefs and values, which were deeply rooted in Islam.

This distance indeed prevented the bazaaris from developing loyalty to the Pahlavi regime. In the early days of the Islamic Revolution they participated actively by financing strikes by workers and civil servants, etc. The

importance of the bazaar is documented by many observers of the Iranian Revolution of 1979.⁷⁰

In sum, the difficulties the Shah encountered in order to regain power in 1953 as well as the Iranian Revolution of 1979 both suggest that there existed in Iran a dynamic and autonomous civil society which had the resources as well as the incentive (its cultural and ideological differences with the Pahlavi regime) to challenge the state. The Iranian state, thus, failed to co-opt these powerful groups and elites within the society. It, therefore, was forced to use repression for the purpose of political control. In chapter six, we will explain the state-society relations in Iran and the reasons the Shah's regime could not generate popular support for itself and thus finally collapsed.

4) CONCLUDING REMARKS

In this chapter, we have suggested that in Iran a particular type of state emerged which significantly differed from the model proposed in the literature on the rentier state. According to that model, the rentier state which derives its revenues from the external rents rather than from domestic economy, becomes autonomous from the society hence immune from domestic political and social constraints. The external rents, in other words, place the rentier state beyond the influence of social forces, hence assuring political stability.

The Iranian rentier state, however, could not use the oil wealth to rid itself of its civil connections. The Shah could not preserve his rule and despite considerable oil revenues at his disposal, the Pahlavi regime collapsed. This chapter has sought to solve this puzzle by situating the Iranian rentier state within its historical context. We argued that the other two characteristics of the Iranian state namely, the predominance of the Shah over the state and its patron-client relationships with the United States as well as the existence of a strong civil society constrained the capacity of the Iranian state, eventually preventing it from using the oil revenues for the purpose of political control and stability.

In the following chapters, we will demonstrate the implications of this particular state for economic development of the country. By examining the agricultural and industrial policies of the Iranian state in chapters 4 and 5, we try to shed light on the significant effects of state's characteristics on its developmental policies. In the last chapter, we will suggest that although these policies were influenced by the characteristics of the Iranian state and thus did not bring about a sustained economic development of the country, they benefitted the particularist interests of the state, particularly the Shah, in autonomy, legitimacy, and property.

Table 3-1
Iranian State Revenues (Milliard Rials)

Revenues	1971	1972	1973	1974	1975	1976	1977	1978
Oil & gas	171	178	311	1205	1249	1329	1590	1013
Taxes	83	103	132	158	273	347	449	471
Others	79	150	148	169	289	282	513	859
Total	333	431	691	1532	1808	1958	2552	2343

Source: E. Razaqi, *Ektebad-e Iran* [Iranian Economy], 1992, p. 139

Table 3-2
Major Sources of Government Revenues
as Percentages of Total Revenue

description	1954	1960	1965	1970	1974	1975	1976	1978
Total Revenues	100	100	100	100	100	100	100	100
Oil	11	42	54	49	86	78	76	63
Taxes	40	33	33	41	11	17	19	29
Direct	5	8	10	15	5	9.5	10	17
Indirect	35	25	23	26	6	7.5	9	12
Gvt services & others	49	25	13	10	3	5	5	8

Sources: Compiled from H. Bashiriyeh, The State and Revolution in Iran, p. 98, and A. Najmabadi, "Depoliticization of a Rentier State", p. 215

Table 3-3

Major sources of direct taxation as the percentage of total direct taxes

Source of Tax	1969	1970	1971	1972	1973	1974	1975	1976
Salaries	22.6	22.0	22.0	21.0	19.1	13.3	10.1	14.0
Land/Real Estate	7.0	8.6	7.8	7.2	7.4	7.7	2.8	3.2
State Corporations	31.4	29.6	27.0	27.2	30.3	37.5	61.4	52.9
Private Corporations	18.2	19.1	20.2	21.5	20.7	21.0	13.2	15.7

Source: Central Bank of Iran, Annual Report and Balance Sheet (Various Years)

Endnotes

1. See D. Pearce, The MIT Dictionary of Modern Economics (MIT Press, third Edition, 1988), p. 120, quoted in P. Cardin, "Rentierism and the Rentier State: A Comparative Examination", M.A. Thesis, Department of Political Science, McGill University, 1993, p. 2.

2. H. Beblawi and G. Luciani, The Rentier State (London: Croom Helm 1987), pp. 11-12 and H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran" in M.A. Cook (ed.), Studies in the Economic History of the Middle East (Oxford: Oxford University Press, 1970).

3. G. Luciani, "Allocation Vs. Production States: A Theoretical Framework", in Beblawi and Luciani (eds.), The Rentier State, p. 70.

4. H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran", pp. 438-441.

5. H. Mahdavy, "The Patterns and Problems of Economic Development ...", p. 441.

6. R. Brynen, "Economic Crisis and Post-Rentier Democratization in the Arab World: The Case of Jordan", Canadian Journal of Political Science, 15,1 (March 1992); H. Beblawi, "The Rentier State in the Arab World", G. Luciani, "Allocation Vs. Production States"; T. Skocpol, "Rentier State and Shia Islam in the Iranian Revolution" Theory and Society, 11,3 (May 1982), pp. 256-283; and A. Najmabadi, "Depoliticization of a Rentier State: The Case of Pahlavi Iran", in Beblawi and Luciani (eds.), The Rentier State. The Iranian state autonomy, however, must be conceptualized as involving two forms of separation: 1) in the national context, the autonomy of the state from civil society, and 2) in the international context, the autonomy of the state from global political and economic structures. See Val Moghadam, "Oil, The State, and Limits to Autonomy: The Iranian Case", Arab Studies Quarterly, 10,2 (Spring 1988).

7. H. Katouzian, The Political Economy of Modern Iran (New York: New York University Press, 1981), p. 245.

8. H. Katouzian, "The Political Economy of Oil Exporting Countries", Peuples Mediteraniens November 1979, quoted in E. Mossallanejad, The Political Economy of Oil (New Delhi: Criterion Publishers, 1986), pp. 44-45.

9. On the decline of the extractive and redistributive capacity of the rentier state see L. Anderson, "The State in the Middle East and North Africa", Comparative Politics, 20,1 (October 1987); H. Beblawi, "The Rentier State"; Phillip Rawkins, "Nation-Building and the Unsteady State: The Arab Gulf States in the Late 1980s", Middle East Focus, (1989); and Kiren Chaudhry, "The Price of Wealth: Business and the State in Labour Remittance and Oil Economies", International Organization, 43,1 (Winter 1989). With regard to Iran see, for example, S. Barzin, "Goftogu dar Bareh-e Mafahim-e Melli va Doulati" (Discussion about the Concepts of Nation and State), Ettela'at-e Siyasi-Eqtesadi, 57-58 (1992), p. 46.

10. The Iranian state never could prevent the bazaar from challenging its policies. The bazaaris not only were financially autonomous from the Iranian state but also had fundamental differences with it. On the role of the bazaar in the Iranian Revolution see M. Atiqpour, Nagsh-e Bazaar va Bazaariha dar Inqilab-e Iran (The Role of the Bazaar and Bazaaris in the Iranian Revolution), (Tehran: Kayhan Publication, 1979). On the procedure for taxing the bazaar see N. Jacobs, The Sociology of Development: Iran as an Asian Case Study (New York: Praeger, 1966), pp. 89-92.

11. E. Razaqi, Eqtesad-e Iran (Iranian Economy) (Tehran: Nashr-e Nei, 1992), pp. 144-153.

12. I am indebted to A. Ashraf and S. Farsoun for this point. See ashraf, "Historical Obstacles to the Development of Bourgeoisie in Iran", in M.A. Cook (ed.), Studies in the Economic History of the Middle East (Oxford: Oxford University Press, 1970) and S. Farsoun, "Oil, State, and Social Structure in the Middle East", Arab Studies Quarterly, 10,2 (Spring 1988).

13. According to M. Shuster, some 100,000 persons were receiving special annual handouts, most of which were 'pure graft', quoted in R. Graham, Iran: The Illusion of Power (New York: St. Martin's Press, 1979), P. 152. On this see also J. Bharier, Economic Development of Iran: 1900-1970 (London: Oxford University Press, 1971), p. 19.

14. On this see, for example, A. Alimard and C. Elahi, "Modernization and Changing Leadership in Iran", in J. Jacqz (ed.), Iran: Past, Present, and Future (New York: Aspen Institute for Humanistic Studies, 1976), and M.R. Behnam, Cultural Foundations of Iranian Politics (Salt Lake City: University of Utah Press, 1986).

15. For more detailed analysis of the elitist nature of the Iranian society see M. Zonis, The Political Elite of Iran (Princeton: Princeton University Press, 1971), chapter 5. For the Iranian state's lack of social base see M. Soudagar, Roshde-e Ravabet-e Sarmayeh-dari dar Iran (The Development of Capitalism in Iran), (Tehran: Andisheh, 1990).

16. J. Foran, Fragile Resistance: Social Transformation in Iran from 1500 to the Revolution (Boulder: Westview Press, 1993), p. 315.

17. M. Zonis, The Political Elite of Iran, p. 4.

18. SAVAK (Sazeman-i Etela'at va Amniyat-e Keshvar) is a Persian acronym for National Intelligence Services.

19. J. Bill, and C. Leiden, Politics in the Middle East (Boston: Little, Brown and Co., 1984), p. 199.

20. F. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), pp. 56-57.

21. On personalist feature of the Iranian state see, for example, J. Foran, Fragile Resistance, pp. 310-317; F. Farhi, States and Urban-based Revolution (Urbana: University of Illinois Press, 1990), p. 23; M. Kamrava, The Political History of Modern Iran (Westport: Praeger, 1992), pp. 59-62; M.R. Behnam, Cultural Foundations of Iranian Politics, pp. 118-136; S. Barzin, "Goftogu dar Bareh-e Mafahim-e Melli va Doulati" (Discussion about the Concepts of the Nation and the State), Ettela'at-e Siyaisi-Eqtesadi, 57-58 (1992); and H. Katouzian, "Dar Bareh-e Democracy-e Irani va Socialism-e Irani" (About the Iranian Democracy and Socialism), Ettela'at-e Siyasi-Eqtesadi, 55-56 (1992).

22. M. Zonis, The Political Elite of Iran, p. 18.

23. F. Halliday, Iran: Dictatorship and Development, p. 57 and J. Foran, Fragile Resistance, pp. 315-16.

24. E. Abrahamian considers the army, court, and bureaucracy as three main pillars of the Shah's rule. See Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982), pp. 435-446. See also M. Soudagar, Roshd-e Ravabet-e Sarmayeh-dari dar Iran, chapter 3

25. H. Bashiriyeh, The State and Revolution in Iran: 1962-1982 (London: Croom Helm, 1984), p. 32.

26. R. Graham, Iran: The Illusion of Power, p. 138.

27. General H. Fardoust's Memoirs, Zohur va Soqut-e Saltanat-e Pahlavi (The Rise and Fall of the Pahlavi Dynasty), (Tehran: Ettela'at Publication, 1990), pp. 254-261.
- 28.H. Fardoust, Zohur va Soqut-e Saltanat-e Pahlavi, p. 254. This is my own translation. See also, R. Graham, Iran: The Illusion of Power, pp. 138-139.
- 29.H. Fardoust, Zohur va Soqut-e Saltanat-e Pahlavi, p. 213, and Graham, Iran: The Illusion of Power, p. 139.
- 30.R. Graham, Iran, p. 139.
- 31.H. Fardoust, Zohur va Soqut-e Saltanat-e Pahlavi, p. 227.
- 32.R. Graham, Iran, p. 140.
- 33.W. Branigin, "Pahlavi Fortune: A Staggering Sum", Washington Post, 17 January 1979, quoted in Abrahamian, Iran Between Two Revolutions, P. 437. Ann Crittenden has claimed that according to sources in the banking world the Shah's personal portfolio was worth over a billion dollars. See her article in New York Times, January 10, 1979.
- 34.On the royal family's shares in most of the country's businesses see, for example, F. Hoveyda, The Fall of the Shah (New York: Wyndham Books, 1979), pp. 143-146. We shall have more to say in this regard in chapter 6.
- 35.For a detailed description of these sources see Abrahamian, Iran Between Two Revolutions, pp. 437-38 and Graham, Iran, chapter 9.
- 36.See A. Saikal, The Rise and Fall of the Shah (Princeton: Princeton University Press, 1980), pp. 53-55.
- 37.A. Saikal, The Rise and Fall of the Shah, p. 54.
- 38.R. Looney, "The Role of Military Expenditures in Pre-Revolutionary Iran's Economic Decline", Iranian Studies, 21,3-4 (1988).
- 39.E. Abrahamian, Iran Between Two Revolutions, pp. 435-36. See also R. Graham, Iran: The Illusion of Power, pp. 163, 168-83 and F. Halliday, Iran: Dictatorship and Development, pp. 90-96.
- 40.Humphrey is quoted by F. Halliday, Iran: Dictatorship and Development, p. 75. See also T. Ricks, "U.S. Military Missions to Iran, 1943-1978: The Political Economy of Military Assistance", Iranian Studies, 12,3-4 (Summer-Autumn

1979).

41. Halliday names up to eight separate organizations which performed various intelligence and secret police functions. See F. Halliday, Iran: Dictatorship and Development, p. 76.

42. J. Foran, Fragile Resistance, p. 314; R. Graham, Iran: The Illusion of Power, pp. 140-149; F. Halliday, Iran: Dictatorship and Development, p. 90; N. Keddie, The Roots of Revolution (New Haven: Yale University Press, 1981), p. 144; and, R. Cottam, Iran and the United States: A Cold War Case Study (Pittsburgh: University of Pittsburgh Press, 1988), p. 148.

43. J. Foran, Fragile Resistance, p. 314.

44. Quoted by Halliday, Iran: Dictatorship and Development, p. 85.

45. M. Zavareei, "Dependent Capitalist Development in Iran and the Mass Uprising of 1979", Research in Political Economy (1982).

46. For this see, H. Kuklan, "Civil Service Reform in Iran: Myth and Reality", International Review of Administrative Sciences, 43 (1977).

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48. M. Amjad, Iran: From Royal Dictatorship to Theocracy (New York: Greenwood, 1989), pp. 81-83 and A. Akbari, Sarmayeh dari-e Doulati va Masaleh-e Doulat dar Iran (The State and State Capitalism in Iran), (Tehran: 1979), pp. 15-16.

49. J. Foran, Fragile Resistance, p. 314. See also E. Abrahamian, Iran Between Two Revolutions, p. 438.

50. E. Abrahamian, Iran Between Two Revolutions, p. 438.

51. On this see Richards and Waterbury, A Political Economy of the Middle East (Boulder: Westview Press, 1990), pp. 269-274.

52. N. Ayoubi, "Arab Bureaucracies: Expanding Size, Changing Roles", in G. Luciani, The Arab State (University of California Press, 1990), p. 137.

53. On this issue see J. Bill, The Politics of Iran: Groups, Classes and Modernization (Columbus, Ohio: Charles Merrill, 1972).

54. On coopting the new middle class see M.R. Behnam, Cultural Foundations of the Iranian Politics, pp. 124-128.
55. N. Jacobs, The Sociology of Development, Iran as an Asian Case Study (New York: Praeger Publishers, 1966), p. 182.
56. On this see, for example, L. Binder, "The Cabinet of Iran: A Case Study in Institutional Adaptation", Middle East Journal, 16 (Winter 1962), pp. 29-47.
57. R. Graham, Iran, p. 132.
58. On this see, G. Lenczowski, "Political Process and Institutions in Iran: The Second Pahlavi Kingship" in G. Lenczowski (ed.), Iran Under the Pahlavis (Stanford, C.A.: Hoover Institution Press, 1978).
59. B. Nirumand, Iran: The New Imperialism in Action (New York: Monthly Review Press, 1969), pp. 159-162; H. Mohammadi-Nejad, "The Iranian Parliamentary Elections of 1975", International Journal of Middle Eastern Studies, 8 (1977); and H. Fardoust, Zohur va Soqut-e Saltanat-e Pahlavi, p. 257.
60. 1957 Mutual Security Act, Hearings Before the Committee on Foreign Relations, House of Representatives, 786, quoted from J. Foran, The Fragile Resistance, p. 343.
61. A. Saikal, The Rise and Fall of the Shah, p. 46.
62. J. Bill, The Eagle and the Lion (New Haven: Yale University Press, 1988), p. 149.
63. This can be regarded as one explanation of the Islamic revolution. See, for example, N. Keddie, Roots of Revolution; M. Zavareei, "Dependent Capitalist Development"; F. Farhi, "Class Struggles, the State and Revolution in Iran", in B. Berberoglu (ed.), Power and Stability in the Middle East (London: Zed Books, 1989); and S. A. Arjomand, The Turban for the Crown: The Islamic Revolution in Iran, pp. 147-148, 191.
64. For this see, for example, J. Bill, The Politics of Iran, N. Keddie, "Class Structure and Political Power in Iran Since 1796", Iranian Studies, 11 (1978), and P. Pirooz, "Mavane-e Touseah dar Iran" (Developmental Obstacles in Iran), Ettela'at-e Siyasi-Eqtesadi, 57-58 (1992), pp. 104-106.
65. See S.A. Arjomand, The Turban for the Crown, The Islamic Revolution in Iran, p. 195.

66. As a terminology, bazaar is a word of Persian origin that means a traditional shopping or trading centre. But in Iran (traditional and to some extent contemporary Iran), bazaar goes beyond a commercial centre. It is, indeed, a sophisticated web which is unparalleled in the West and is composed of wealthy merchants, small tradesmen, money lenders, artisans, craftsmen, and a whole army of brokers and middlemen - all grouped in hundreds of guilds. On the importance of the bazaar in Iran as well as its internal organization see, for example, A. Ashraf, Mavane-e Roshd-e Sarmayeh Dari dar Iran (Historical Obstacles to the Development of Capitalism in Iran: Qajar Period) (Tehran: Zamineh, 1980); J. Behnam, "Population", in W.B. Fisher (ed.), The Cambridge History of Iran (London: Cambridge University Press, 1968); W. Miller, "Political Organization in Iran: From Dowreh to Political Party", Middle East Journal, 23 (Spring-Summer 1969); and M. Moaddel, Class, Politics, and Ideology in the Iranian Revolution (New York: Columbia University Press, 1993), pp. 99-122.

67. E. Abrahamian, "Structural Causes of the Iranian Revolution:", MERIP Reports, 87 (May 1980), p. 24.

68. M. Milani, The Making of the Islamic Revolution (Boulder: Westview Press, 1988), p. 116.

69. M. R. Pahlavi, Answer to History (New York: Stein and Day, 1980), p. 156.

70. See, for example, M. Atiqpour, Naqsh-e Bazaar va Bazaariha dar Inqilab-e Iran.

CHAPTER FOUR:
THE AGRICULTURAL POLICIES OF THE
IRANIAN RENTIER STATE,
1962-1978

1) INTRODUCTION

Iran's traditional agriculture may have suffered from unfavourable climate, low productivity and social stagnation. However, it was a stable, functioning, and fairly self-sufficient system. Farming was organized around the village as a unit of production and under the authority of large landlords (or their agents). It was a cooperative although asymmetrical endeavour between landlords, peasant cultivators, and the *Khushneshins* (rural labourers with no right to cultivate). The village as a socio-politico-economic institution was ruled by the landlords and the Iranian state had little direct control.

From the early 1960s the Iranian state initiated a land reform program to destroy this old system. The land reform was aimed at enhancing the lot of the rural population, on the one hand, and increasing agricultural output, on the other. However, as we demonstrate in this chapter, the principal objective of the land reform was political, i.e., it was originated out of political necessity and was not

directed toward social and economic changes. The land reform was designed in a way to 1) diminish the power of the large landlords and thus expand the power of the state into rural areas; 2) prevent any rural opposition to the central state; 3) cast the Shah as a reforming monarch who was interested in improving the standard of living of his people; 4) satisfy the Kennedy administration which pushed for land reform in Iran; and finally, 5) take much of the steam out of the radical reformist opposition to the Iranian state.

While these political goals were fulfilled, the state failed to achieve the two above-mentioned economic goals. The main thesis of this chapter is that the three characteristics of the state in Iran (personalist-authoritarian, rentier and client) account for this failure. These characteristics influenced and shaped the agricultural policies of the state in a way which had counter-productive consequences for the agricultural development of the country.

In order to demonstrate how the state's characteristics shaped its agricultural policies, the present chapter analyzes the agricultural policies of the Iranian state in the 1960s and 1970s and their consequences for socio-economic development of the country. In so doing, it examines some indicators provided by the literature on agricultural and rural development. These indicators show that over time the agricultural sector has not received

sufficient financial support, and further, the Iranian state has lacked political will and commitment to materialize its intended goals.

This chapter examines the agricultural policies of the Iranian state in order to demonstrate how the state's characteristics shaped these policies. After a brief description of the pre-reform agrarian conditions in the country, we explain the socio-politico-economic milieu in which the Iranian state in general and the Shah in particular decided to announce the Land Reform Program as a part of a greater and more comprehensive plan to transform the country -the so-called White Revolution. We review, then, all three phases of land reform and examine its socio-politico-economic results. The final section assesses the main consequences of the agricultural policies of the state in post-1962 Iran by presenting and discussing statistical data related to some indicators of an agricultural policy.

2) THE PRE-REFORM AGRARIAN CONDITIONS

On the whole, pre-reform agrarian conditions in Iran can be studied under four categories: (1) the physical and geographical conditions; (2) concentration of rural lands in the hands of absentee landlords; (3) share-cropping as the major form of land tenure; and (4) the relatively stagnant agricultural sector. We will examine all of these characteristics briefly, and then focus on the main reasons

for low agricultural productivity during this period.

2-1- The Physical and Geographical Conditions

Iran is a relatively arid country. Much of the land is desert and waste. Of the country's total land area (165 million hectares), only some 12 percent of the whole is cropland and some 30 per cent forest and pastures.¹ Almost everywhere rainfall is the limiting factor on agricultural development. The 250 millimetre precipitation line generally marks the boundary between where cereals can be cultivated without irrigation and the areas dependent on irrigation. The climate is one of extremes. Many different crops are grown, but wheat and barley are the staples.

Physically, there is a great difference between the north and the south of Iran. Whereas there is large dry-farming in the north, this is not true of the south. The limited dry-farming area in the south (Fars and Khuzestan) are more subject to failure from insufficient rainfall. The ganats (underground water channels) play an important part in agricultural prosperity in the South except in Khuzestan.² Because of the expensive nature of ganat's construction, they have always been controlled by landowners.³

Everywhere in Iran agriculture was subject to interruption by the capricious nature of the climate. Insufficient rain in the spring or winter causes partial or

total crop failures, while sudden storms and floods destroy irrigation channels and ganats. Deterioration of the soil because of a change in the water table, due to over-lavish irrigation or inadequate drainage or both is a major problem in some parts of the country. In so many parts of the central Iran, furthermore, the soil is salty and the water too saline to be used for irrigation. In general, two of the most important problems farmers face in Iran are shortage of water and widespread erosion of soil.

Climatic conditions are not the only unfavourable factor. The size of the country and the difficult nature of the terrain -a vast area of desert and mountain land- also made communications very difficult and expensive. This problem created a firm obstacle to agricultural development of the country.

2-2- Land Ownership System

On the eve of the Land Reform Program of the 1960s, there existed four types of landed property:⁴ state land, private land, vagf (endowment) land, and crown land. Landownership was largely an urban phenomenon since the majority of the landowners lived at least part of the year in the towns.⁵

By 1956, when the first national census was carried out in Iran, there were a total of 51,300 villages, with state lands accounting for 10 percent, crown lands 4 percent,

religious endowment lands another 10 percent, and private lands 76 percent⁶ (Table 4-1).

2-2-1- State land: Before the beginning of the twentieth century, the most important type of land holding in Iran was state-lands. The traditional Iranian state was founded on the absence of legal private property and the existence of state-communal property. The Shah was in possession of the land and granted land assignments (tuyul) as an act of grace. The state granted much of its lands or its revenues as tuyul to courtiers, the ruling families and the leading members of the official classes. These grants were given in return for the provision of troops, or instead of a salary, as a pension, or as a gift.⁷

Certain important developments during the 19th century resulted in a transformation of this situation to a new one in which large private landholders were consolidated. In this period, sale of the state land (Khaliseh) began and continued for many years. As we pointed out in earlier chapters, the growing need of the Qajar Shahs for income in cash to cover their expenditures, primarily for the import of modern arms and court luxuries, resulted in selling offices and assigning lands to the highest bidder. Many state lands were also sold instead of assigning them for payments.⁸ Until the late 1950s, most state lands were sold. As a result, the state lands covered only about 10 per

cent of all villages right before the land reform.

2-2-2- Private land: The traditional Iranian state was in possession of almost all cultivable lands due to the absence of legal private property. During many centuries, therefore, the main type of private landholding was land assignment (tuyul) by the state. During the Qajar period, the dominant form of tuyul was a land assignment instead of salary, and there was a general tendency for such land to become private. The holder of the land assignment, although he often succeeded in transforming it into private property, which he transmitted by inheritance, held his assignment solely at the will of the ruler and as a matter of grace. During the nineteenth century in which the central government was weak, those to whom the land was assigned could usurp control and convert the land into private property. After the Constitutional Revolution of 1905-1906, the grant of tuyuls was abolished and thus privatization of lands continued more rapidly. Accordingly, many tuyul-holders who controlled large areas became large landowners.⁹

Private landownership, however, was a relatively minor category of landholding in the pre-twentieth century, and its greater prevalence in the early twentieth century resulted mainly from the decline of other categories. The sale of state lands in the late nineteenth century for the

purpose of meeting the financial needs of the monarch, followed by the abolition of tuyul by the first Majlis in 1907, as discussed above, enlarged the size of private landownership, while it reduced the size of the state domains and tuyuls.

The Reza Shah period witnessed further developments which established and consolidated private landownership in its modern form. In 1922 the law of registration of property and documents was passed, and a department for registration (sabt-e asnad) was set up in the Ministry of Justice according to its provisions. Faced with many cases of land dispute, the Council of Ministers decreed that villages that had been in the continuous possession of one person for thirty years or more should be considered as that person's private property. Many tuyul-holders who did not relinquish their occupation of such lands after the abolition of the tuyul system, thus consolidated their ownership of their lands and received legal titles for their landholdings.¹⁰ This and other legislation during this period, as well as other developments discussed above, resulted in private landownership becoming the predominant form of tenure.

As Lambton has pointed out, therefore, the large landowners of Iran in the pre-reform period were not a hereditary landed aristocracy on the European-feudal mode, the establishment of such a class having been prevented by the recurrent insecurities and ownership forfeitures already

described. Many were men of urban origin who had bought land for reasons of social prestige and/or political power. A common characteristic was that they were mostly absentee, and took little direct interest in the management of their estates. For this they hired managers or bailiffs, who constituted a burdensome and divisive group between landowners and tenants. Lambton also notes that the large proprietors tended to be concentrated on the best-lands of Iran.¹¹

Prior to Land Reform, the large landowners as a group controlled about 80 percent of the cultivated lands. However, they accounted for less than 2 percent of all owners.¹² Two different groups of large landowners can be identified: individual owners such as the Shah, members of the court, traditional landowners, tribal leaders and merchants, and institutions such as the state and religious endowed properties.¹³ Most of these lands were let to others for cultivation, mainly under the supervision of a third party. Consequently, the majority of rural people did not possess land at all or did not possess enough land necessary to provide their bare subsistence.¹⁴

2-2-3- Religious endowment land: Endowed lands, *vagf*, were another major form of land holding in Iran. The Islamic institution of endowment involved the placement of property in trust for the purpose of the perpetual utilization of its

benefits for public or private institutions or persons. The public vaqf which was called charitable vaqf (vaqf-i amm) was endowed in perpetuity according to provisions of Islamic law for charitable or religious (i.e. maintenance of mosque, the feeding of the poor, support of the students in theological school, etc.) purpose. The private or personal vaqf was consisted of property constituted into a vaqf for some private purpose, such as the benefit of the settler's family. The private vaqf has been utilized often as a security against the usurpation of private landed property by the shahs and their staff as well as by powerful local elements.¹⁵

vaqf agricultural lands were all over the country and numerous. According to Hooglund, vaqf lands constituted the largest single category of rural land ownership. These lands amounted to almost forty thousand properties distributed mostly as fractional parts of villages.¹⁶ However, there is considerable disagreement between the various sources about the amount of vaqf lands. For example, according to the Cambridge History of Iran,¹⁷ the vaqf land consisted 1-2 per cent of all claimed lands before the land reform, while a report by the U.S. Department of Agriculture estimated that as much as 15 per cent of the claimed lands were vaqfs before the Land Reform.¹⁸ According to the first national census of Iran, vaqf consisted 10 percent of all lands in the country (Table 4-1).

2-2-4- Crown land: By seizing nearly 2,100 villages in the 1920s and 1930, Reza Shah made himself and the Pahlavi family the largest landowners in Iran.¹⁹ These lands were mainly illegally seized by Reza Shah from their original owners although some of them were apparently 'bought' or were received in 'gifts', or were exchanged for less valuable lands. According to Lambton,

These were acquired nominally by purchase, but in many cases this was merely a cloak for virtual confiscation. In some cases the holder was forced to exchange his property for property elsewhere, not always of an equivalent value... Most of Mazandaran in this way became part of the personal estates of Reza Shah.²⁰

At the time of his abdication on 1941, Reza Shah was the largest landowner in Iran. These lands mostly were located in northern Iran and were among the most fertile lands in the country.²¹

The crown lands were to be restored to their original owners. After 1941, some of these lands were returned to their former owners but as most of these owners no longer could provide proof of past ownership, these lands remained temporarily in the possession of Mohammad Reza Shah. In 1951, however, he ordered the redistribution of crown lands among the peasants. These lands partially were sold to peasants, but mainly to the wealthy landlords and even members of the royal family.²² Nevertheless, crown lands constituted nearly 4 per cent of all cultivated lands around 1960.

In sum, the tenurial system in Iran had been comprised of four major types of landholding: (1) state lands, (2) Crown domains, (3) religious domains (vagf), and (4) privately owned lands. The major change in land tenure system before the land reform of 1960s consisted of the steady growth of privately owned lands at the expense of other categories, especially crown lands.

2-3- Share Cropping

Prior to Land Reform, there existed three types of land tenure, namely share cropping, fixed rental and owner-operated farms. Although most of the agricultural land was held by large landowners (individual and institutions), large-scale farming was not practised in Iran. Instead, like many other countries in the Middle East, large landowners tended to divide their land to units called plough lands and lease them to farmers on a crop-sharing basis. In fact, for many centuries, the relation between the landlord and the farmer was based on a crop-sharing agreement; more rarely, the farmer had a tenancy agreement. In the crop-sharing agreement, the farmers paid in kind (a share of the crop) to the landlord while in the tenancy agreement their payment to the landlord was in cash or in cash and payment.²³ As Table 4-2 shows, on the eve of the land reform of 1962, the share-cropping arrangement comprised almost 44 percent of the number and 55 percent of the area of all the holdings;

rented premises 13 and 8, respectively, owner-operated premises 33 and 26, respectively; and mixed-tenure 11 and 12 percent respectively, of the number and area of holdings. Thus, the dominant form of tenure before the land reform was share-cropping.

Furthermore, if we take into account that the category of mixed tenure holdings can further be subdivided into 63.4 percent crop-sharing, 18.6 percent owner operated, and 17.9 percent rented, consequently, about 62 percent of the total agricultural land was share cropped while only about 9 percent of land was leased on a fixed-rent basis and the rest operated by the owner himself²⁴ (Table 4-3).

In the overwhelming majority of cases the size of the units of cultivation was small (more than 80 percent were under 10 hectares). However, the area covered by these small units was only 40 percent of the total cultivated area, while 60 percent of the area was covered by less than 17 percent of units, and were over 10 hectares in size.²⁵ Thus, there was a very uneven distribution of holdings, as illustrated by Table 4-4.

In the absence of any empirical analysis of share-cropping in Iran, little can be said about the significance of factors influencing the choice of tenure system in Iranian agriculture.²⁶ Nevertheless, several factors may provide partial explanation of the existence of share-cropping, of which uncertainty might be the most important

one. As Amid observed,

Uncertainty is thus an exceptionally important factor for decision making in farming. Such a factor will certainly play a significant role in the choice of tenure, considering the fact that the distribution of risk between contracting parties differs widely between different tenure systems. An owner-operator bears all of the risks of output variations himself while labourers will almost certainly receive their wages. On the contrary, all risks under the fixed-rent tenancy are left to the tenant, the landlord gets his rent and bears no risk. Share-cropping is between these two extremes, risks are shared by both parties...The risk-sharing capacity of share-cropping has been broadly accepted as an attractive aspect of this tenure system.²⁷

A high degree of uncertainty due to Iran's capricious climate (drought, floods, earthquakes, high winds and violent hailstorms), thus, may have contributed to the prevalence of share-cropping in most parts of the country. The dominance of share-cropping in the dry areas of the country including the central, eastern and southern regions and the prevalence of fixed-rent tenancies in the northern part of the country may indicate the importance of climate in the choice of tenure.

In the share-cropping system in Iran, the share of the landlord varied greatly from one-fifth up to four-fifth, depending on who supplied the five traditional production inputs -land, water, seed, oxen and labour- as well as on the type of crop grown, local tradition and quality of the soil.²⁸ Generally, a major common characteristic of large-scale landlordism in Iran was that the landlords not only

let their holdings to the farmers but in almost all cases they also provided water, and often seed, advanced credit to farmers and facilitated the marketing of their products.

In this type of tenure system, the landlords gave cultivation rights (known as Nasag) only to some farmers. Generally, only 60 percent of all rural families received land from landlords for cultivation, mainly on a share-cropping basis.²⁹ Consequently, a distinction was made between rural people who had rights to cultivate the land of the landlord and those who did not. The former were referred to as Nasaqdar and the latter Khushneshins. The Nasaqdar either provided only labour or contributed other productive factors such as seeds, water, and especially plough animals as well as their labour.

In the central, eastern and the southern regions of Iran (with lower rainfall and dependent on irrigation), the sharecroppers customarily cultivated the land in organized production groups known as boneh, sahra, tag, haraseh, etc., in different regions. These institutions actually facilitated the cultivation of arid zones with a need for irrigation, as well as the extraction of the landowners' share of the crops through the heads of these production groups.³⁰

The whole fabric of socio-economic life of the Iranian village was governed and determined by the nature of the landlord-peasant relationship. Large landowners in practice,

owned and ruled villages. In their own villages, they were the sole and unchallenged authority. The Iranian state's sphere of influence in rural area's public life was generally weak.

In general, the landlord-peasant relationships were characterized by tension. This is because many of the landlords exploited the peasants with the sole purpose of getting labour and the land rent out of them. However, in spite of unfavourable conditions under which the majority of rural population lived, there is almost no history of revolts in rural areas.³¹

2-4- Agricultural Production

In studying the Iranian agricultural productivity prior to the 1962 Land Reform, the most important problem we encounter is the paucity of quantitative information on the development of the agricultural sector. However, there is a common sense that prior to the land reform, agricultural productivity in Iran has been very low due to so many factors, the most important of which were 1) primitive and inefficient farming practices, 2) absentee landlordism with share-cropping predominant and 3) a low level of capital formation in agriculture.³²

Right before the land reform in 1962, Iranian peasants largely used the same agricultural techniques as their ancestors had been using for many centuries.³³ With few

exceptions, agricultural production in Iran remained labour-intensive. Animals and manpower were almost always the main power in the agricultural sector, with little use of mechanical power and other modern inputs. As Hadary has observed:

Mechanization is uncommon, as evidenced by the Ministry of Agriculture's estimate that only about 900 tractors, 100 combines, 40 threshing machines, 100 discs, and 60 sowing drills and harrows were in operation at the end of 1950.³⁴

Table 4-5 shows that these were even not equitably distributed. Thirty-two percent of the mechanized farming was concentrated in the provinces of Gorgan and Mazandaran (Northern Iran) and another 48 percent in the central province, Tehran, and in Fars. Furthermore, poor seeds, low fertilizer use, lack of weed and pest and disease control, mismanaged irrigation also can be said to account for low productivity.

Looking for the reasons for the prevalence of outmoded techniques of production, one may also look at the detrimental effects of landlord absenteeism with sharecropping predominant. Both landlords and peasants had little incentive to invest in agriculture. The reason for landlord's lack of interest in agricultural investment was twofold. On the one hand, the rents paid by the tenants were fixed as a proportion of the gross yield, and not in cash terms. Thus, on the average 40-50 percent of the crop was allocated as rent. This very large income gave no incentive

to the landlords for investment in improvements. On the other, the landlords did not invest in agricultural improvements since money lending and exploitation of land and peasants continued to be so profitable. As Keddie observed, "improvement in agricultural methods and productivity were unlikely to occur as long as the peasant lived on the edge of subsistence and labour was so cheap that the landlord had no desire to replace it by machinery".³⁵ Furthermore, if the landlords wanted to invest, they had more profitable alternatives in the cities.³⁶

The high concentration of land ownership in the majority of cases along with the uncertainty and insecurity of tenancy discouraged any investment by the peasants. As we stated before, the majority of the rural lands were share cropped and thus the peasants gained no protection against dispossession or arbitrary raises in rent and remained without economic rights. In other words, the peasants, for the most part, had no permanent right to the land they cultivated, as the landlords had the power to periodically redistribute holdings at will. Direct peasant proprietorship was rare and even peasant owners were influenced by the local landlord and their economic position and agricultural methods were quite similar to those of tenants.

This situation perpetuated a very inequitable distribution of agricultural income. The vast majority of

the peasants lived at or near subsistence level and peasant poverty and indebtedness were prevalent. The process leading to peasant indebtedness is well described by Lambton:

The peasant performs all the operations concerned with the production and disposal of his crops himself.... His need almost always forces him to take the price offered however disadvantageous it may be. Inadequate communications and costly means of transport greatly add to his costs of production and make it difficult for him to do anything but sell his goods at the nearest market at whatever prices is offered. The almost permanent state of need and the series of temporary crises which are the normal concomitant of peasant life force him to dispose of his produce immediately after harvest, if it is not already pledged before. This means that he has no alternative but to sell or barter his surplus crops at the period when prices are lowest ... he then has to buy when prices are at their peak. It is thus not surprising that debt should be one of the curses of Persian rural life.³⁷

In many cases the peasant borrowed from his own landlord. High interest rates and low peasant income made it difficult for the peasant ever to repay the principal on such loans. These high rates not only impoverished the peasants, but lured capital from productive ventures and directed it toward the economically parasitical field of money lending. According to Amid, in 1960 almost 50% of the Iranian peasants were indebted and paid at least a 50% interest rate to non-governmental loan sources.³⁸

In short, the use of outmoded agricultural methods, lack of new technologies such as tractors, fertilizers, select seeds, etc., lack of incentive among landowners as

well as peasants to invest in agriculture, continual insecurity and poverty among peasants combined with unfavourable climatic conditions can account for low agricultural productivity prior to land reform. The existence of these conditions indicates the necessity of land reform in order to increase agricultural productivity and bring about economic development.

3) BACKGROUND OF THE LAND REFORM

It is interesting to note that the impetus for land reform did not come as a result of any revolutionary activity on the part of Iranian peasants but rather as a result of conscious policy on the part of the Iranian state. The Iranian peasants, despite their general state of poverty, did not show any revolutionary potential. This can not easily be attributed to the prevalence of any single factor. Yet, there were a few features which prevented the peasants from creating a revolutionary situation. First, the differentiation of the peasants into three groups roughly equal in size (family smallholders, sharecroppers, and landless villagers or *khushneshins*) led to internal conflict and militated against peasant solidarity vis-a-vis large landowners and their local agents.

Second, the village order was actively maintained through coercion on the part of the large landowners and

their local agents with the help from some government agencies, such as the gendarmerie and the courts. Finally, the physical dispersion of the villages over a vast area of land with difficulty of communications and low population density of the rural areas also contributed to the absence of peasant rebellions.³⁹

Despite this absence of revolutionary situation in rural areas, however, it was the burgeoning internal (mainly urban) and external pressures which prompted the Iranian state, particularly the Shah, to embark on the reform. The Iranian land reform program like many other Middle Eastern countries' was predominantly political. Although the Iranian state at the time of reform claimed that its major motive was the search for social, political and economic equality in rural society, its real motives were more complex than that and as we will see, reflected the interests of the Shah as well as his patron, the United States. To demonstrate the real motives behind the land reform program in Iran, we examine the socio-political milieu prior to the land reform. By examining the background to land reform of 1962, we seek to explain how the state's agricultural policies, particularly its decision to embark on the Land Reform Program, were influenced by its characteristics.

In the previous section, we examined various strands which went to make up the very complicated and varied pattern of rural life in Iran before the land reform. These

were great extremes of physical and geographical conditions, prevalence of poverty, inequality of distribution of agricultural income, and insecurity. The Iranian peasant lived in extreme poverty as well as continual insecurity and the rural areas were owned and ruled by absentee landowners. The agricultural production was very low, especially if one considers the number of people who relied on agriculture for their livelihood. In the years prior to the land reform, more than 65 per cent of the total Iranian population lived in rural areas but only about 30 per cent of the gross national product came from agriculture.⁴⁰

Although these agrarian conditions existed in Iran for centuries, very few attempts were made to address them. The question of land reform attracted little or no attention. As Lambton observes, the reason for this lack of interest in land reform was, perhaps, partly due to non-revolutionary nature of Iranian peasants, and partly due to the fact that "the ruling classes in the nineteenth and early twentieth centuries were not alienated from the land, from which they drew their power and wealth".⁴¹

The early appeals for land reform in Iran can be traced back to the Constitutional Revolution of 1905-1911. As Hooglund observed, "land redistribution was one of the platforms of the Democratic Party, organized in 1909 by reform minded deputies of the Second Majlis".⁴² Although they failed to develop any legislative program for land

reform due to Iran's precarious political situation immediately before and during World War I, the Majlis succeeded in abolishing land assignments (tuyuls) in 1907.

Although some minor steps were taken afterward, no major attempt was made to deal with issues of agricultural development, peasant-landlord relationship and land tenure. During the reign of Reza Shah, as we stated in earlier chapters, the economic interests of the state were mainly focused upon industry. Indeed, Reza Shah launched various policies in order to transform the country into an industrialized state on the European model.⁴³ This partly accounts for the state's lack of interest in agricultural reform during the Reza Shah's Period. One can also say that Reza Shah was unlikely to deal with issues of land tenure and the agrarian condition due to his own interests; he not only relied on the support of landlords but also, as it was stated before, made himself the largest landowner in Iran.

During the 1940s and 1950s also no major attempt was made to address the agrarian issues due to political instability in the country.⁴⁴ Furthermore, until the late 1950s, the Iranian economy had not suffered any major agricultural difficulties, nor had the peasants revealed a revolutionary potential. Neither had the two major urban opposition groups namely, the Communist Party and the National Front, called for land reform or put agrarian revolution on their agenda.⁴⁵

Toward the end of 1950s, however, some pressures were being built up for agrarian change, especially through a land reform program. Pressures came from both internal and external sources. The Shah was not initially in favour of any agrarian reform but amid these pressures realized that launching a type of reform even very limited in scope, would enhance his power, in addition to generating broad political support internally and externally. In order to realize why the Iranian state became convinced to initiate the land reform, we should not only examine the agrarian conditions, but also the socio-political setting in the 1940s and 1950s. Our major argument is that the idea of land reform which was prevalent among a growing number of political activists and groups, particularly the Tudeh (Communist) party and the National Front (the nationalist movement under Dr. Mosaddeq), was adopted by the Shah in order to 1) disarm these oppositional groups and thus consolidate his power and 2) improve his domestic as well as international image.

As we mentioned in earlier chapters, the abdication of Reza Shah in 1941 resulted in a period of limited political and economic liberalism which lasted until 1952-53. During this period, the discussion and advocacy of land reform was performed by the Tudeh Party and National Front. The traditional landlord-peasant system was criticized. It was generally believed that this system was feudal, and that it prevented agricultural development and caused rural poverty.

They, furthermore, believed that if Iran were to develop and prosper as a modern nation, the feudal aspects of its society would have to be eliminated.⁴⁶

The Iranian state, especially the Shah, also hoped that they could launch an economic development plan for Iran. The First and Second Seven-Year Development Plans (1949-1955 and 1956-1962 respectively) represented early attempts to bring about an economic and social development of Iran according to a predefined national strategy. It was a part of the discussions on development plans that the first reference to agriculture occurred. In late 1940s, however, the plan makers did not intend a land reform. On the contrary, any attempt at changing the land tenure system was ruled out:

Landlords in Iran, as in other countries of the world, render an economic service and should not be abolished.... In planning for the improvement of agriculture in Iran, the landlord as an institution should be retained, but practices should be promoted which will bring about better conditions for the peasants and an increased agricultural production for the nation.⁴⁷

Later on, however, the Shah was convinced that change in the agrarian conditions was a prerequisite for development of Iran. When the Shah went to the United States in November 1950 to ask for military aid (and the World Bank for loans to finance the Seven-Year Plan), and failed to obtain their immediate compliance, the stage was set for the first moves toward partitioning and sale of the crown lands

restored to him. The Shah later on acknowledged the important role played by the American government in this regard. According to the Shah, this was an attempt to demonstrate to the Americans "that aid granted to Iran would not be in vain".⁴⁸ Consequently, certain measures were taken in order to improve conditions for the tenants of the crown lands who were given the opportunity to purchase these lands. In 1951, the Shah issued a decree for the sale of royal estates to the local peasants, and the first distribution took place in Varamin (near Tehran).⁴⁹ As a result, some 507 villages covering an area of 199,628 hectares were transferred to 42,203 tenant households by 1961.⁵⁰

However, no serious attempt was made to extend land distribution beyond the Shah's crown lands. Indeed, it took more than a decade, as well as significant internal and external pressures, for the Shah to believe in the necessity of a comprehensive land reform program. The external pressure in this regard was significant, though it should not be considered as the only factor which led to Land Reform of 1962. The American pressures during this period had important impacts on economic development policies of the Iranian state as its client in the region. The U.S. government, as the major foreign supporter of the Iranian state, urged Iran to carry out economic reform programs. As Baldwin observed:

During the late 1950s the attempt to extend land distribution beyond the Shah's Crown Lands program was mainly an American objective. The strongest source of pressure for doing anything on this front came from point IV, which had supplied several advisers to Bank Omran to help it administer the Crown's program.⁵¹

Regarding this, Kazemian also stated that:

The pressure on the Iranian Government for reform did not come from the peasants. On the contrary, it was external rather than internal pressure which persuaded the ruling class of Iran to do something about the nation's rural population.⁵²

By looking at the nature of relations between the United States and Iran after the Second World War as described in the previous chapter, one can understand why the U.S. was interested in the internal developments in Iran. Although the American military and economic assistance to Iran continued, however, it was combined with continuous pressure for internal reform. The policy of "giving aid and demanding reform", therefore, became the hallmark of U.S. policy in Iran over the post-coup years.⁵³ The sale of the crown lands in 1951 was directly caused by the pressures from the United States.⁵⁴ According to Najmabadi, "the sale of the crown lands was seen as a first and exemplary step toward further sales of state lands and toward the eventual sale of all large landed states".⁵⁵ Indeed, the U.S. government began its policy of encouraging Iran to launch a land reform program as a necessary means to rural

development and more generally the transformation of Iran from an agricultural to a more diverse economy based on manufacturing.

However, in the aftermath of the 1953 coup, the Iranian state still was not ready to go for a comprehensive land reform program. Here the central role played by the Shah in economic decision-making must be recognized. As we mentioned before, after the coup, the two major objectives of the Shah were to consolidate his position as well as to develop Iran economically. Although the Shah wanted to develop Iran according to a capitalist model, his political objective of consolidating power, was the top priority. This political concern may account for the Shah's unwillingness to embark on a comprehensive land reform program. On the one hand, since the coup basically had alienated the nationalist middle class and cracked down on the Tudeh Party, the Shah could hardly afford the animosity of the landlords who were one of his major base of support in the 1952 coup. It should be noted here that in the early 1950s, once landlords started criticizing suggestions by the Shah that they sell their villages, the Shah refrained from active pursuit of the issue.⁵⁶ On the other, the Shah was in the process of establishing his own power and was unsure of the degree to which he could rely upon the military, his main support, in a potential confrontation with a group as influential as landowners.

Nevertheless it was in this period that the Shah seems to have become convinced of the need for land reform. Indeed, the final change of heart seems to have occurred in the late 1950s. In this time, Iran faced a serious economic crisis. It should be acknowledged that although the first two economic development plans, 1949-62, were more a list of scattered public investment projects than a consistent development approach, considerable economic growth took place in the country. Indeed, between 1955 and 1960, the Iranian economy enjoyed an annual growth rate of about 7 to 8 per cent.⁵⁷

The increased oil revenues and foreign (particularly U.S.) loans and grants heated up the economy. This increase in public revenues, however, was accompanied by high public and private expenditures. Imports mostly of consumer goods increased enormously. Investments in trade, construction, industry, and agriculture increased.⁵⁸ But, public revenues failed to match unexpectedly high public outlays due mainly to shortfalls in foreign credits. A devaluation of Iranian currency in 1957 and an overexpansion of domestic credits to the private sector led to a demand-pull boom, rising inflation, and the depletion of foreign exchange reserves.

In late 1950s, the Iranian state had to carry out an economic stabilization program. In 1959, therefore, the state entered into a standby agreement with the International Monetary Fund and submitted to its austerity

measures. The drastic reduction in volume of internal borrowing, imports and government expenditure turned the 1957-59 boom into recession. The recession, in turn, affected more the traditional sector of the economy; "it was particularly hard on bazaar merchants, day labourers, small farmers, and the petite bourgeoisie".⁵⁹

The economic crisis of late 1950s was accompanied by social and political crises. The widening of the gap between the poor and the rich, the increase in unemployment especially in the cities, the deterioration of living conditions of the urban poor, and the growth of corruption contributed to creating large-scale political opposition and discontent in the urban areas. Between 1957 and 1961, at least twenty strikes occurred.⁶⁰ Demonstrations and meetings were held in many cities, especially in Tehran. In this period, peasant unrest also took place in several areas, especially in Gilan and Azarbayjan. On the whole, pressures for change in the society, not least for changes in the agrarian system, were mounting.⁶¹

By the end of the 1950s, moreover, the U.S. had grown impatient with giving economic assistance to Iran without seeing much progress made by the Iranian state on internal reforms.⁶² The United State's dissatisfaction with the Shah is reported by Marlowe:

The Shah was lectured in private by the U.S. Ambassador about administrative corruption and inefficiency, which dissipated the effect

of American financial assistance.... This changing U.S. attitude was reflected in a progressive falling off in the rate of American financial assistance. Whereas for the years 1955-57 inclusive the total influx of loan and grants from abroad amounted to an average of about 100 million dollars per annum, for the years 1958-59 inclusive the average dropped to about quarter of this.⁶³

In the aftermath of President John F. Kennedy's election, U.S. pressure on the Iranian state for reform dramatically increased. The Kennedy administration, concerned with the way in which U.S. financial aid to Iran was spent, demanded a greater emphasis on economic development, particularly land reform.⁶⁴ Acting on the belief that reform was the best guarantee against communist revolutions, the U.S. offered \$85 million to help ease the economic crisis on condition that the Shah brings liberals into the cabinet and takes meaningful steps to implement land reform.⁶⁵ Considering the gloomy economic condition of Iran and its clientele relationship with the United States, the Shah had no choice but to embark on American-supported reforms.⁶⁶

A few other developments also paved the way for the Iranian state to begin a land reform. First, was the dissolution of the Majlis which was dominated by large landowners and their allies. Indeed, until 1962 when the land reform was announced, the landlords were well entrenched in the Iranian state.⁶⁷ The landed interests made up the largest single block of parliamentary seats in the Majlis. The number of landowners in the Majlis increased

from 50 per cent of the Eighteenth Majlis (1953-1956) to 51 per cent of the Nineteenth Majlis (1956-1960). The dissolution of the Twentieth Majlis, in which 58 percent of the deputies were landlords, paved the way for the land reform program which have for long been stifled by the dominant large landowners in the Majlis.⁶⁸

Secondly, as we stated earlier, the Iranian state's economic base shifted during the early 1960s from relying on agriculture to oil revenues. This was a long-term structural change which resulted in the decreasing importance of agriculture, both in relation to the rest of the economy and in relation to the state's revenues from other sectors, namely, industry, services and, especially, oil. According to Bharier, agriculture accounted for one-third of the GNP in 1960, as opposed to about four-fifths at the turn of the century.⁶⁹ This resulted in the weakening of the economic power of the large landowners, which had been founded on agricultural enterprise. The decrease of the significance of agriculture undermined the position of the landowners which had served as traditional allies of the Shah. On the other, agriculture, as compared with oil, was also becoming a smaller source of the Iranian state's revenues. The growth of oil revenues as well as pouring of American aid to Iran led to the growth of the industrial sector, further decreasing dependence on agriculture on the part of the Iranian state.

These developments, in turn, made possible the shift in social and political support for the Shah from large landowners to the emerging civilian and military bureaucrats who were highly committed to the Shah's political authority and to the emerging group of new entrepreneurs. This shift, thus, undermined the large landowners as a socially and politically significant group. As Najmabadi observed,

The percentage of landlords in the twenty-first Majlis (1963) was only 35 percent, compared to 58 percent in the previous session; that of government employees rose from 48 per cent to 69 per cent, with private industrialists getting 16 per cent compared to 2 per cent in the previous session.⁷⁰

Finally, a shift occurred in the Iranian state's economic orientation. The state paid more attention to building an infrastructural base for industrializing the country. Benedick aptly describes this new state's orientation:

In the mid-1950s a series of laws was passed evidencing the government's desire to encourage the private sector. Legislation offered tax benefits to new companies and export producers, granted tariff waivers on imports of productive capital goods, and set down basic guarantees to foreign investors. Perhaps the most important single factor was the government's Revaluation Loan Fund Program, the significance of which can only be fully appreciated in comparison with the state-industry policy of Shah Reza. It must, of course, be admitted that business men were readier to accept this stimulus in 1957 than they might have been two decades earlier...

Although there is neither an industrial index nor detailed statistics, there are

indications of a great upsurge in manufacturing since 1956. Plan Organization estimated that total private investment more than doubled in the four years to March 1960. In the same period, capital goods imports increased almost sixfold, the number of mechanized factories and workshops rose from 2,300 to over 8,200, and industrial employment grew from 82,000 to 134,000. Output has been increasing at an estimated average annual rate of over 10% since 1955-1956.⁷¹

As a result of this shift, two important developments occurred: first, the Iranian state paid attention to the problems of agriculture since it assumed land reform indispensable for the industrialization of Iran. It was argued that industrialization would be impossible if rural markets were not expanded and cheap rural labourers were not released. This can be seen clearly in the second and third development plans. The Second Development Plan of Iran (1955-1962) argued that some kind of distributive income reform "is needed to develop the mass purchasing power upon which a successful program of industrialization must be based."⁷² The Third Plan also argued that industrialization required a large-scale labour movement out of agriculture into industrial sector:

Side by side with the excess labour in agriculture there is an acute shortage of trained manpower in other sectors of our economy. This shortage impedes the pace of industrialization and the absorption of surplus agricultural labour by other sectors of our economy.⁷³

Secondly, an important sector of Iranian men of wealth turned their interest to manufacturing industries. By the late 1950s, many landlords were willing to sell their lands and invest their money in industry and commerce.⁷⁴

According to Halliday,

The state has indeed encouraged the conversion of landowners into urban capitalists by providing some of the dispossessed landowners with their compensation in the form of shares in government industries.... In Iran, on one estimate, 20 per cent of the total value realized through compensations in phase one was used to buy shares in government promoted industries.... Landowners were encouraged to accept the shares rather than instalment payment...⁷⁵

This general and gradual reorientation of the state's economic policy from land to manufacturing partly accounts for the acquiescence of the large landowners to land reform.

By 1961, the Shah offered the premiership to Dr. Ali Amini, the American favourite who had been highly critical of recent state actions.⁷⁶ The Shah intensely disliked Amini and was distrustful of him, believing his independent character a potential threat to the monarchy.⁷⁷ That the Shah felt forced to appoint Amini to the prime ministership was an indication of how threatened the Shah felt over the ongoing political crisis.⁷⁸

Amini, the former Finance Minister and one time ambassador to Washington, was determined to combat corruption and to introduce the land reform program which

had for long been stifled by the large landowners who dominated the Majlis. At Amini's bidding the Shah dissolved the 20th Majlis. The dissolution of the 20th Majlis (its election had been held in June 1960), many of whose members were conservative landlords, paved the way for Ali Amini's cabinet to approve the land reform law on January 9, 1962. This cabinet decree is recognized as the "original land reform law" of Iran.

In short, economic and political concerns as well as internal and external (U.S.) pressures prompted the Iranian state to launch the Land Reform Program of the 1960s. The Shah's views at this time were shaped by several considerations, indicating a desire to improve his domestic image by obtaining some measure of popular legitimacy, a hope for national economic progress, sensitivity to world public opinion, and finally, a hope for continuous foreign, especially U.S. approval of, and support for, his regime. The Shah hoped that land reform could enhance the state's power in rural areas as well as generate broad political support for him.

4) LAND REFORM PROGRAM: POLICIES AND STRATEGIES

In April 1960, the first comprehensive land reform law was passed by the Iranian Majlis. This law provided for the transfer of all private holdings in excess of 400 hectares

(988 acres) of irrigated or 800 hectares (1,976 acres) of unirrigated land. The implementation of the law, however, did not progress much beyond fragmentary actions, largely owing to so many loopholes and qualifications that made its enforcement wholly impractical.⁷⁹

The internal and external pressures brought about some significant changes in the operation of the Iranian political system. Among these changes was the premiership of Ali Amini and the dissolution of both Majlis and Senate which were dominated mostly by the landlords. Henceforth the Amini's cabinet would rule by decree, an action at odds with the Iranian Constitution but considered essential by the Shah and Amini. Apart from the Foreign and Defence Ministers who were nominated by the Shah, all other ministers were selected by Amini himself. Outstanding among them was the Minister of Agriculture, Hassan Arsanjani, a lawyer and journalist with leanings toward social democracy. It was Arsanjani who forged the approach to land reform, which meant the 1960 Land Reform Law was amended and approved by the Council of Ministers on January 9, 1962.

This new law, as we stated before, was the real land reform law. The first provision was limitation of land holdings to a maximum of one village, whether held as one whole village or as parts of several villages equalling one village. Landlords whose property exceeded the permissible limit were required to sell their excess holdings to the

government. The second provision was determining the purchase price of land on the basis of taxes the owner had paid in previous years. The third provision was allocating land to the peasants who actually were cultivating it. The basis upon which a peasant obtained land was the nasag. In general, only nasag-holding peasants were eligible to receive land. The final provision was making membership in a cooperative society a condition for the receipt of land.⁸⁰ Although the law stipulated that the peasant had to be a member of a cooperative society, it did not contain provisions for the establishment of cooperatives. Separate regulations for establishing cooperatives were issued in June 1962.

The law of January 9, 1962 was a significant step in that it avoided the very complicated, costly, and lengthy process of statistical surveys, and enabled the Iranian state to proceed at great speed with the actual task of redistribution of the land. It simplified the matter in that it allowed the landlord to retain one "whole village", either in its entirety or in combination of scattered plots, of all his land. The rest was to be redistributed among the occupying peasants.⁸¹

There were some exemptions made in this law. Lands under "mechanized farming",⁸² vagf lands, and orchards were exempted from being divided and redistributed. The exemption of these lands, especially the mechanized lands, provided a

loophole which used by the landowners to escape the land reform law.

One can distinguish three distinct stages in the Iranian land reform program, each in response to the changing political climate and balance of power. The implementation of the January 9, 1962 law is known as the first stage of land reform. There was nothing in the text of the law about the aims of the land reform. However, according to H. Arsanjani, the Minister of Agriculture and the architect of the land reform law, three basic objectives guided the formulation of the law: political, economic, and social.⁸³ The most important goal was the political one: that is to break up the power of the large absentee landlords and to set free the peasants from the control of landlords. Arsanjani's economic goal was to increase agricultural production by generating economic incentives among the tenants through the transfer of land ownership. Finally, the social goal was to raise the income of rural people and improve the distribution of agricultural income. On the whole, the basic goal of the first stage of land reform was development of a self-reliant and independent peasant proprietorship system.

The implementation of this law began in the district of Maragheh in Eastern Azarbaijan Province -one of the most prosperous districts in the country- on January 16, 1962. The choice of this province as the first place to implement

the land reform law was probably related to two factors. First, this area had been selected earlier for statistical surveys in preparation for the formation of cooperatives. Second, the political position of the landlords was relatively weaker there, partly due to the events during the 1945-1946 autonomous government in Azarbaijan.⁸⁴

As we pointed out earlier, the number of Iranian villages is estimated to have been about 51,300 at the time of land reform. Under the first stage, a total of 13,904 villages were purchased by the Iranian state from the landlords. Of these 13,904 villages affected by the first phase, only 5,000 entire villages were sold to the peasants⁸⁵ and, thus, about 20 per cent of the rural population were affected during this period.⁸⁶ By the end of this stage, furthermore, the power of the large landlords in the villages was effectively broken.⁸⁷ Through rural cooperative societies as well as various other political institutions, the Iranian state replaced the large landowners.⁸⁸ The rural cooperatives were intended to organize facilities for purchasing, storage, transport, and marketing of their members' crops. They also were intended to provide the peasants with credits in order to enable them to make productive investments. These cooperatives, thus, were the state's tools in managing the affairs of rural areas.⁸⁹

Although the first stage of land reform was relatively

successful, the necessity of implementing the law in one district at a time made it possible for landlords to organize some opposition.⁹⁰ Indeed, from the beginning of the first stage, there was opposition to the land reform. But, because the landlords, many of whom held government positions, realized that the Shah was supporting the reform, they did not make a concerted stand against it. What they attempted to do was to undermine the law by questioning the wisdom of Arsanjani's hasty implementation.⁹¹

While the controversy over the speed of the land reform's execution was becoming widespread, some new political developments occurred which had significant impacts on the way the reform was carried on later. Although the Amini government carried out the first stage of land reform very successfully, his government lasted only fourteen months (from May 1961 to July 1962). At least three factors contributed to the fall of Amini's government. The harsh measures requested by the IMF partly caused public discontent. Between January 1960 to January 1963, many rallies, riots, and demonstrations occurred in Tehran. Students and teachers were the major participants. In January 1960, three students were killed and in May 1961, one teacher was killed and two were injured during demonstrations demanding higher pay. In January 1962, picketing students demanded free elections and the resignation of Amini. During soldiers' invasion of Tehran

University at this time, one student was killed, two hundred injured, and some three hundred persons were arrested.⁹²

Amini also failed to attract the support of the National Front. Indeed, the Front refused to help Amini unless he dissolved SAVAK and held free elections. This was something that Amini could not afford to do at that time. Last but not least, despite the U.S. early support of Amini, he failed to obtain its support when he clashed with the Shah over the need to cut the military budget.⁹³

The Shah continued to be suspicious of both Amini and Arsanjani. Indeed the Shah's intervention in day-to-day policy was curtailed by Amini, whilst Arsanjani seemed to become too popular in the country. After only fourteen months in power Amini was forced to resign the premiership in July 1962, prompted by a clash with the Shah over the budget for the army. The Shah, however, asked Arsanjani to retain his post as the Minister of Agriculture in the new cabinet. This decision intended to brand Arsanjani as the Shah's man and to transfer popular support for his policies away from Arsanjani to the Shah.

This incident, therefore, did not have an immediate effect upon land reform. Its significance lies in the fact that it demonstrated how the Shah was trying to reestablish himself as the unchallenged political power in Iran. The Shah had two main considerations at this time. First, the early successes of the land reform program and the

favourable publicity it was generating encouraged the Shah to claim the land reform as his own by taking over its championship from Amini and Arsanjani. Secondly, because the Shah's conception of the nature of land reform, unlike Arsanjani's, did not involve any idea of radical social or political change, he gradually became amenable to arguments that the land reform could easily go beyond the limits needed. In order to assume a more active role in land reform policy formulation, the Shah first forced Amini to resign. Secondly, by announcing the White Revolution, the Shah attempted to rally the U.S. support behind himself by demonstrating his willingness to embark on reform.

The Shah, thus, decided to claim the land reform as his own through launching his six-point socio-economic reform program known as the White Revolution. On January 9, 1963, the principles of the White Revolution were outlined. Besides land reform, the White Revolution called for nationalization of forests and pastures, public sale of state-owned factories to private entrepreneurs, profit-sharing for industrial workers, reform of electoral law to include women, and establishment of rural literacy corps. In order to legitimize his Revolution, the Iranian state called a national referendum for 26 January, 1963. According to the government, 99.9 per cent of the voters endorsed the six-point reform program.⁹⁴

The principles of the White Revolution were announced

at the National Farmers congress. In this congress, which was organized by Arsanjani and held on the first anniversary of the land reform implementation, some 4,000 members of rural cooperatives participated. It was in this congress which the Shah became alarmed that Arsanjani was earning all the credit for the Land Reform. After many meetings and speeches, the congress unanimously approved eight resolutions, the last of which thanked Arsanjani for his "selfless effort and sacrifice" on behalf of the farmers.⁹⁵ It was clearly demonstrated at that congress that Arsanjani enjoyed enormous popularity and influence among the peasants.⁹⁶

Since the Shah feared that Arsanjani could use his popularity to further his own political ambitions, he forced Arsanjani to resign as Minister of Agriculture in March 1963. Arsanjani was quickly removed from the scene by being appointed Iranian Ambassador in Rome.⁹⁷ In sum, Amini's removal from office demonstrated the Shah's dream of personal rule; to reassert his own primacy in all executive decision-making. Likewise, Arsanjani's removal showed the Shah's determination to extend his personal authority over land reform; to promote the concept of a White Revolution under the sole leadership of the Shah.⁹⁸

With the announcement of White Revolution, the Shah acquired the central role in formulating the Iranian states agricultural policies. Indeed, after Arsanjani's removal

from the land reform program, the Iranian state, in accordance to the Shah's conception of land reform, shifted its agricultural policy from reforming to regularizing the existing land tenure system.⁹⁹ This new policy was clearly demonstrated by the Shah's choice of a military officer, General Isma'il Riahi, to succeed Arsanjani as Minister of Agriculture on March 10, 1963; and the slow pace of redistribution of land over the next two years. As Hooglund aptly put, "the Iranian state's priorities changed so that the state was not so much concerned with the completion of the land reform program as it was with consolidation of its authority in the villages".¹⁰⁰

Two factors may have contributed to this change of policy and retreat from the earlier positions (at least those that had been pronounced) of the land reform program. First, a sudden realization by the Iranian state that it was not only antagonizing the large landlords but also the middle class small-holders, most of whom worked in the villages side by side with the peasants. They, like the large landlords, were refused a share by the peasants and forced out of the villages. Even Arsanjani's hasty formulation of a Small-holders' Regulation failed to allay their fears.¹⁰¹

A second factor was that the same source of external pressure that initially encouraged the Iranian state to embark on the land reform program (i.e., the United States)

warned the Iranian state that at this rate the situation might get out of control and would force them to reconsider their support. It was further added that the United States would not accept any responsibility for the consequences.¹⁰²

The second stage of land reform, therefore, revealed this change in policy. Originally, this stage was to be started by the implementation of five additional articles to the land reform law. These five "Additional Articles" were issued on January 1963, laying down the procedure to be adopted in those villages that were not subject to purchase by the state under the law of January 1962. The Additional Articles were supposed to lessen "the dichotomy which was developing between the peasants in the villages which had been transferred on the one hand, and the peasants in the 'chosen' villages and the villages owned by small land owners, on the other".¹⁰³

However, the new law, which governed the second stage, did not begin to be implemented until February 1965. According to this law, landowners who were not affected by the original law (Jan. 1962) were given the choice of (1) renting the land to the peasant(s) occupying it for thirty years, (2) selling the land to the occupying peasant(s), (3) dividing the land between themselves and the peasants, (4) establishing an agricultural unit with peasants, or (5) buying the cultivation rights of the peasants. Additionally,

mechanized lands within the confines of a village were exempted, the charitable vagfs were to be leased to the share-croppers for ninety-nine years, and the period for the payment of compensation to the landlords was extended from 10 to 15 years.¹⁰⁴

The second-stage law was indeed a reversal of trends that were begun under the first stage. The results of the second stage lend support to this observation: the most widely selected alternative was the rental option (three-quarters of the estates) which predominated tenancy during the period up to the next stage. The next most widely selected alternative was the establishment of farm units, covering one-fifth of the estates in the second stage. Sale and division alternatives were 1 percent and 5.6 percent respectively of the total estates covered under this stage. The alternative of buying out peasants' rights covered 2.5 percent of the cases, and was resisted by the peasants.

Under the second stage about 40,000 villages and a total of 1,556,480 peasants were affected. According to Hooglund, about 57,164 peasants were able to purchase land and 156,279 peasants acquired land through division of land between owner and cultivator. However, 80 per cent of peasants had their crop-sharing arrangements transferred to tenancies (1,246,652 thirty-year leases plus 172,103 vagf), 83,267 peasants received land through shares in agricultural cooperatives and 17,157 peasants agreed to sell their

rights.¹⁰⁵ As can be seen, most landlords decided to hold on to their lands and to real tenancy agreement with the peasants. Therefore, although the second stage of land reform affected more peasant families than the first stage (1,556,480 as compared with 700,000), far fewer peasants actually attained land. According to Halliday, "in total about 210,000 families acquired land under phase two as opposed to the 700,000 who had received it under phase one".¹⁰⁶

The arrangement reached under phase two of land reform was inadequate and did not produce the expected results. Not only did it not result in higher agricultural productivity but it also caused general unhappiness among the peasants.¹⁰⁷ While they were expecting to acquire ownership to the land they cultivated, they discovered that none of the options put forward by the Additional Articles appeared satisfactory. "The peasants felt that these unacceptable choices were being forced upon them by often arrogant and insensitive officials; this only increased their feeling of disappointment in, and resentment toward, the central government".¹⁰⁸

Consequently, in 1968 the state decided to introduce a third stage of reform. This stage was concerned partly with converting the tenancy arrangements of stage two into ownership, and partly with modernizing agriculture and improving its productivity. The third stage began with the

execution of the Law for the Distribution and Sale of Rental Farms in 1969. This law provided for the sale to tenants of all land held on thirty-year leases.¹⁰⁹ While the third stage terminated on September 23, 1971, when it was officially announced that the land reform program had been completed, it still remains unclear just how many of the 1.25 million original tenants holding thirty-year leases benefited from the law of the third-stage. One estimate shows that only 738,119 out of 1.25 million eligible families had in fact acquired land.¹¹⁰

This stage also was initiated to remedy the failure of previous stages of reform to increase agricultural output in a satisfactory way. By the late 1960s, the Shah became concerned with the low level of agricultural production. The low level of agricultural productivity was attributed to fragmentation of agricultural lands as well as sparse use of mechanization in the production process. The Shah thus began to believe that large-scale mechanized farming would increase production. This belief gradually became the dominant thinking in the Iranian state agricultural policy.¹¹¹

Consequently, most state economic and technical aid and encouragement went into a small number of large agricultural units. This bias toward big units manifested itself in two major programs. One was the law of 1969 for the creation of farm corporations and the other was the establishment of

large agribusinesses. The introduction of farm corporations and agribusinesses clearly indicated that the Shah no longer believed in the potential of the peasant small-holders, to either provide a socio-political support or facilitate the rise of agricultural productivity. Thus, according to the Shah's view, the best approach for raising productivity was not to continue with the previous policies which perpetuated inefficient and backward villages. By establishing farm corporations and agribusinesses, it was hoped that agriculture will be modernized and productivity raised.¹¹²

The concept of farm corporation model was based on large-scale consolidation of lands and exploitation of land and water with intermediary or high-level technologies, depending on the type of production and the availability of manpower. These farm corporations were established as a result of combining a few villages into a corporation, with peasants persuaded and in some cases forced to turn over their recently acquired lands to the corporation in return for a number of shares in the corporation.¹¹³ The shareholders were detached from their property and could work as employees of the corporation in return for wages, or seek employment elsewhere. By early 1976 the number of farm corporations had reached 85 units, encompassing 778 villages and farms, covering a total area of 310 thousand hectares, of which 140 thousand hectares were under annual cultivation. These corporations had 32,500 shareholders, and

about \$20 million worth of capital.¹¹⁴

The large agribusinesses were built below new dams, especially in Khuzestan in the late 1960s and early 1970s. In contrast to farm corporations, the agribusiness complexes forced small peasants to sell their lands. These complexes were aimed at modernizing Iranian agriculture through mechanization and introduction of cash crops financed by large amounts of capital. Multinational corporations such as Dow Chemical, Shell Oil, Mitsui of Japan, Chase Manhattan Bank and Bank of America, were among the investors in these projects. By 1979, there were about eight large government-owned agribusiness and 100 private agribusiness enterprises.¹¹⁵

The centre-piece of the Iranian state's agricultural policies since 1969, which continued until the Islamic revolution of 1978, was this shift in policy from the aim of distributing lands during the first and second stages to that of consolidating the holdings which were now considered inefficient. Smallholdings were consolidated into state farms, farm corporations, and large agribusinesses. The establishment of farm corporations and agribusinesses, as Katouzian observes, was a radical move:

First, it meant that for the first time in history the boundary of the Persian village as a complete and integrated social and economic unit was to be broken; for, typically corporations included more than one village. Secondly, it converted the ownership of land into the ownership of paper shares.

Thirdly, it paved the way for concentration of share ownership, since it would be only a matter of time before small shareholders began to sell to the large ones. Hence, a reform policy which had begun with the express purpose of breaking up large ownership in land was -in a few years- converted into one which favoured concentration. Fourthly, it made absenteeism once again possible. The large shareholder could now afford to live in the nearby town making money, while the army of landless peasants...would labour for cultivation. Fifthly, it made it easier for the government departments to extend their control over productive activity and rural life in general...

The peasant households lost their lands, their homes, their cultural and sociological entities, etc., by one stroke. They were turned into landless wage labourers enabled to scratch a living by providing (part-time) wage labour for the company.¹¹⁶

The Iranian state policy for large production units which was designed to supersede individual ownership with large-scale farming, however, failed to meet production targets.¹¹⁷ Furthermore, since these large units used modern machinery and techniques, not only demand for agricultural labourers was reduced,¹¹⁸ but also many peasants lost their small units of lands.¹¹⁹ The competition between these newly landless peasants and Khushneshins for the work available on large farms intensified. Only a small group of these peasants were able to find jobs in the newly established agricultural corporations or agribusinesses. A majority of these peasants, therefore, migrated to the cities in search of

employment.¹²⁰

5) LAND REFORM: SUCCESSES AND FAILURES

The land reform which started in 1962 was officially declared complete on September 23, 1971. The Shah declared at that time that, "there is no longer any farmer in the country who does not own his own land".¹²¹ While the Shah's statement fell several hundred thousand peasants short of the truth, nevertheless, a major transformation had happened in the rural Iran since January 1962. In the following section, we first outline the goals of land reform in Iran. Secondly, we will examine if the land reform program achieved those goals.

As it was pointed out earlier in this chapter, the Shah was not in the beginning in favour of land reform. Because of internal and external pressures, nonetheless, the Shah was convinced of the need for a kind of land reform. The implementation of land reform, however, did not improve the agrarian conditions. The land reform was not part of a well-thought-out program for a comprehensive development of the country. On the contrary, it was a political necessity to sustain the state which was under extraordinary internal and external pressures.¹²²

From the Iranian state's perspective, there were at least three political goals to be achieved by implementing a

land reform program, particularly if it was limited and controlled. First, for the state which was trying to consolidate its power, the extension of its power into the villages seemed necessary. If the state could diminish the power of large landlords who dominated the rural areas, then it could extend its own power into the villages. Second, since the Shah was very concerned about his image internally and externally, the championship of land reform and land redistribution could cast him as a reforming monarch who seemed to be interested in the well-being of his people. By implementing the land reform program, the Shah hoped he could obtain the support of the intelligentsia and urban middle classes who provided the main support of the opposition movement on the one hand, and the support of Kennedy Administration who was pushing for reform as a panacea to developmental problems not only in Iran but in whole Asia and Latin America, on the other.¹²³ And, finally, the Iranian state, particularly the Shah, could create a new basis of support among the peasants who would be grateful to the government for distributing land to them. Consequently, as we demonstrated, the process of land reform was very political and shaped by the three characteristics of the Iranian state. There were no pre-determined goals for land reform which could be justified within a comprehensive economic development plan.¹²⁴

In spite of the overwhelming political aim, the land

reform program in its first stage, however, had some social objectives. This program in its inception aimed at redistributing a large part of the land of the big landowners among the peasants. In addition, the social objectives also included a more equitable distribution of agricultural income and improvement of the living conditions in the villages. As was pointed out earlier, the Iranian peasants prior to the 1962 Land Reform were living in utmost poverty. They not only suffered from malnutrition, endemic diseases, and illiteracy but were also subjected to the arbitrary authority of large landowners. This power, furthermore, was commonly abused to keep the peasants poor and subordinate. For example, in many cases the peasants borrowed from their own landlords for seeds, tools, livestock, and other current expenses. High interest rates and low income always were leading to further poverty and dependence on the will of landlords due to inability to repay. The end result was as it is observed that, "the villages and, for all practical purposes, the peasants are the property of the landlords, most of whom live in the larger cities or even abroad".¹²⁵

The first stage of the land reform, therefore, was more radical and, thus, more successful in social terms. The Shah did not play a significant role in this stage. Indeed, it was implemented by H. Arsanjani who had advocated land reform since 1945 and was known to have radical views on the

subject.¹²⁶ Since the social changes in rural areas were primarily the objectives of Amini's cabinet, particularly Arsanjani as the Minister of Agriculture, after the resignation of Amini and later on removal of Arsanjani, the land reform was slowed down and the Iranian state did not direct serious attention to the peasants, especially those who did not have cultivation rights and rural labourers.

The third objective of Iranian land reform in its early inception was economic change in the whole country. The economic objective of any land reform is to increase agricultural production by generating economic incentives among the peasants through the transfer of land ownership. Also connected with this objective was the provision of financial and technical assistance through an expanding cooperative network and agricultural extension services. The land reform program in Iran, however, failed to achieve this economic transformation. Although the Iranian state seemed interested in modernizing and strengthening the country and hence in increasing production, it followed this objective as long as it was compatible with the safety of its rule.

With these objectives set in the beginning of land reform, one can ask to what extent has Iranian land reform been successful? Although the results are impressive, the estimation of precise effects is very difficult mainly because of insufficient data. However, there is little doubt that, in terms of political objectives, the reform was

successful. The land reform resulted in the elimination of the power of large landlords in rural areas and thus the Iranian state could extend its power there. After the implementation of this program, therefore, the Iranian state became the most powerful economic as well as political force in the villages.¹²⁷

In terms of socio-economic objectives, the contributions of Iranian land reform to equity and economic growth were more mixed. The first question one may ask is how much land was affected through the land reform. Table 4-6 summarizes the results. This suggests that 93 per cent of former share-croppers received land and became peasant owners by the 1970s. However, it is clear that in Iran only those who had the cultivation rights (those who held Nasag or land-use right) received land; the poorest rural residents, the agricultural labourers, or Khushneshin, were excluded from the reform. The number of Khushneshin has been estimated to comprise about 47.5 per cent of all rural household, that is about 1.5 million household.¹²⁸

Furthermore, although estimates of the percentage of the rural population affected by land reform range from 20%¹²⁹ to 92%,¹³⁰ some 75% of those receiving land got less than 7 hectares, which was insufficient to support a family.¹³¹ To this picture also should be added the fact that many peasants during the second and third stages of land reform lost their lands either because they could not

get enough credit to keep up with the rising cost of agricultural production, especially to pay their land installments or because they were forced to give away their recently received lands in order for the Iranian state to establish farm corporations and agribusinesses. Hooglund best demonstrates the agrarian situation after land reform program was implemented:

the practical success as measured in terms of actual positive benefits accruing to the peasants as a result of redistribution was virtually nonexistent...the Iranian land reform was actually a very conservative program which in the long term provided most villagers with few positive advantages...by 1971...the overwhelming majority of villagers were in no better economic situation than they had been prior to the implementation of the program.¹³²

The second question in terms of socio-economic consequences of Iranian land reform concerns efficiency and growth. Although agricultural production rose by almost 2.5-3.0 per cent annually since the early 1960s, it could not meet the rising demand for agricultural production.¹³³ The rate of increase in population (3 per cent) combined with the rising urban income created a far more demand which agricultural section could meet.¹³⁴ The Iranian state, thus, faced with a choice: either to curtail supply, and thereby cause dissatisfaction among Iranian society, or to import food in order to meet this increasing demand. The availability of oil revenues which have regularly increased

since the early 1960s, facilitated the pursuit of the latter: the Iranian state imported an increasing amount of agricultural products in order to satisfy domestic demand, particularly after sharp increases of oil revenues in 1973. AS a result, the gap between the value of exports and imports of agricultural products widened rapidly after the reform (Table 4-7).

6) AN ASSESSMENT OF THE IRANIAN STATE AGRICULTURAL POLICIES

We have already examined the agricultural policies of the Iranian state, particularly the land reform program, and demonstrated how these policies were influenced by the state's characteristics. This part seeks to assess the Iranian state agricultural policy beginning with the Land Reform of 1962 until 1978 by presenting and discussing statistical data related to some indicators of an agricultural policy. The indicators selected for this part are the Iranian state's agricultural expenditures, availability as well as use of credits by peasants, agricultural productivity, agricultural exports and imports and finally, agricultural labour and rural-urban migration.

6-1- Agricultural Expenditures

In order to find out the actual place of the agricultural sector in Iranian socio-economic life in this

period, we present data which shed light on the priority that the state has accorded to agriculture. The tables presented here also permit comparison between the expenditures of the agricultural sector and other sectors such as oil, industry, and services. The share of agriculture in the GDP has fluctuated considerably during this period. For instance, in 1962, at the inception of land reform program, agriculture's share of GDP was estimated at about 26.6 per cent, it fell to about 18.1 per cent in 1972 and 8.0 per cent in 1977 (See Table 4-8).

Table 4-9 presents the state's expenditures on agriculture between 1968 and 1976. The share of the budget allotted to agriculture in this period ranged between 5.4 and 10.9 per cent. One would not expect to see such low percentages over time allocated to a sector proclaimed to be the highest priority for the socio-economic development of Iran. The low esteem in which agriculture appears to be held has been matched by the low priority which the Iranian state has accorded to it in budgeting plans. Agriculture continued to receive low expenditures and investments in this period.

In sum, while the Iranian state through Land Reform Program seemed to intend to improve the agrarian conditions in the country, it gave it one of the lowest shares (Table 4-10). In the absence of any coordinated or comprehensive development strategy and budget allocations as low as 6.6 per cent (during the fifth plan, 1973-78), there should be

little surprise that overall growth rates in agriculture could not keep pace with the rapidly rising demand for foods.

6-2- Agricultural Credits

It can be argued that one reason for shortfall in agricultural output was the failure of the Iranian state to inject capital into the villages. Access to credits is a decisive factor in agricultural and rural socio-economic development. What was needed in Iranian villages, according to Hooglund, was long-term, low-interest credit in sufficient amount to enable the peasant to make the kind of productive investments which would lead to improved yields, higher profits, and better living standards. These did not exist in Iran prior to the land reform.¹³⁵ Due to the subsistence nature of farming in Iran, peasants often obtained insufficient income for both providing for their family and financing recurring agricultural expenses. This, in fact, used to compel peasants to borrow money from various sources such as money lenders, village shopkeepers, peddlers and landlords. The high interest rates on loan caused not only permanent poverty among peasants but also very low agricultural output.

If the land reform program was intended to eliminate peasants' perpetual poverty and indebtedness, on the one hand, and increase agricultural production on the other, it

would provide an efficient mechanism through which credits were supplied to them. Accordingly, the effort to establish an extensive network of cooperative societies in order to supply loan to farmers began with the launching of the land reform program in early 1960s.¹³⁶ The effectiveness of these cooperative societies in meeting the peasants' primary need (i.e. credit), nevertheless, depended upon the state making available adequate capital resources out of which to finance lending. If these societies had sufficient reserves in order to contract loans, the long-term effect upon the peasantry would be beneficial. However, such was not the case. Hooglund best explains the situation:

From the beginning, obtaining adequate funds for lending purposes was a major problem of virtually all the rural cooperatives. Even after the oil boom which began in 1974, the government failed to provide sufficient capital resources to meet the demand for cooperative credit. The Agriculture Bank, which in theory was supposed to make available to each cooperative credit equivalent to ten times its subscribed capital, in practice rarely extended to any society credit which exceeded more than four times the value of all its paid-up shares. Consequently, the amount of money cooperatives could borrow to re-lend to members was inadequate relative to the credit needs of most peasants.¹³⁷

In addition to lack of adequate credit reserves, there were other problems too. Although all loans were supposed to go toward production costs, in actuality only about a third of all loans were spent for production purposes (See Table

4-11). According to Najmabadi, partly this was because the amount of loans provided by cooperative societies and the Agricultural Cooperative Bank was so small.¹³⁸ Furthermore, to get a bank loan required several trips to town, much unfamiliar paperwork, and giving the land deeds to the bank as security, something the majority of new owners were reluctant to do. Since peasants needed quick, small loans, this was another problem with cooperative societies' loans.

As a result of these various problems, the pre-reform traditional lending sources remained strong. Although formal sources of rural credit such as cooperative societies had an increasing share of money lent to peasants, peasants continued to depend largely on the traditional money lenders (Table 4-12).

It should also be noted that the relatively large proportion of development funds allocated to agriculture was spent on farm corporations and agribusinesses. For example, the major part of agricultural investment was spent on construction of dams. From 1957 to 1972, twelve major dams were constructed to provide irrigation, to supply and store water for urban areas and to generate electricity. But, according to Baldwin, they had "an almost undetectable influence on national agricultural output".¹³⁹

In sum, restrictions on credits to peasants operated to block rural socio-economic development. With the Iranian state's energy devoted to industrialisation, it lacked the

will to make land reform work. As we will demonstrate in the next chapter, the Iranian state sacrificed agriculture in order to concentrate on building up an industrial base.¹⁴⁰

6-3- Agricultural Production

According to government statistics, agriculture grew at the annual rate of 4.5 per cent during the period 1962-67, 2.6 per cent during the period 1967-72, and 4.9 per cent during the period 1972-77.¹⁴¹ Due to the fact that many of these figures are inflated, many sources, however, estimate that the real annual agricultural growth rates might have been only 2 to 3 per cent after the reform.¹⁴² Although there are discrepancies among agricultural production data which are given out by various sources after land reform, it can be said surely that agricultural production rose between 1962 and 1978.¹⁴³ Table 4-13 shows the relative increase of production of the principal crops between 1962 and 1978. Table 4-14, although from a different source, shows the annual growth rates of some major crops production in Iran in three consecutive periods, 1963-67 , 1968-172 and 1973-1978.

According to these two tables, we can see that all agricultural products increased. However, a few points should be raised here. First, although some of the increase in agricultural production was due to mechanization of agriculture and use of new technologies as a result of land

reform, the expansion of agricultural land also had a major impact. For example, Iran's irrigated land increased from 4,651,000 hectares in 1960 to 5,350,000 hectares in 1971.¹⁴⁴ Secondly, although the performance of agriculture in the 1960s can be said to be satisfactory, in the 1970s, the agricultural production could not keep pace with the increasing demand for agricultural products. While agricultural output grew at 2-3 per cent a year, consumption was rising by as much as 12 per cent annually.¹⁴⁵ This, therefore, rendered a 2-3 per cent rise in agricultural production barely significant.

6-4- Agricultural Export and Import

Despite the growth of most of the agricultural products, domestic demand heightened by population increase combined with rising urban income could not be met. While the GNP per capita per annum has drastically increased from 100 to 412, the value-added per capita in agriculture has almost been constant. The increase in GNP per capita caused increasing demand for agricultural products. The agrarian sector was unable to meet this rapidly expanding domestic demand for food, in part because of technical and structural constraints, and in part because of the deliberate neglect of agriculture by the Iranian state.¹⁴⁶ In a market economy, to satisfy the demand the price of agricultural products should be increased so it would result in higher

production. But in Iran, because of extremely unequal distribution of income, increase in agricultural prices would probably result in political unrest and instability. In 1973, for example, only 17 per cent of total household expenditures were spent by the bottom 50 per cent of households (Table 4-15).

Accordingly, since distribution of income has been unequal, the bottom 50 per cent of households could not tolerate any price increase for agricultural products. Further, since the Iranian state had at its disposal the oil revenues, it did not have to press for increase in agricultural productivity. Faced with growing agricultural shortages, thus, the Iranian state began to import large quantities of agricultural products.

The Iranian state's food imports increased after sharp increases of oil revenues in 1973.¹⁴⁷ As shown in Table 4-16, the average annual increase of rice imports during 1973-78 was 111 per cent, followed by refined sugar (35.4 per cent), barley (34.1 per cent), corn (27.9 per cent), raw sugar (23.9 per cent), tea (17.3 per cent), and wheat and flour (11.5 per cent). Undermined by rising domestic consumption, Iran's agricultural exports, too (with the exception of rice), dwindled.¹⁴⁸

In sum, while prior to land reform Iran was self-sufficient in major staples, and to some extent even a net exporter of some products, afterwards it became one of the

leading importers of food and agricultural products in the Middle East. This was partly because of the lack of productivity in agriculture and partly because of increases in population, income and consumption. This resulted in shortfalls in production of necessary crops such as wheat, barley and rice as well as meat and dairy products. As Foran stated, "Food imports rose from under \$100 million in 1963 (with the agricultural balance of trade still positive as late as 1968), to \$211 million in 1972, \$1-1.5 billion in 1975, and \$2.6 billion in 1977, equal to about 14 per cent of Iran's food needs.¹⁴⁹ By 1977, agricultural imports had increased more than 621 per cent, to \$ 1,485 million.¹⁵⁰

6-5- Agricultural Labour and Rural-Urban Migration

One net result of the agricultural policy of the Iranian state was to greatly increase the migration of some segments of rural population to cities. Further, in addition to this push factor, attraction of the cities due to increasing industrialization can also be said to have contributed to the peasants' decision to migrate to the cities. A number of factors, thus, have contributed to this new phenomenon: 1) exclusion of a large numbers of peasants (*Khushneshin*) from the land redistribution; 2) shortage of land compared to rural population increase; 3) insufficient quantity and/or inferior quality of land redistributed to some peasants, 4) mechanization of agricultural production

and finally 5) expansion of urban industrial establishments.¹⁵¹

The coming of the oil boom had a significant accelerating impact on rural-urban migration. The explosion in urban wages (particularly in the construction sector) affected even the 'self-sufficient' peasantry by broadening the range of options to which their labour input could be allocated.¹⁵² Given the radically improved terms of exchange for labour as well as poverty and destitution prevailing in rural areas, it was not surprising that many peasants chose to migrate to cities. As a result, the share of rural population in the total declined consistently: from 69 per cent in 1956 to 62 per cent in 1966, and to all-time low of 53 per cent by 1976.

According to various sources, the "push" factors were more significant in the reasons for migration in this period.¹⁵³ In a survey carried out by Kazemi among migrant households in Tehran, nearly 85 per cent said they had left the villages as a result of unsatisfactory employment and inadequate income.¹⁵⁴ It has been estimated that about 2 million villagers, or more than 70 percent of the population increase in villages, migrated to cities in the period 1966 to 1976.¹⁵⁵ Table 4-17 shows the rural growth rate of 2.1 in the period 1956-66 which is decreased in the following period (1966-76) to 1.2. Accordingly, on average, 19.1 per cent of rural population migrated to cities during 1966-76.

While at the beginning of the century, agriculture employed 90 per cent of Iranian population, this percentage decreased to 46 percent in 1966, 45.9 per cent in 1969 and 33 per cent in 1976.¹⁵⁶ In sum, the socio-economic result of the Iranian land reform can be summarized as the "creation of a small minority of profit-oriented farmers and a mass of poor peasants unable to support themselves from their holdings".¹⁵⁷ Many of these poor peasants, as a result, chose to migrate to major cities.

7) CONCLUDING REMARKS

In this chapter, we examined the Iranian state agricultural policies after 1962 and concluded that it failed neither to improve the lot of rural population nor to increase the agricultural output so it could keep pace with the population growth as well as increase in consumption due to higher incomes in urban areas. The three characteristics of the Iranian state influenced its agricultural policies in a way which was anti-development. The Shah's desire for personal rule as well as the U.S. interest in his stability heavily influenced the agricultural policies of the Iranian state. These policies, in turn, could only be sustained by availability of oil revenues.

The principal objectives of the Iranian state agricultural policies in this period were 1) to assert the

state's control of the rural areas and 2) to eliminate the large landowners and thus consolidate the Shah's personal rule. This became possible with the extensive support the Shah received from the U.S. government as well as the availability of oil revenues. Consequently, those agricultural policies whose scope were basically socioeconomic had to match these overall political goals. Even though the Shah as well as the United States probably believed in the necessity for rural development, their priorities focused upon the political rather than socioeconomic implications of agricultural policies. To further vindicate this argument, the following chapter examines the industrial policies of the Iranian state during this period in order to demonstrate the effects of the state's characteristics on its policies which caused their failure.

Table 4-1
Main Forms of Landed Property
(prior to land reform of 1962)

Landholdings	Percent Villages
Crown	4
State	10
Religious domain	10
Private	76

Source: Statistical Centre of Iran, 1956 Census (in Persian).

Table 4-2

Number and Size of Holdings, by Type of Tenure, 1960

Type of Tenure	No. of Holdings (thousands)	% of Total Holdings	Area (thousands of ha.)	% of Total Area
Share-cropping	814	43.4	6,222	54.8
Rented	235	12.4	844	7.4
Owner-operated	624	33.2	2,976	26.2
Mixed tenure	203	11.0	1,315	11.6
Total	1,876	100.0	11,357	100.0

Source: Office of Agricultural Statistics (OAS), Ministry of Interior, National Census of Agriculture, Tehran, 1960, quoted in Najmabadi, Land Reform and Social Change, 1987, p. 47 table 4.

Table 4-3

Numbers and areas of Iranian holdings by type of tenure*, 1960

Type of tenure	Number of holdings (thousands)	% of all holdings	Area (thousand hectares)	% of total area**
Share-cropping	919	49	7,021	62
Owner-operated***	692	37	3,353	30
Fixed-rent tenancy	266	14	982	9
Total	1,877	100	11,356	100

*The original table contains 204,000 mixed tenures that occupied 1,315,000 hectares. Here, the share of each mixed-tenure category is distributed among the main tenure systems in proportion to their shares of the sub-total.

**Sometimes rounding of percentages causes slight discrepancies

***It includes both the family holdings which were cultivated by the owners and large estates which were operated by wage labour.

Source: M. Amid, Agriculture, Poverty and Reform in Iran, 1990, p. 34 table 3-2.

Table 4-4
Distribution of Units by Size, 1960

Size (hectares)	Units %	Area %
Under 2	40.0	5.0
2-10	43.4	35.0
10-100	16.4	51.3
Over 100	0.2	8.7
Total	100.0	100.0

Source: Statistical Center of Iran (SCI), First National Census of Agriculture, 1960 (Tehran: 1962), p. 33

Table 4-5
Sources of Work Energy, by Location of Holding, 1960
(in percent)

Location	Draft Animals Only	Machines Only	Machines and Draft Animals	Human Labour Only
Tehran	60.2	12.7	11.1	16.0
Gilan	88.5	.4	1.5	9.7
Mazandaran & Gorgan	60.9	11.8	15.0	12.3
East Azarbaijan	86.8	3.4	1.1	8.7
West Azarbaijan	74.8	6.5	6.7	11.9
Kurdistan	91.5	.3	1.0	7.0
Hamedan and Kermanshahan	82.2	1.0	7.4	9.4
Khuzistan	85.4	.9	1.9	11.8
Bakhtiari and Chahmahal	90.2	2.8	2.8	4.1
Fars	66.3	2.6	10.3	20.7
Kerman	73.7	2.2	5.9	18.0
Sistan and Baluchistan	90.6	2.1	1.6	5.3
Khorasan	80.8	.6	6.0	12.6
Isfahan	34.9	2.6	4.2	58.5

Source: Office of Agricultural Statistics (OAS), 1960, vol. 15, table 130.
Quoted in Najmabadi, Land Reform and Social Change, 1987, p. 52 table 9.

Table 4-6
Land Reform in Iran

Stage of Reform	Number of Peasants Receiving Land
[Sharecroppers, before land reform]	[2,100,000]
Phase 1 of reform	753,000
Phase 2 of reform	213,000
Phase 3 of reform	800,000
Others with long-term vaqf leases	172,000

Total receiving land	1,938,000

Source: Hooglund, Land and Revolution, 1982, p. 72 table 4, rounded off.

Table 4-7
Value of agricultural exports and imports
1961-73
(million rials)

	1961-3	1966-8	1971-3
Exports	6/167	8/521	15/762
Imports	6/353	9/140	25/069
Balance	-186	-619	-9/3

Source: O. Aresvik, The Agricultural Development of Iran
(New York: Praeger Publishers, 1976), p. 224

Table 4-8
Sectoral Composition of Iran's GDP at Current Prices:
End of Second, Third, Fourth and Fifth Plans

	1962	1967	1972	1977
Agriculture	32.09	23.06	16.17	8.51
Oil	13.85	16.68	23.31	32.52
Industry and mines	12.49	16.37	17.94	18.64
Services	42.81	45.90	46.16	45.71
Imputed Rents	-1.24	-2.02	-3.58	-5.38
Total	100.0	100.0	100.0	100.0

Source: The Central Bank of Islamic Republic of Iran,
Iran's National Accounts, 1338-1356 (1959-1977), (Tehran: 1981),
 table 5.

Table 4-9
The Place of Agriculture in Iranian Economy, 1968-1976

	1968	1969	1970	1971	1972	1973	1974	1975	1976
Rural population (millions)	16.7	-	16.3	16.5	16.9	-	-	-	17.9
as % of total population	60.6	-	58.4	58.2	57.2	-	-	-	53.0
Development expenditure on agriculture (millions of \$)	97.3	93.3	121.3	121.3	206.7	170.7	410.7	4830	457.3
Agricultural Development expenditures as % of total development expenditure	9.1	7.4	8.2	7.9	10.9	7.9	9.0	6.9	5.4
Agricultural Credit allocated to the Private Sector (millions of \$)	252.0	270.7	245.3	496.0	385.3	496.0	834.7	1,253.3	1,748
Agriculture Credit as % of total private sector credit	11.5	10.3	8.1	7.6	8.0	7.6	9.1	8.8	8.9

Source: based on Najmabadi, Land Reform, p. 166 table 44.
Note: Dashes indicate reliable data are not available
1 US \$ = 75 rials

Table 4-10
Plan Organization's Disbursement

	Agriculture/irrigation	mining/industry
	(million rials)	(million rials)
First Plan (1949-1955)	5.7 (40.4 % of total)	4.1 (29.1 % of total)
Second Plan (1956-1962)	17.4 (20.9 % of total)	7 (8.4 % of total)
Third Plan (1963-67)	47.3 (23.1 % of total)	17.1 (8.4 % of total)
Fourth Plan (1968-72)	41.2 (8.1 % of total)	113.1 (22.3 % of total)
Fifth Plan (1973-78)	30.9 (6.6 % of total)	84 (18 % of total)

Sources: Central Bank of Iran, Annual Report and Balance Sheet,
(various years).

Table 4-11
Use of Loans from Agricultural Cooperative Bank and Rural Cooperatives
as Reported by Various Sources

Source of information	% used for consumption	% used for production	% used for production and consumption	% used for other purposes
Azkiya 1969: 108	66.7	2.1	-	32.2
Nik-Kholq 1971:59	87.8	11.8	-	0.4
Plan Organization 1975: 70	46	37	-	17
MCRA 1975d: 200	16-46	7-29	30.73	-
MCRA 1976a: 55	17-31	4-33	63-73	-
Rhosravvi 1976:157	55.3	33.5	-	11.2

Note: Dashes indicate data not reported
Source: Najmabadi, Land Reform, p. 179, table 52.

Table 4-12
Source of Rural Credit, excluding ADBI projects, as Reported by Various Sources
(In percent)

Source of information	Rural co-ops	ACB and other banks and institutions	Noninstitutional Sources
Price 1975:17, Table 7	23.8	18.4	57.7
MCRA 1976a:54-58	28.3	30.1	41.6
MCRA 1976b:14	33.0	27.0	40.0
MCRA 1976c:8	10-28	16-40	31-68
MCRA 1975d:108	39.4	22.3	38.3
MCRA 1975e:92	38.7	27.5	33.1
Azkiya 1969:106	34.9	9.3	55.7
Bregmann 1975:66	14.6	6.8	75.9

Source: A. Najmabadi, Land Reform, p. 180 table 53.

Table 4-13
Production of Principal Crops (1962-1978) (thousand tones)

	Wheat	Barley	Rice	Cotton	Sugar Beets	Sugar Canes	Green Tea	Oil Seeds	Tobacco
1962	2755	767	566	209	765	-	11	-	18
1963	2468	740	573	277	190	-	12	-	12
1964	2623	718	615	268	1281	-	10	-	19
1965	3000	800	681	341	1394	-	14	-	25
1966	3150	840	715	376	1463	-	15	-	27
1967	3800	1035	960	378	2830	433	64	4	28
1968	4400	1160	980	545	3412	452	80	10	-
1969	4100	1140	1020	517	3484	528	76	32	-
1970	4260	1083	1060	503	3862	522	78	58	-
1971	3700	900	1050	444	3980	594	64	46	19
1972	4546	1009	1200	600	3918	700	88	54	24
1973	4600	923	1334	615	4240	1050	93	57	15
1974	4700	863	1313	715	4300	1100	96	79	14
1975	5500	1400	1500	470	4670	1100	80	100	15
1976	6000	1500	1600	510	5200	800	88	130	19
1977	5500	1230	1400	535	4150	1000	93	105	15
1978	5526	1276	1531	427	3652	898	96	126	14

Source: E. Razaqi, *Eftesad-e Iran*, 1992, p. 282.

Table 4-14
Iran's Production of Principal Crop Products
('000 metric tonnes)

	1963-67	1968-72	1973-78
Wheat	7.1	0.5	4.7
Rice	6.5	4.6	-0.7
Barley	6.2	- 0.7	6.7
Sugar Beet	27	7.7	-4.7
Cotton	4.5	7.8	-5.5

Source: Compiled from Aresvik, 1976, p. 251 and K. Mofid, 1987, p. 121

Table 4-15
Decile Distribution of Household Expenditure-Urban Areas
 (percent)

Deciles (lowest to highest)	1959- 1960	1969- 1970	1970- 1971	1971- 1972	1972- 1973	1973- 1974
1st	1.77	1.59	1.48	1.34	1.37	1.37
2nd	2.96	2.86	2.62	2.39	2.51	2.40
3rd	4.09	3.96	4.07	3.60	3.36	3.42
4th	5.08	4.58	5.54	4.36	4.64	4.77
5th	6.17	5.94	5.60	5.66	5.16	5.08
6th	7.37	7.96	7.68	6.94	6.98	6.85
7th	8.92	8.48	8.23	8.57	9.51	9.36
8th	11.85	11.72	11.48	11.70	11.14	11.19
9th	16.42	16.05	16.18	16.00	18.38	17.57
10th	35.37	36.86	38.12	39.48	36.95	37.99

Source: H. Pesaran, "Income Distribution...", p. 278.

Table 4.16
Iran's Import of Principal Agricultural Products, 1973-78
('000 metric tonnes)

	1973	1974	1975	1976	1977	1978	Average annual growth rate (1973-78)
Wheat&Flour	785	1456	1472	844	1159	1354	11.5
Rice	12	191	286	250	590	500	111.0
Barley	107	178	203	230	334	464	34.1
Corn	131	223	78	215	344	450	27.9
Sugar (total raw equiv.)	299	228	633	313	488	876	23.9
Sugar(refined)	161	98	424	220	449	732	35.4
Tea	9	12	12	13	19	20	17.3

Source: K. Mofid, Development Planning in Iran, 1987, p. 127.

Table 4-17

**Rural-Urban Yearly Growth Rate and Migration
(1956-76 Census)**

Year	Population growth rate	Urban growth rate	Rural growth rate	Percentage of yearly urban- rural migration
1956-66	3.1	5.1	2.1	13.1
1966-76	2.7	4.9	1.2	19.1

Source: Nakhaie, 1986, p. 244.

Endnotes

1.F. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), p. 105. According to Lambton, some 10 per cent of Iran's land is cultivable while about 18 per cent is forest and pasture. See A. Lambton, Persian Land Reform, 1962-1966 (Oxford: Clarendon Press, 1969), p. 4.

2.Qanat is several hundred years old, and for years it has been the only source of irrigation water in many villages in Iran. It is an irrigation system "consisting of a series of wells connected by a long, narrow channel stretching from the slopes all the way to the field". See Kazemian, Impact of United States Technological Aid on the Rural Development of Iran (Brooklyn: Theo. Gans' Sons, 1969), p. 49.

3. See Lambton, Persian Land Reform, p.4.

4. During the nineteenth century various forms of landed property have coexisted in Iran. Nomani lists eight types of land: (a) common peasants' lands; (b) state lands; (c) conditional land rights, such as Iqta-e or tuyul; (d) unconditional land rights, such as soyurghal; (e) Crown lands; (f) private lands; (g) vaqf; and (h) tribal pastures. According to scholars, the relative amounts of lands held by the state, private owners, peasants etc., depended on the relative balance of forces between local powers and the central state. see, for example F. Nomani, Takamol-e Feudalism dar Iran (Development of Feudalism in Iran) (Tehran: Khaarazmi, 1980), p. 146 and F.S. Khamsi, "The Development of Capitalism in Rural Iran", Master's Thesis, Columbia University, 1968, pp. 14-19.

5. Lambton, Persian Land Reform, P. 9.

6. See, for example, Ismail Ajami, "Land Reform and Modernization of the Farming Structure in Iran" in K. Farmanfarmaian, ed., The Social Sciences and Problems of Development (Princeton: Princeton University Press, 1976), p. 190.

7. Throughout medieval times the land assignment was called iqta-e, different aspects of which were less known as the tuyul and the suyurghal. There were grant of land or its revenues, or both, with or without provisions, made by the Iranian government to its officials and others. For further discussion about land assignment see A. Lambton, Landlord and Peasant in Persia (London: Oxford University Press, 1953), pp. 238-258 and Nomani, Takamol-e Feudalism.

8. See Lambton, Landlord and Peasant, pp. 152, 239.

9.Lambton, Persian Land Reform, pp. 129-93. The abolition of the tuyuldari system at the time of the Constitutional Revolution and also Reza Shah's reforms augmented and established private landownership and helped consolidate the economic and political position of the large landowners.

10.Lambton, Landlord and Peasant, pp. 151-177.

11.Lambton, Landlord and Peasant, pp. 259, 271.

12.Hooglund, Land and Revolution in Iran, 1960-1980 (Austin: University of Texas Press, 1982), p. 12.

13.See Halliday, Iran: Dictatorship and Development, p. 106; Lambton, "Land Reform and the Rural Cooperative Societies" in E. Yar-Shater (ed.), Iran Faces the Seventies (New York: Praeger Publishers, 1971); and Hooglund, Land and Revolution, pp. 12-13.

14.It is believed that only 5 to 10 percent of peasants owned the land they tilled. See Halliday, Iran, p. 107 and M. Amid, Agriculture, Poverty, and Reform in Iran (London: Routledge, 1990), p. 33.

15.According to Islamic law, the vagf land can not be dissolved but throughout the centuries there have been some cases of usurpation of vagf lands. For further discussion see Lambton, Persian Land Reform, pp. 27-28; Lambton, Landlord and Peasant, pp. 230-237; and Hooglund, Land and Revolution, p. 13.

16.E. Hooglund, Land and Revolution, p. 13.

17.P. Jackson and L. Lockhart (eds.), Cambridge History of Iran, (Cambridge: Cambridge University Press, 1986), p. 687.

18.Q. M. West, Agricultural Development Programs of Iran, Iraq, and Sudan (Washington, D.C.: 1958).

19.There are some discrepancies in the data regarding the exact number of villages held by Reza Shah. Most sources, however, agree that Reza Shah had around 2000 villages. Wilber states that the private landed property of Reza Shah consisted in 1941 of some 2,000 villages with their surrounding farmland, about 2,000 pasture lands, and 2400 plots occupied by hotels, castles, and other buildings. See Donald Wilber, Iran: Past and Present (Princeton: Princeton University Press, 1958), p. 140.

20.A. Lambton, Landlord and Peasant, pp. 256-57.

21. See, for example, Halliday, Iran: Dictatorship and Development, p. 107; B. Nirumand, Iran: The New Imperialism in Action (New York: Monthly Review Press, 1969), p. 127; Amid, Agriculture, Poverty, p. 33; and Lambton, Landlord and Peasant, pp. 256-7.

22. N. Keddie, "Stratification, Social Control, and Capitalism in Iranian Villages: Before and After Land Reform", in R. Antoun and Iliya Harik (eds.), Rural Politics and Social Change in the Middle East (Bloomington: Indiana University Press, 1972), p. 399.

23. Lambton, "Land Reform and the Rural...", p. 11.

24. A. Najmabadi, Land Reform and Social Change in Iran (Salt Lake City: University of Utah Press, 1987), p. 48.

25. Statistical Centre of Iran, First National Census of Agriculture (Tehran: 1960), p. 33.

26. In addition to uncertainty, other factors such as the production flexibility of share-cropping in the face of unexpected events, economies of scale and transaction costs, a greater incentive for share-croppers than labourers to follow the orders of landlords, etc. can partially explain the existence of share-cropping. For general argument about the factors influencing the choice of tenure system see Amid, Agriculture, Poverty, pp. 19-27.

27. M. Amid, Agriculture, Poverty, p. 18.

28. Ajami, "Agricultural and Rural Development...", pp. 141-2, Najmabadi, Land Reform, p. 49 and Hooglund, Land and Revolution, p. 13.

29. Hooglund, Land and Revolution, pp. 22, 41.

30. For an explanation of boneh see Javad Safinejad, Boneh (Tehran: College of Social Sciences and Cooperation, 1974). For a detailed analysis of boneh in English see E. Hooglund, "Rural Socioeconomic Organization in Transition: The Case of Iran's Boneh" in M. Bonine and N. Keddie (eds.), Modern Iran: The Dialectics of Continuity and Change (Albany: State University of New York Press, 1981).

31. Lambton, "Land Reform...", p. 13. For non-revolutionary nature of Iranian peasants see E. Abrahamian and F. Kazemi, "The Non-Revolutionary Peasantry of Modern Iran", Iranian Studies, 11 (1978), pp. 259-304. For a brief critique of them see M. R. Nakhaie, "Development of Capitalism in Iran", Ph.D. Thesis, University of Waterloo, 1986, pp. 203-209.

32. See I. Ajami, "Agricultural and Rural Development in Iran" in J. Jacqz (ed.), Iran: Past, Present, and Future (Aspen Institute for Humanistic Studies, 1976), p. 138.
33. The cultivation methods that historians, travellers etc. described centuries ago were still used in the 20th century. See Nomani, Takamol-e Feudalism, pp. 293-325.
34. G. Hadary, "The Agrarian Reform Problem in Iran", Middle East Journal, 5,2 (1951), pp. 181-196.
35. N. Keddie, "Stratification....", p. 374.
36. R. Looney, Economic Origins of the Iranian Revolution (New York: Pergamon Press, 1982), p. 44. See also B. Momeni, Masa'leh-e Arzi va Janq-e Tabagati dar Iran [The Agrarian Question and Class Struggle in Iran] (Tehran, Peyvand Publications, 1980), p. 27.
37. A. Lambton, Landlord and Peasant, pp. 379-80.
38. Amid, Agriculture, Poverty, p. 45.
39. E. Abrahamian and F. Kazemi, "The Non-Revolutionary Peasantry of Iran".
40. The contribution of agricultural sector to the GNP declined from 80-90 per cent in the early 20th century to around 33 per cent in 1959. See J. Bharier, Economic Developments in Iran, 1900-1970 (London: Oxford University Press, 1971), p. 132.
41. Lambton, Persian Land Reform, p. 32.
42. E. Hooglund, Land and Revolution, p. 37.
43. See A. Banani, The Modernization of Iran, 1921-1941 (Stanford University Press, 1961), p. 120.
44. However, the Iranian state was forced in 1946 for a little while to announce some reforms in the agrarian condition which never were carried out. The political instability of the 1940s, especially the political pressure of the autonomy movements in Azarbaijan and Kurdistan as well as the influence of the Tudeh (Communist) party which since July 1946 was represented in the cabinet of Ahmad Qavam-ul-Saltaneh by three ministers, forced the government to issue a communique on land reform and to make other social concessions: (1) May 1946, announcement on the distribution of the Shah's estates under the direction of the Ministry of Finance; (2) June 1946, decree on the formation of credit cooperatives; (3) July 1946, decree on

the distribution of public domains; and (4) on August 15, 1946, decree on rearranging share-tenancy itself. See, for example, Najmabadi, Land Reform and Social Change in Iran, and Hooglund, Land and Revolution in Iran.

45.H. Mahdavy, "The Coming Crisis in Iran", Foreign Affairs, 44,1 (October 1965).

46. See Hooglund, Land and Revolution, pp. 40-44. For Tudeh's view on land reform see S. Zabih, The Communist Movement in Iran (University of California Press, 1966), p. 2. For National Front's view on land reform see R. Cottam, Nationalism in Iran (Pittsburgh: University of Pittsburgh Press, 1979), pp. 271-72.

47. Overseas Consultants, Inc., 1949, Report on the Seven-Year Development Plan for the Plan Organization of the Imperial Government of Iran quoted in Najmabadi, Land Reform, p. 61.

48.M.R. Pahlavi, Mission for My Country (New York: McGraw-Hill Book Company, 1961), p. 81. In addition, from the fact that the Shah issued this decree right after his trip to the United States, one can see the significant role the American government played in encouraging the Iranian state to embark on reforms. See K. Platt, Land Reform in Iran (Washington DC.: U.S. Agency for International Development, 1970), pp. 9-11.

49. It was not a coincidence that Varamin was the first district selected for distribution. Although there were other political, technical, economic and administrative reasons for the selection of Varamin, the most important reason in our view was the influence of the Tudeh party in this district. Indeed, in 1946 the branch of the Near East Foundation had been established, so the relations of its American and Iranian employees in the villages of this area provoked the agitation of the Tudeh Party. For information about the Near East Foundation activities in Iran see G. Kazemian, Impact of U.S. Technical Aid on the Rural Development of Iran (Brooklyn: Theo. Gans' Sons, Inc., 1969), chapter 8.

50. The Shah's sale of crown land to some of the peasants working them, however, did not bring a significant change in the situation of the tenants. Moreover, approximately one-third of the crown lands distributed throughout Iran were reserved for wealthy landlords, including members of the royal family and other favourites. See, for example, Amid, Agriculture, Poverty, p. 70; Keddie, "Stratification...", P. 378; Lambton, The Persian Land Reform, pp. 50-55; Najmabadi, Land Reform, pp. 66-79; and Ajami, "Land Reform

and Modernization...", p. 192.

51.G. B. Baldwin, Planning and Development in Iran, (Baltimore: Johns Hopkins Press, 1967), p. 93.

52.G. H. Kazemian, Impact of U.S. Technical Aid on the Rural Development of Iran, p. 38.

53.B. Rubin, Paved With Good Intentions: The American Experience in Iran (New York: 1980), pp. 100-101.

54.The American government encouraged land reform in countries under its influence in order to eliminate any real or possible revolutionary threat from a discontented peasantry and also to create a new social grouping in the rural area which would support government policies. As Halliday observed, "The initial thinking on this was developed in relation to Japan, where a group of sociologists including Talcott Parsons saw the need for a stable state to have a contented peasant class. Subsequent to the reforms in Japan, U.S. advisers helped supervise reforms in China (prior to 1949), Korea, Taiwan, the Philippines, Egypt, Bolivia, and Iran. All of these reforms had an explicitly conservative aim: even where, as in both Japan and Iran, there was no immediate threat from a peasant movement, the U.S. advisers realized the need to reorganize the countryside in order to produce long term stability. In this regard see, for example, Halliday, Iran, pp. 134-135, and Najmabadi, Land Reform, pp. 66-68.

55.A. Najmabadi, Land Reform, p. 68.

56.See R. Cottam, Nationalism in Iran, p. 290, note 2.

57.Bharier, Economic Development, p. 45. See also H. Mahdavy, "The coming crisis in Iran", p. 135, and Amid, Agriculture, Poverty, p. 69.

58.Bharier, Economic Development, p. 92, and Amid, Agriculture, Poverty, p. 69.

59.J. Amuzegar, The Dynamics of the Iranian Revolution (State University of New York Press, 1991), p. 174.

60.See, for example, H. Bashiriyeh, The State and Revolution in Iran: 1962-1982 (London: Croom Helm, 1984), p. 20 and Amid, Agriculture, Poverty, p. 69.

61.On political and social unrest in urban areas in this period see H. Farmayan, "Politics During the Sixties: A Historical Analysis", in E. Yar-Shater, (ed.), Iran Faces the Seventies (New York: Praeger, 1971), pp. 88-116.

62.B. Rubin, Paved With Good Intentions: The American Experience in Iran, pp. 100-101 and Najmabadi, Land Reform, p. 76.

63.J. Marlowe, Iran: A Short Political Guide (London: Pall Mall, 1963), p. 119.

64. When President Kennedy was elected in January 1961, he set up a task force to deal with the Iranian problem. The main result of this task force was to push the Shah for socioeconomic reforms and relaxation of political repression. See, for example, A. Saikal, The Rise and Fall of the Shah (Princeton: Princeton University Press, 1980), p. 75 and Bashiriyeh, The State and Revolution, p. 20.

65. Due to the urgent need for U.S. economic aid, the Shah travelled to the United States, asking for a loan. Apparently, President Kennedy accepted to grant another \$85 million on the condition that Ali Amini becomes Iran's prime Minister and that the land reform program be implemented. Acknowledging this point, the Shah later on indicated that "at the White House Jacqueline Kennedy spoke of Amini's wonderfully flashing eyes and how much she hoped I would name him Prime Minister. Eventually, I gave Amini the job" [Pahlavi, Answer to History (New York, 1982), p. 22]. In this regard see Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982), p. 422; A. Saikal, The Rise and Fall, p. 76; Mark Hulbert, Interlock (New York: Richardson and Snyder, 1982), p. 234; and Dusko Doder, "Iran Says President Kennedy Influenced Naming of Premier", The Washington Post, October 23, 1977, p. A27.

66. According to a document from the U.S. Embassy in Tehran, the main reason for the Shah to embark upon Land Reform Program of 1962 was U.S. government pressure. This document continues that the slow down of the reform which occurred after diminishing pressure from the U.S. is witness to this contention. As we see in this chapter, due to diminishing U.S. Pressure, the Iranian state slowed down the process of land reform. See Muslim Students Following the Line of Imam, Asnad-e Laneh-e Jasousi [Document of the Spy Nest] (meaning American Embassy in Tehran), No. 88 (Tehran: 1987), pp. 385-387.

67. Bashiriyeh, The State and Revolution, p. 19, ft. 51.

68. In fact, from the 1910s to the 1950s on the average, 54 per cent of all deputies belonged to the landowning class. See, for example, Abrahamian, Iran Between, pp. 419-426.

69.J. Bharier, Economic Developments in Iran, p. 132.

70. Najmabadi, "Depoliticization of a Rentier State: The Case of Pahlavi Iran", in H. Beblawi and G. Luciani eds., The Rentier State (London: Croom Helm, 1987), p. 222.

71. R. Benedick, Industrial Finance in Iran (Boston: Harvard University, 1964), p. 20.

72. Plan Organization of Iran, Review of the Second Seven-Year Plan Program of Iran (Tehran: 1960), p. 33, quoted in Najmabadi, Land Reform and Social Change in Iran, p. 87.

73. Plan Organization of Iran, Third Plan: 1341-1346 [1962-1967] (Tehran: 1961), vol. 1, pp. 21-22, quoted in Najmabadi, Land Reform and Social Change in Iran, p. 87.

74. B. Momeni, Masa'leh-e Arzi, pp. 90-101.

75. Halliday, Iran: Dictatorship and Development, p. 133. See also M. R. Pahlavi, Mission for My Country, p. 204; D. R. Denman, The King's Vista (London: William Close and Sons, 1973), p. 171; and A. Najmabadi, Land Reform, p. 81.

76. Dr. Amini was a major landlord himself. Concerning his family's landed wealth in Gilan Province and their role vis-a-vis the Jangal Movement see Ibrahim Fakhra'i, Sardar-e Jangal (Tehran: n.p., 1975). The U.S. favoured Amini for a number of reasons. "During his ambassadorship in late 1950s in Washington, Amini won the confidence of the State Department, as the chief Iranian negotiator with the oil companies, he showed that he had the strength of character to make unpopular decisions, as Finance Minister of the Mosaddeq government he had contact with the National Front, and finally, he had advocated land reform since the mid 1940s". Abrahamian, Iran Between Two Revolutions, p. 422. See also Hooglund, Land and Revolution, p. 47.

77. Hooglund, Land and Revolution, p. 47; Abrahamian, Iran Between, p. 422; and Edward Bayne, Persian Kingship in Transition (New York: American Universities Field Staff, 1968), p. 191.

78. See H. Farmayan, "Politics During the Sixties", pp. 93-99 and M. Milani, The Making of Iran's Islamic Revolution (Boulder: Westview, 1994), pp. 43-47.

79. See Tehran Economist, December 11, 1959 and Tehran Economist, May 28, 1960, quoted in Najmabadi, Land Reform and Social Change in Iran, pp. 88-89.

80. See J. Amuzegar and A. Fekrat, Iran: Economic Development Under Dualistic Conditions (Chicago: The University of Chicago Press, 1971), p. 116.

81.A. Lambton, The Persian Land Reform, p. 64 and Amid, Agriculture, Poverty and Reform in Iran, p. 77.

82.These lands were defined as estates which on the date of promulgation of the land reform law were farmed by mechanical equipment and without the labour of share-croppers.

83.Abrahamian, Iran Between, p. 423, and Hooglund, Land and Revolution, p. 51, ft. 6.

84.The autonomous government in Azarbaijan took some land reform measures in this short period which amounted to a distribution among the peasants of all land belonging to landlords who had fled. After the defeat of this autonomous government, its sanction of peasants who took over these lands was withdrawn. Nonetheless, the political memory of this land reform process did not fade away, and the choice of Azarbaijan as the first province to implement the 1962 land reform law was probably related to it. See R. Cottam, Nationalism in Iran (University of Pittsburgh Press, 1964), pp. 124-129.

85.H. Mahdavy, "The Coming Crisis of Iran", p. 136.

86.R. Nima, The Wrath of Allah (London: Pluto Press, 1983), p. 390. Amuzegar and Fekrat give a slightly different figure. According to them, 16,000 villages were affected during the first phase and transferred to some 743,406 farm families. See Amuzegar and Fekrat, Iran: Economic Development, pp. 116-117.

87.See, for example, H. Katouzian, "Land Reform in Iran: A Case Study in Social Engineering", Journal of Peasant Studies, 1,2 (1974), p. 236; Mahdavy, "The Coming Crisis...", p. 142; and Lambton, "Land Reform", p. 23.

88.On the process of the Iranian state penetration of the rural areas after the initiation of land reform see E. Hooglund, Land and Revolution in Iran, pp. 123-137.

89.R. Doroudian, "Modernization of Rural Economy in Iran", in Jane Jacqz (ed.), Iran: Past, Present and Future (New York: Aspen Institute for Humanistic Studies, 1976), p. 158.

90.Indeed, lack of trained personnel and shortage of funds prevented the Amini government from carrying out the reform simultaneously throughout the whole country and thus the land reform law had to be executed district by district. See Hooglund, Land and Revolution, p. 55.

91. Opposition to the land reform came from the large landowners, tribal chiefs, and the religious leadership. See, for example, H. Asaf, Islamic Iran: Revolution and Counter-Revolution (London, Pinter, 1985) and S. Akhavi, Religious and Politics in Contemporary Iran: Clergy-State Relations in the Pahlavi Period (New York: State University of New York Press, 1980).
92. J. Bill, The Politics of Iran: Groups, Classes, and Modernization (Columbus: Charles Merrill Publishing, 1972), p. 139.
93. On National Front's critique of Land Reform see, for example, New York Times, March 13, 1962, p. 4. For the clash of Amini and the Shah on military budget see Abrahamian, Iran Between, pp. 423-424.
94. Abrahamian, Iran Between, p. 424 and Bill, The Politics of Iran, pp. 140-41.
95. M. Zonis, Political Elite of Iran (Princeton: Princeton University Press, 1972), p. 59.
96. See J. Bill, The Politics of Iran, p. 142. See also Zonis' interesting discussion of Arsanjani's resignation in Political Elite of Iran, pp. 53-61.
97. Arsanjani served as Iranian Ambassador in Italy for one year. In 1964, however, he resigned from government service completely.
98. See Hooglund, Land and Revolution in Iran, p. 58.
99. Keddie, "Stratification....", p. 392.
100. Hooglund, Land and Revolution, p. 59.
101. Hooglund, Land and Revolution in Iran, p. 62 and Amid, Agriculture, Poverty and Reform in Iran, pp. 82-3.
102. C. Yeganeh, "Agrarian Structure Under Adaptation, Reform, and Revolution: The Case of Iran in a Comparative-Historical Perspective", Ph.D. Dissertation, New School for Social Research, 1985, p. 215.
103. Lambton, Persian Land Reform, pp. 103-4. According to Hooglund, during the first stage of land reform, a total of 12,921 whole and partial villages had been bought by the state, of which only 9,888 had been distributed. In this phase, 432,043 peasants received land. See Hooglund, Land and Revolution, p. 60.

104. See, for example, Hooglund, Land and Revolution, pp. 62-5 and Lambton, Persian Land Reform, pp. 104-105.

105. Hooglund, Land and Revolution, p. 64; Katouzian, "Land reform in Iran...", p. 230; and Mahdavy, "The Coming Crisis...", pp. 137-39.

106. Halliday, Iran: Dictatorship and Development, p. 112.

107. During the first stage when Arsanjani was responsible for carrying out the reform much progress was made. Indeed the power of the landlords was mainly broken, the element of subjugation in the relations between landlords and peasants was destroyed in the villages covered by the land reform and the peasants developed sense of unity and confidence among themselves. The second stage, however, was more conservative and according to an Iranian scholar was mainly a tenancy reform to prevent the peasantry from emerging as a strong political entity. See Katouzian, "Land Reform in Iran...", p. 228.

108. Hooglund, Land and Revolution, p. 66. See also Amid, Agriculture, Poverty, p. 76.

109. Kenneth B. Platt, "Land Reform in Iran", AID Spring Review of Land Reform, vol. 11 (1970), p. 41 and Hooglund, Land and Revolution, p. 69.

110. Halliday, Iran: Dictatorship and Development, p. 112.

111. On this shift of policy, especially the Shah's change of perception of the best way to proceed with the land reform see Souratjalasat-e Showray-e Eqtesad, 1352-1365 (The Minutes of the High Economic Council, 1973-1986), (Tehran: The Plan Organization, 1988). Also see J. Amuzegar, The Dynamics of the Iranian Revolution, p. 185. Amuzegar believes that this mid-stream change of direction i.e., the consolidation of small farms and tiny villages into large farm cooperations and agribusiness complexes was not a well-thought-out policy. Accordingly, this policy not only caused the failure of land reform but also virtually aborted some of the socio-political gains from the reform itself. For another critique of this new policy which charges that this policy only benefited the Multinational Corporations see H. Tavanayan-Fard, Mabahas-e az Eqtesad-e Iran [Few Points about the Iranian Economy], (Tehran: Tehran University, n.d.), pp. 7-17.

112. E. Hooglund, Land and Revolution in Iran, p. 136.

113. H. Afshar, "An Assessment of Agricultural Development Policies in Iran", World Development, 9, 11, 12 (1981).

114. Ministry of Cooperation and Rural Affairs, Fa'aliyathay-e Vezarat-e Omur-e Ta'avun va Omur-e Rustaha dar zamineh-e tashkil-e va Edarah-e Omur-e Sherkathay-e Sahami-e Zeraie va Ta'avonihay-e Tawlidi-e Rustaie [The Activities of the Ministry of Cooperatives and Rural Affairs Regarding the Establishment and Management of Farm Corporations and Rural Production Cooperatives] (Tehran: 1976), p. 38.

115. See, for example, Helmut Richards, "Land Reform and Agribusiness in Iran", MERIP Reports, 43 (December 1975), pp. 3-18; John Freivalds, "Farm Corporations in Iran: An Alternative to Traditional Agriculture", Middle East Journal, 26 (Spring 1972), pp. 185-193; and F. Bagley, "A Bright Future after Oil: Dams and Agro-Industry in Khuzistan", Middle East Journal, 30 (Winter 1976), pp. 25-35.

116. H. Katouzian, "Oil Versus Agriculture: A Case of Dual Resource Depletion in Iran", Journal of Peasant Studies, 5 (April 1978), pp. 355, 361.

117. H. Afshar, "An Assessment of Agricultural Development Policies in Iran".

118. Hooglund calculated that on a per capita basis each agricultural labourer worked fifteen fewer days in 1970 than he had in 1962-1963 as a result of mechanization and large-scale farming. Hooglund, "The Effects of the Land Reform Program on Rural Iran: 1962-1972", Ph.D. Dissertation, Baltimore, John Hopkins University, 1975, pp. 157-160.

119. Indeed, by 1968, many peasants became disillusioned with the Iranian state when they were forced to hand over their newly acquired land in return for ownership shares in large agribusiness ventures promoted by the Iran state. See, for example, E. Mossallanejad, The Political Economy of Oil (New Delhi: Criterion publications, 1986), pp. 77-78.

120. F. Kazemi, Poverty and Revolution in Iran (New York and London: New York University Press, 1980), pp. 33-36. Both farm corporations and agribusinesses proved to be far less productive than middle peasants and, thus, a marked turn away from them became noticeable after 1975. This was because, 1) they helped destabilize farm employment: since they were largely mechanized, they could offer neither farmer-shareholders, nor many of the village's landless workers much employment. In other word, these projects increased rural unemployment and thus rural-urban migration; 2) they involved huge expenses in preparing the ground for irrigation and heavy machinery in a land of low-cost labour; 3) since these projects were run by the Iranian state, they were plagued from the start with many

administrative and legal problems. See, for example, Amuzegar, The Dynamics, pp. 185-86 and Kazemi, Poverty and Revolution, p. 38.

121. Hooglund, Land and Revolution, p. 71 ft. 67.

122. As was pointed out in earlier chapters, because of the obvious involvement of the United States government in 1953 coup, the Iranian state afterwards was never seen by the vast majority of Iranians as a completely sovereign entity and thus lacked legitimacy.

123. As Richards and Waterbury observe, "the Shah...agreed to launch a land reform mainly because he believed that this would weaken his opponent, such as friends of Mosaddeq (himself a landlord) or the Shii Ulama". See A. Richards and J. Waterbury, A Political Economy of the Middle East (Boulder: Westview Press, 1990). Also see Hooglund, Land and Revolution, and Katouzian, The Political Economy of Modern Iran (London: Macmillan, 1981).

124. Halliday, Iran: Dictatorship and Development, pp. 140-75 and M. Amjad, Iran: From Royal Dictatorship to Theocracy, (New York: Greenwood Press, 1989), p. 83. See also Amuzegar, The Dynamics, p. 187.

125. Overseas Consultants, Inc., Report on, vol. 2, p. 8, quoted in Keddie, "Stratification...", p. 377.

126. Lambton, Persian Land Reform, pp. 61-3; M. Zonis, The Political Elite of Iran, p. 54; and Hooglund, Land and Revolution, pp. 42-3, 50-3.

127. Richards and Waterbury, A Political Economy, p. 149 and J. Foran, Fragile Resistance, Social Transformation in Iran From 1500 to the Revolution (Boulder: Westview Press, 1993), p. 322.

128. Keddie, "Stratification...", p. 387.

129. Katouzian, The Political Economy, p. 302.

130. Hooglund, Land and Revolution, p. 73.

131. Hooglund, Land and Revolution, p. 92.

132. E. Hooglund, Land and Revolution, pp. XVI, 78, 91, 115.

133. There is an apparent disparity among experts' assessments since the Iranian state used to inflate its agricultural productions figures by up to 100 per cent. These cluster in the 2-3 per cent range per year in the

1950s, 1960s, and 1970s, according to Graham, Iran: The Illusion of Power (2 per cent), Katouzian, The Political Economy (2-3 per cent), Halliday, Iran: Dictatorship and Development (2.5-3 per cent), with only Baku's 3.3 per cent [E. Baku, "Oil Revenue and Socioeconomic Development in Iran, 1963-78", Ph.D. Thesis, Department of Sociology, University of Wisconsin-Madison, 1980], Ajami's 3.8 per cent [I. Ajami "Land Reform and Modernization of the Farming Structure in Iran"], and Pesaran's 4.4 per cent [Pesaran, "The System of Dependent Capitalism in Pre- and Post-Revolutionary Iran", International Journal of Middle East Studies, 14,4 (November 1982)] offering a more positive evaluation.

134. Indeed, there were several factors which caused the failure of the rate of agricultural growth to meet demands. These factors are: a) population increase, b) increasing national income (higher incomes implied a high income-elasticity for food in general), c) acceleration of industrialization (caused a surge in demand for many agricultural raw materials such as cotton, oilseeds, sugar beets, tea...). See Baldwin, Planning and Development, pp. 76-78.

135. Hooglund, Land and Revolution, p. 108.

136. Although the original intention of those in charge of the land reform, especially Arsanjani, was to set up multi-purpose cooperatives, in actual fact the main activity of most cooperative societies remained limited to provision of credit. See Lambton, Persian Land Reform, 1962-1966, p. 310 and Najmabadi, Land Reform and Social Change in Iran, pp. 172-73.

137. E. Hooglund, Land and Revolution in Iran, 1960-1980, p. 109. See also Ajami, "Land Reform and Modernization of the Farming structure in Iran", p. 201. Ajami shares Hooglund's conclusion by stating that: "Most of the cooperative societies are small units without adequate financial resources and qualified personnel. They have, therefore, not been able to expand their activities beyond granting small, short term loans".

138. Najmabadi, Land Reform, p. 179.

139. G. B. Baldwin, Planning and Development in Iran, p. 82.

140. R. Graham, Iran: The Illusion of Power, (London: Croom Helm, 1978), p. 43.

141. Katouzian, "The Agrarian Question in Iran", in A.K. Ghose (ed.) Agrarian Reform in Contemporary Developing Countries (London: Croom Helm, 1983), pp. 320-1.

142. See, for example, Halliday, Iran: Dictatorship and Development, pp. 126-7; Keddie, Roots of Revolution, (New Haven: Yale University Press, 1981), p. 167; and Lloyd Reynolds, Economic Growth in the Third World, 1850-1980 (New Haven: Yale University Press, 1985), p. 348.

143. This rise, however, could not pace with the demand for food stuffs and other agrarian commodities. Population growth of 3 per cent, accompanied by increases in urbanization and the rapidly rising income of some social groups hard-pressed agricultural sector so it could not meet the needs of the populace.

144. Indeed, increased output was obtained mainly by expansion of acreage, with little productivity improvement. See, for example, Nakhaie, "Development of Capitalism...", p. 239 and L. Reynolds, Economic Growth in the Third World, 1850-1980, p. 349.

145. Halliday, Iran: Dictatorship and Development, p. 127, and Foran, Fragile Resistance, p. 323.

146. Graham, Iran: The Illusion, p. 43 and Katouzian, The Political Economy, pp. 304-306.

147. At this time, the international price of oil nearly quadrupled as a result of the OPEC agreement in late 1973: from \$1.85 per barrel to \$7 per barrel. By the end of 1974, the figure had climbed to \$10.21 per barrel. As a result, the Iranian state's oil revenues in 1973/74 rose to \$4.6 billion, an increase of 65 per cent over the previous year. For 1974/75, the rise was even more phenomenal: reaching \$17.8 billion, it had increased by 278 per cent over 1973/74. See Central Bank of Iran, Annual Reports and Balance Sheet (Various Years). For some background information see Graham, Iran: The Illusion of Power, and Razavi and Vakil, The Political Environment of Economic Planning in Iran, 1971-1983: From Monarchy to Islamic Republic (Boulder: Westview Press, 1984).

148. See, for example, H. Hakimian, "Structural Change and Labour Transfer in Iran's Economic Development, 1900-79". Ph.D. thesis, Institute of Development Studies, University of Sussex, 1987, p. 356, quoted in H. Hakimian, "The Impact of the 1970s' Oil Boom on Iranian Agriculture", The Journal of Peasant Studies, 15,2 (January 1988).

149. Foran, Fragile Resistance, p. 323. See also Graham, Iran, The Illusion, p. 43; Halliday, Iran, p. 128; and Javad Safinejad, Boneh, p. 195.

150. Central Bank of Iran, Annual Report and Balance Sheet (Tehran: 1977), p. 154.

151. Looney, Economic Origins of the Iranian Revolution, p. 56; Nakhaie, "Development of Capitalism...", p. 244; and Kazemi, Poverty and Revolution, p. 42.

152. Urban construction had been growing at a steady rate ever since the middle of 1960s. This trend was boosted in 1968 with the introduction of the Fourth Development Plan (1968-72), which placed particular emphasis on building up a number of heavy industries in Iran (such as petrochemicals, steel, and machine-tools). The coming of the oil boom skyrocketed the entire urban construction sector. As a result, this extraordinary increase in construction activity boosted the demand for labour. Employment in this sector increased by 133 per cent between 1966 and 1976, to reach nearly 1.2 million (13.3 per cent of total employment). Increasing demand also resulted in higher wages of construction workers. See, for instance, H. Katouzian, The Political Economy of Modern Iran, pp. 256-258; J. Amuzegar, Iran: An Economic Profile (Washington, D.C.: The Middle East Institute, 1977), pp. 105-120; and M. Gasiorowski, U.S. Foreign Policy and the Shah (Ithaca: Cornell University Press, 1991).

153. Bharier, Economic Development in Iran, 1900-1970, pp. 140-41; M. Hemmassi, "Migration and Problems of Development: The Case of Iran", in K. Farmanfarmanian (ed.), The Social Sciences and Problems of Development, pp. 212-214.

154. Kazemi, Poverty and Revolution, p. 44.

155. Hooglund, Land and Revolution, pp. 118-19 and Kazemi, Poverty and Revolution, p. 14.

156. Bharier, Economic Development, p. 131, and Amuzegar and Fekrat, Iran: Economic Development, p. 97.

157. Hooglund, Land and Revolution, p. 93.

CHAPTER FIVE:
THE INDUSTRIAL POLICIES OF THE
IRANIAN RENTIER STATE,
1962-1978

1) INTRODUCTION

The discovery of oil in 1908, the first such discovery in the Middle East, presented Iran with unique opportunities. While most of the less developed countries have been faced with a lack of capital, the revenue brought about by oil removed this constraint on Iran.¹ Iran's oil revenues poured into the coffers of the state, expanding from \$34 million per annum in 1953 to \$5 billion in 1973 and \$20 billion in 1978.²

The existence of enormous oil revenues which could be used for the work of development, therefore, challenged Iran to use its resources to promote economic development in a rational fashion which would bring benefits to all. Constraints on economic development in the country, thus, were not so much related to scarcity of revenue and natural resources as on a variety of other internal and external factors, the most important of which were related to the characteristics of the state. Externally, Iran's geopolitical situation led in the 1960s and 1970s, when the country became an integral part of American regional

strategy in the Middle East, to a degree of American encouragement of military aggrandizement, which distorted the process of economic development. Internally, the rentier as well as personalist-authoritarian characteristics of the Iranian state interfered with the process of development. These characteristics, we argue, influenced and shaped the economic development policies of the Iranian state in a way which proved to have counter-productive consequences for economic development of the country.

In the course of demonstrating this argument, the present chapter examines the Iranian state's industrial policies during the 1962-1978 period. The state under the Shah considered industrialization as the only way of assuming prosperity status once oil production began to dwindle. Various Plan documents have, time and again, stressed the increasing need to industrialize, as the oil reserves were considered depletable.³ Accordingly, once the oil reserves were exhausted, Iran needed an alternative source of revenue to fall back on both for its current expenditure and development programs. Therefore, according to the Iranian state, it was imperative for Iran to industrialize.

This consideration was based on two facts. First was that Iran could not rely on oil for ever, since oil was a finite resource. Nor was agriculture able to fill the gaps left by possible declining oil revenues. The second fact was

that Iran had several advantages in its drive for industrialization. First, it had the investment funds, particularly after 1973. Unlike the capital deficient countries of the third world, it neither had to borrow nor squeeze the agricultural sector for capital, although events did turn otherwise later on. Secondly, Iran had a substantially large domestic market of 34 million people, although 46% of the population was under 15 years of age. Finally, the industrialization of the country coincided with the Shah's ambitions to make Iran a leading developed country by 1982/1983.⁴

Consequently, the Iranian state initiated a remarkable effort to industrialize the country in a short period of time. Its strategy of industrialization marched on three legs: petroleum exports, the state's extensive intervention in the economy, and Import Substitution Industrialization (ISI). In this regard, the present chapter first focuses on the importance of oil as the basis of state-led industrialization and growth. Secondly, the realization on the part of the state that oil revenues should be spent on works of economic development through comprehensive planning will be addressed. The three development plans of Iran during the period of 1962-1978 will then be briefly reviewed. The distorting impacts of the personalist-authoritarian characteristic of the Iranian state on economic development planning will then be explored.

Finally, through discussion of the strategy of Import Substitution Industrialization, a critical assessment of the Iranian state industrial policies during 1962-1978 will be attempted. In this regard, the failure of the state to proceed with a genuine industrialization of the country will be attributed to its characteristics.

2) OIL AND THE IRANIAN ECONOMY

Any discussion on the subject of an industrialization strategy in Iran must start with the role of oil revenues in the growth performance of its economy. This is especially so because the oil price shock of 1973 resulted in the quadrupling of the Iranian state oil revenues overnight from almost \$5 billion in 1973 to about \$18.5 billion in 1974.⁵ Oil revenues might have provided a solid foundation for the Iranian state-led industrialization and economic growth during the 1960s and 1970s.

An assessment of the impact of oil revenues on the country's economy may be pursued from at least three perspectives: (1) the fiscal significance of oil for the country in this period, particularly in the post-1973 period, (2) the impact of oil on the Iranian economy in terms of its production and consumption linkages, and (3) the behavioral impact of oil on the Iranian state that is its lack of incentive to reduce the country's dependence on oil.

In this section we first review the way oil revenues enabled the Iranian state to embark upon large public expenditure programs without resorting to taxation. Secondly, we examine the backward/forward linkages the oil had with the rest of the economy. Finally, we examine the way oil revenues at the disposal of the state made it, at least theoretically, avoid hard economic decisions.

2-1- The Fiscal Impact

The fiscal impact of oil revenues on the Iranian economy can be seen in two areas: first, oil provided a source of income for the state to supplement its budgetary expenditures, and second, the oil revenues were the main source to finance the expenditures under Iran's development plans.⁶ Oil revenues have been divided between the Treasury General and the Plan and Budget Organization. Oil revenues paid to the former in order to meet general budgetary expenditures have constituted the largest single source of revenues to general budgets in the post-1962 period (see Table 5-1). It can be seen from Table 5-1 that the share of oil revenue accruing to the Treasury as budgetary assistance has been conspicuous by both its annual magnitude and its growth over time.

The Treasury General's revenues have traditionally come from four sources -oil, indirect taxes, direct taxes, and customs. Second only to custom revenues, oil has often been

the largest single source of income for the Treasury. The net result of this has been the increasing dependence of the Iranian state on oil revenues for its current budgetary expenditures on the one hand, and the utilization of oil revenues for purposes other than economic development of the country, on the other.

The risk of being dependent on oil for current budgetary expenditures did attract the attention of the Iranian state officials. There were some efforts to channel the oil revenue toward development planning. The planners insisted that oil revenues should comprise the main source of means to finance the expenditures under Iran's development plans. Table 5-2 shows the crucial role of oil in the provision of the development plans' financing in Iran for the 1948-1978 period.

Since we will review the economic development plans of Iran later in this chapter, it suffices to say at this point that oil revenues constituted 37 percent, 73 percent, 66 percent, 63 percent, and 89 percent of total revenues during the years of the First, the Second, the Third, the Fourth, and the Fifth Plans respectively.

2-2- The Production/Consumption Impact: Forward/Backward Linkages

While oil may have powerful fiscal policy linkages which can be geared towards development, it has no developmental effects its own because it had no significant

linkages (forward or backward) with the rest of economy.⁷ Backward linkages constitute the industry's demand for goods and services provided by the national economy. During the period under study, the oil sector has had little direct backward linkage within the Iranian economy. This was mostly due to the fact that the oil industry was highly sophisticated and capital intensive and its capital goods and fixed assets came from abroad.⁸

Consequently, demand-induced influences for capital goods was negligible, or almost nonexistent. The most significant demand-induced influence of the oil sector has been limited to the current expenditures of the oil companies, which included wage payments, purchases of office supplies, furniture, etc.⁹ The oil sector, however, employed a negligible proportion, that is, around 0.6 percent, of the total labour force in Iran by 1977-78.¹⁰ Because of the capital intensive nature of the Iranian oil industry, the level of employment had relatively fallen while the production had increased. The total number of employment at its peak in 1957 was 63,303 which by 1970 this was reduced to 41,416 employees.¹¹

Forward linkages represent the flow of low cost fuel from the oil industry to the national economy. Amuzegar and Fekrat best describe the forward linkage:

The huge quantity of cheap primary materials produced in the leading (oil) sector provides an inducement for the consuming units in the indigenous sector to increase their

consumption of those materials by embarking on the production of goods that use the products of the oil industry relatively more intensively. Thus there will be a tendency, slow as it may be initially, on the part of the consuming units in the domestic economy to substitute petroleum products for other types of fuel and move in the direction of using petroleum not only as a minor component of total inputs but as the main raw material put into process.¹²

In its forward linkages the situation was slightly better. Particularly in the post-1973 period, because of higher prices as well as constraints on the supply of oil in the oil-importing countries, Iran was in a comparatively advantageous position to develop oil-related industries such as petrochemicals, automobiles and such energy-intensive industries as aluminum. The domestic consumption of oil and oil derivatives also had gone up more than 17 times between 1950 and 1978. In fact, more than 90 percent of total domestic energy requirements was supplied by the oil and gas industries. There was also development of the petrochemical industry. The first petrochemical industry was established in 1963 and since then more petrochemical plants began to operate. By 1977, five ultramodern petrochemical plants were operating in the country and four more new ones were under construction. Of the six operating plants, two were fully owned by the Iranian state and the others were joint ventures with foreign, mostly American, companies.¹³

Despite increasing activity in petrochemicals, it should be noted that by 1978 Iran produced only half of the

800,000 tons of fertilizer it needed annually. Further, with the expansion of the petrochemical industry in the region, Iran's prospect for becoming the petrochemical centre of the region was reduced. Also it should be noted that the cost of establishing petrochemical plants in Iran was 50-80 percent higher than establishing them in countries of final demand such as Japan.¹⁴

To sum up, the overall impact of the oil industry in bringing about an integration with the domestic economy has been less important than the fiscal effect of the oil revenues. While forward linkages have become increasingly important by supplying cheap energy to the economy, the backward linkages have had no substantial effect. Therefore, if oil revenues were to generate development, some kind of active plan or strategy was needed.

2-3- The Behavioral Impact

The availability of oil rents had significant consequences for the socio-economic development of Iran. Oil revenues, which accrued directly to the state, enabled the state to launch ambitious development projects. However, despite the far-reaching impact that the oil sector had on the economy as a whole, the process of oil-induced economic development had certain ramifications. These ramifications, we argue, at best, halted and at worst impeded a process of diversified economic development in Iran.

The first consequence of having access to oil was its centralizing effect. As we stated in chapter 1, the oil revenues helped strengthen the autonomy of the Iranian state, particularly the Shah, vis-a-vis the societal elements, placing them beyond the influence of the societal forces. This meant that the Shah could pursue policies which were not only at variance with, but also in sharp contradictions, to societal interests. The Shah, thus, centralized economic decision making which, in turn, had negative consequences for the economic development of Iran.¹⁵

The ever-increasing oil revenues also can partly explain the lack of incentive on the part of the Iranian state to reduce its dependence on oil and diversify the economy. To diversify the economy, the state must use the economically difficult and politically unpleasant, and often dangerous, task of squeezing consumption via taxation or forced savings. The state which has easily access to oil revenues tends to delay this painful task. As a result of this effect, therefore, the Iranian state did not feel the urgent need for strengthening the domestic economic base and for raising productivity. This, in other words, affected the state's time preference which in turn deprived the economic development efforts of any urgency.¹⁶

Related to the second effect was the lack of incentive on the part of the state to establish a strong tax base. The

dependence on oil as an easily accessible source of revenue tended to retard a smooth and gradual development of a tax base sufficiently broad to be closely interwoven with the mainstream of domestic economic activity. The main portion of the Iranian state revenues, especially in post-1973 period, have been provided by the oil sector. Along with this increasing dependency of the state on oil, we can see the decreasing relative tax-base in the state revenues. While taxes provided about 36.5 percent of total Iranian state revenues during the 1963-1973 period, this percentage was reduced to about 19 percent in the post-1973 period (See Table 3-2, chapter 3).

Finally, a relatively abundant source of access to foreign exchange encouraged production to meet local demand rather than to meet export targets designed with an eye to developing an international comparative advantage in the industrial and service sectors.¹⁷

In sum, the ample flow of easily accessible oil revenues reduced the urgency of promoting non-oil industries, and retarded a smooth and gradual development of a tax base which can guarantee a dependable source of income for the state. Further, the windfall of oil revenues resulted in financial autonomy of the state which in turn reinforced its natural instinct to follow its own interests.

3) STATE AND DEVELOPMENT PLANNING IN IRAN

To perform the task of developing Iran, the Plan Organization produced a series of economic plans. Economic development planning by the Iranian state started from 1947. It was in this year that the state contracted with the American Morrison-Knudsen International Company to prepare an economic development plan for Iran.¹⁸ The Morrison-Knudsen's report provided the basis for the First Plan which was developed in 1948.¹⁹ This plan was simply an outline of government expenditures and did not contain any comprehensive and coherent development strategy. Projected revenue and expenditures of this plan are shown in Table 5-3.

The First Plan, however, met with scant success as a result of two main problems. One was the lack of skilled administrators to carry out the plan, and the other was the oil nationalization and general instability that resulted.²⁰ After the oil nationalization dispute was over in October 1954, rapid increases in the state's oil revenue and extensive U.S. military and economic aid as well as loans from the World Bank enabled the Iranian economy to recover rapidly. The state then began to formulate the Second Development Plan (1955-1962). This plan had the same framework as the first one, but was implemented on a larger scale (See Table 5-4).²¹ Although considerable public investment was again channelled into the agricultural sector under this plan,²² the Plan's main objectives were to

expand Iran's economic infrastructure, especially its transportation and communication systems, and to begin a process of import-substitution industrialization.²³

Judging the performance of the Second Plan from the economic perspective, it was not a success. However, the plan contributed to the expansion of an infrastructural network essential to raising the overall level of economic activity, whether private or public. Furthermore, it exemplified -by its lack of comprehensiveness- the need for a more coordinated approach to planning in order to avoid the type of economic crisis which eventually happened in the late sixties.²⁴

During the 1962-1978 period, three five-year development plans were completed in Iran. These plans will be reviewed below and their weaknesses discussed. Secondly, the main cause of the failure of these plans will be explored.

3-1- The Third Plan (1962-1967)

The Third Plan (1962-1967) was the first of a number of five year plans, and adopted a more comprehensive approach to development planning which was to guide Iran's development efforts. Formulated with the help of U.S. advisers and financed with oil revenue, this plan's main goal was to promote rapid import-substitution industrialization.²⁵ For the first time, this plan spelled

out basic objectives and overall growth rate. The four following objectives were set up: (a) to achieve a rate of growth of 6 percent annually; (b) to achieve a more equitable distribution of income; (c) to maintain relative price stability and equilibrium in the balance of payments; and (d) to enhance employment possibilities.²⁶

As in the Second Plan, four sectors were considered: agriculture, industry, transport, and social affairs. However, public investment was directed mainly into infrastructure and heavy industry, including steel and other metals, petrochemicals, and machine tools.²⁷ A number of plants which significantly changed the Iranian industrial landscape also came on stream such as B.F. Goodrich tire factory, various automobile assembly plants (Fiat, LandRover, Mercedes Benz, and Leyland), pharmaceutical, bricks, pasteurized milk, rubber footwear, leather, detergents, radios, oil heater, and many other industrial plants.²⁸

This plan was faced with unforeseen events that resulted in its revision during the planning period. These events were the introduction of the Shah's White Revolution and a substantial increase in the oil revenue over the original estimates. As Table 5-5 shows, the expenditure of the plan which originally amounted to 140 billion rials was increased to 200 billion rials in 1964 and to 230 billion rials a year later. Table 5-6 shows that the revenue of the

plan was also raised from 200 billion rials in 1964 to 230 billion rials in 1965. The outcome of these changes was a rate of economic growth exceeding 8 percent per annum.²⁹

Although the Third Plan, unlike the previous plans represented Iran's first effort at comprehensive planning, it had a number of deficiencies. First in terms of specific sectoral targets the Plan was not successful: despite the fact that the 6 percent growth rate of GNP specified in the Third Plan was surpassed by 2.8 percent, it failed to achieve its sectoral goals. While, on the one hand, the growth of agriculture was planned to be 4.1 percent it reached only 3.0 percent. As Table 5-5 shows, the industrial sector absorbed only 8 percent of total public development outlays, as against 12 percent originally set by the Plan. Secondly, given that Iran during the Third Plan period had received \$3,644.1 million in oil revenues and \$580.7 million in foreign loans and credits, one can say that the somewhat good performance of the Plan in terms of growth of GNP was less the result of good planning than a good fortune. Thirdly, no flexibility was provided in the plan to take care of the events mentioned: rather the revisions were performed haphazardly without rationale and without specifying their effects on the economy. Finally, as Razavi and Vakil observed,

from a methodological point of view, the planning was severely limited in terms of its comprehensiveness. No formal models or programming methods were used, and no

attempts were made to obtain general equilibrium-type (simultaneous) solutions.³⁰

3-2- The Fourth Plan (1968-1972)

The Fourth Plan (1968-1972) continued the Third Plan's approach, but was more comprehensive as witnessed by its overall objectives: (1) an increase in the rate of economic growth, 2) the more equitable distribution of income, 3) decrease in the dependence on foreign countries, and finally 4) improvement in the administrative services.³¹

It aimed at an annual average rate of increase in GNP of nine percent. The Plan's budget called for an expenditure of 480 billion rials (\$6,400 million) by the government and 330 billion rials (\$4,400 million) by the private sector, for a total of 810 billion rials (\$10,800 million). The private sector, therefore, was expected to supply 40 percent of Fourth Plan's expenditure.³² Table 5-7 shows the total revenues and expenditures of this Plan.

This Plan covered the period in which the Iranian state started in a more concerted manner to invest in the industrial sector. Specifically, its investment concentrated on the utilization of the three major indigenous raw material resources: hydrocarbon, copper, and iron. The government began its involvement in these areas in order to produce the raw materials that were needed by the activities of the private sector.³³

This period witnessed the creation of aluminum smelting

factories, the establishment of a national steel industry, and the initial utilization of copper deposits.³⁴ The Plan, however, confronted problems in implementation and cost overruns. Major projects such as dams, industrial power plants, and transportation were afflicted with cost problems and bottlenecks. As costs rose beyond expectations, an increasing number of projects had to be left out. The private sector that was more optimistic than expected during the Third Plan, continued to invest. The state's interventions in the market encouraged industrialists to focus on short-term prospects. Speculations and misuse of governmental regulations designed to protect industrialization became common means of securing quick profits by the private sector. Many industries sought to receive protection from competition, as infant industries. Protection was granted through favourable tariffs, government contracts, tax credits and exemptions, subsidized loans, and direct subsidies. Some industries having acquired the advantageous position of infant, had no intention of losing their status. Inefficiency was institutionalized and indeed guarded by some major industries.³⁵

The Fourth Plan's average annual GNP growth rate surpassed the target rate of nine percent by two percent; but the agriculture and construction sectors value added targets were not attained. While agriculture had the lowest growth at 3.9 percent per annum, oil and services achieved

the highest rates at 15.2 and 14.2 percent, respectively. Industry grew at an average annual rate of almost 14 percent in real terms. As Looney observed,

While most of the Fourth Plan targets were met, the overriding fact remained that, by the early 1970s, the country's development prospects were not good. Oil production was reaching its capacity level, foreign debt repayments and interest were a major drain on the country's foreign exchange holdings, and both development and military costs were growing rapidly. Relative stagnation in the agriculture sector, rising income levels that produced growth of demand for food in the urban centres, and increased urbanization aggravated the problems. Food requirements had to be increasingly met by imports, thus further reducing the availability of foreign exchange. Incremental oil price adjustments between 1971 and June 1973 temporarily relieved the balance of payments pressure. But the long-run problems did not significantly improve, and, by the end of the Fourth Development Plan, the government was anticipating a major balance of payments crisis to occur during the Fifth Plan period.³⁶

3-3- The Fifth Plan (1973-1978)

The Fifth Plan (1973-1978) was originally approved by the Majlis in early 1973. It was initially designed to pursue the same general development strategy as its predecessors, though with much higher investment targets. Its emphasis was on industry and infrastructural services.³⁷ However, some social programs were also emphasized. Unemployment was to be kept under three percent of the labour force, and personal consumption was to rise.³⁸ This plan called for a total fixed investment

(private and public) of 2,460.4 billion rials, 37 per cent of which was to come from private sector investment. The remaining 63 per cent was to be supplied by the state. Industry received the largest allocation (20 per cent), followed by housing (16 per cent), oil (10 per cent), communication (8 per cent), and agriculture (6 per cent).³⁹

Since the country experienced a sharp increase in oil revenues during the 1973 and 1974 period, it was decided to revise the plan so that the extra revenue from oil could be directed towards the maximum attainable growth in all sectors of the economy. The revised plan which was assembled with haste and in a mood of unrestrained optimism was submitted to the Majlis in the winter of 1974.

As it can be noted from Table 5-8, the revised Plan envisaged the total revenue of 8,296.5 billion rials, of which 6,628.5 (80 per cent) was projected to be supplied by oil. The government revenues were projected to rise from 3,344 billion rials to 8,296.5 billion rials, an increase of over 148 per cent. Total government expenditures were projected to be 8,296.5 billion rials, 40.9 per cent of which was allocated to current expenditures (they were increased from 1,654.6 billion rials to 3,393.3 billion rials, an increase of 105 per cent), 43 per cent to domestic fixed capital formation (they were raised to 3,368.8 billion rials from 1,560 billion rials, an increase of almost 116 per cent), 4.8 per cent to repayment of foreign loans and

credits and 10.9 per cent to welfare and other payments.⁴⁰

The Shah's decision to disburse the greater part of the new oil revenue by dramatically revising upward the expenditures planned for the Fifth Plan period in development, consumption and defense budgets, however, introduced a profound discontinuity in the country's economic progress.⁴¹ It should be noted that the planners already had warned that the revised Plan would create shortages of skilled manpower and acute infrastructural bottlenecks and would worsen the economy's already precarious balance. But this was dismissed by the Shah and the revised Plan was implemented. This hasty revision of the Fifth Plan, in turn, led to economic crisis of 1975-78. This was a major crisis in Iran's politico-economic history, and thus, we devote the final section of this chapter to its analysis.⁴²

3-4- An Assessment of Planning in Iran

In evaluating the three economic development plans implemented by the Iranian state during the 1962-1978 period, the following points can be made.

First, while the first two Plans laid their emphasis on the development of infrastructure, particularly for transport and irrigation, the Third and Fourth Plans proscribed strategies to achieve a substantial increase in the state's share of industrial and mining operations. The

Fifth Plan, launched in March 1973 and revised in 1974, then postulated for the first time in unequivocal terms industrial development as a primary objective:

The industrial development is of major and particular importance in the advancement of the Iranian economy, since it provides protection and incentives for the progress of other sectors and plays an important role as a factor in raising the national income and opportunities for productive employment.⁴³

Secondly, Iran's reliance on oil revenues was accelerating. Oil revenues financed approximately one-third of the First Plan, 62 percent of the Third Plan financed by oil revenues, the Fourth Plan was 63 percent dependent on oil, and finally, following the 1973 oil price rise, the dependence of the Fifth Plan on oil revenues rose to 80 percent.⁴⁴

Thirdly, the Iranian state assumed the major role for the management of the economy and its development process. Although state policy accepted foreign firms as well as encouraged private domestic enterprise, it has been dominant in the economy and has played a major role in the most important sectors such as steel and energy. This heavy state involvement often had negative consequences for the Iranian economy.

Finally, the sectoral allocations of various plans were uneven. The industrial sector absorbed a disproportionate investment compared to agriculture. This sectoral imbalance

might be justified in terms of the necessity of generating an adequate manufacturing capacity in order to create the necessary export earnings in the event that oil resources were exhausted. Agriculture, in contrast, was given a low priority in the first four development plans and the state's greater emphasis on agriculture in the Fifth Plan (\$18 billion was allocated to this sector) could not reverse the adverse trends that had already become established.⁴⁵

Several factors may account for the above-mentioned deficiencies in economic development planning in Iran, the most important of which, in our view, is related to the personalist-authoritarian characteristic of the Iranian state.⁴⁶ The process of economic development planning in Iran was initially supposed to be a non-political one. The Plan Organization was established in the late 1940s as an independent institution "outside the regular machinery of government" in order to draft plans for the economic development of the country.⁴⁷ At this time, as Baldwin observed, "The twenty-eight-year-old Shah ... favoured the separate-organization approach".⁴⁸ The support by the Shah for an independent, powerful Plan Organization, however, did not last long. This, in fact, was a mere reflection of the Shah's own move from mid-1950s on towards centralization of power and personal rule. In the late 1950s, the Plan Organization lost its independence to the Prime Minister's Office and its responsibility to carry out development

projects was transferred to individual ministers.⁴⁹

The transfer of the power and responsibility of the Plan Organization to the Prime Minister and various ministries signalled that economic planning and development was being brought under the direct control of the Shah, since, as we stated in chapter 3, the power of the Prime Minister was in practice subordinated to that of the Shah.

The Shah's increasing involvement in the management of the country, particularly in all economic decision-making, had negative effects on economic planning and thus economic development of the country. His interventions in government resulted in contradictory orders, confusion and ultimate frustration. Razavi and Vakil best explain this phenomenon,

It is difficult to find a politician rigid enough to be a dictator and at the same time flexible enough to listen to what planners prescribe. Development of dictatorial manners in a person seems to coincide with the evolution of the feeling that the person "knows it all" and with increasing intolerance of disagreements. The dictator still may have advisers and technical counsellors, but their role will gradually change from that of providing technical advice to that of listening to the lectures by the dictator on how wrong they are if they have an opinion that is contrary to the one expressed by the dictator. This process in turn leads to a change in the environment surrounding the dictator...

In such an environment, effective economic planning can not take place. The planner's major task is to provide the decision maker with information about the efficiency of economic policies. If all the channels are constricted and information can not flow, there is little to be gained from the planning exercise.⁵⁰

Two cases worth mentioning here which testify to our observation that the shah's centralization of power and involvement in every economic decision-making had counter-productive consequences for economic development of the country. First is the Shah's decision to announce the White Revolution in the early 1960s. The Shah in 1963 launched his White Revolution, the six point program of social and political reforms mentioned in the previous chapter. Since the White Revolution and its most significant principle, namely, land reform was born out of political expediency, it was not pre-determined nor included in the Third Plan. "The Plan and Budget Organization officials could not but be somewhat irked by the Shah's administrative expediency in having launched his program without having integrated it with the plan in terms both of its developmental strategy and priorities and of its functional implications".⁵¹ As we stated before, this factor led to several revisions of the Third Plan.

The second example, probably the most important one, of the impact of the Shah's concentration of power on economic development of the country can be seen in his personal decision to revise the Fifth Plan due to rise of oil prices in 1973-74. As we see in the final section of this chapter, by this time

the stage was set for the gross miscalculations that were to follow. The juxtaposition of a historic rise in financial resources ... and an overly centralized

decision-making process on how to best use those resources was to engage Iran in a two-year spending spree in which the misallocation of resources would endanger the equilibrium in the socio-economic fabric.⁵²

Many economists working with the Plan Organization urged caution in the aftermath of the sudden oil price increase of 1973. According to them, it was clear that the bottlenecks had to be removed before such vast new revenue could be absorbed. They argued that training of labour, transport, and port handling were all extremely inadequate. They further suggested that this windfall of revenue could be invested with international financial institutions. But the Shah ignored their advice, accusing the officials in the Plan Organization of lacking vision.⁵³ Overriding every principle of sound planning, an expansionist program was put in place. This plan was made up of large-scale and ambitious projects, many of them economically unjustified. The results of such grandiose measure taken by the Shah in post-1973, not only set in motion an inflation but also a trend that came to haunt him a few years later.

In sum, the process of economic planning in Iran, as initially designed in 1949, was limited to providing a mechanism to coordinate the state's involvement in the economy (public projects). The main problems with this approach were its lack of comprehensiveness and sectoral consistency. Since the late 1950s and early 1960s, the planning system began to acquire some degree of maturity and

sophistication. However, at the end of 1960s and especially early 1970s, various parts of the planning procedure were gradually relaxed, so that by mid-1970s the entire issue of economic planning had turned into a virtual formality for spending the allocations. This relaxation of the role of economic development, which was caused by the personalist-authoritarian characteristic of the Iranian state, was one of the basic causes of the failure of the state's developmental policies.⁵⁴

4) AN ASSESSMENT OF THE IRANIAN STATE INDUSTRIAL POLICIES

As we pointed out earlier, the oil revenues, in general, were not conducive to industrialization of Iran by themselves. They did, however, provide the much-needed foreign exchange for the Iranian state to embark upon economic development of the country. Thus the actual industrialization and development of Iran depended on how the state disposed of these revenues. The industrial policies pursued by the Iranian state, despite some success, failed to reduce dependence on oil and bring about a sustained economic development of the country. In the following, we first examine the state industrial policies, which were based on Import Substitution Industrialization (ISI), during the 1962-1978 period. Then, by analyzing the economic crisis of the mid- to late-1970s, the link between industrial policies and the characteristics of the Iranian

state will be shown.

4-1- State Strategy of Industrial Development

During the late 1950s and early 1960s, as a result of IMF-imposed Economic Stabilization Program, the stage was set for adoption of an Import Substitution Industrialization strategy. In fact, the restriction of imports of non-essential goods which was intended to solve the country's balance-of-payment problems laid the foundation of this strategy. It was assumed that the policy of import substitution industrialization would in the long run result in lower imports from abroad and higher non-oil and non-traditional exports and diversification via the creation of new industrial units which would lessen the country's dependence on oil for foreign exchange.⁵⁵

In its adoption of ISI Iran was not alone. Many other developing countries used ISI to encourage the establishment and growth of manufacturing firms producing goods that had been previously imported from abroad. The adoption of import substitution strategies by these countries was an attempt to replace manufactured goods with locally produced goods. Tariffs and quotas were used to limit the import of these goods and the infant industry argument was used as a justification. The result, as the proponents of this strategy speculated, would be economic diversification and reduced dependency on volatile external markets for primary

products and upon high-priced imports. The place to begin, it was argued, was with known domestic markets. As the process gathered steam and raised revenues, new markets would develop, and infant industries would achieve economies of scale that would make them profitable and competitive. Eventually the first industries, it was hoped, would produce backward linkages, stimulating new enterprises in capital goods, machine tools, and the like.⁵⁶

In all developing countries which adopted it, the ISI strategy implied heavy intervention by the state in the economy partly because the initial investment was usually very large and beyond the capacity of private sector and partly because new industries needed protection from foreign competition by high tariff walls. This was also true in Iran. The policy of industrialization through an ISI strategy, although it attracted the assistance of private sector and foreign capital, was mainly carried by the Iranian state. Growing oil revenues during the 1960s and 1970s enabled the state to intervene in the economy. In addition there was little accumulated capital in private hands, and investors were unable or reluctant to embark on giant projects.

The Iranian state carried out its policy of industrialization in a number of ways. The state used its dominance to channel large amounts of oil revenue directly into the economy in the form of public sector investment.

Table 5-9 shows that the Iranian state investment in the economy remarkably increased during this period. The state investment grew from 36.3 percent of Gross Domestic Fixed Capital Formation (GDFCF) in the last four years of the Second Development Plan (1959-62) to 44.1 percent under Third Plan (1963-67), 55.8 percent under the Fourth Plan (1968-72), and 58.5 percent under the Fifth Plan (1973-77). This is while the private sector share of total investment relatively decreased through this period. "Domestic private investors accounted for only 49.1 percent of gross direct investment in Iran under the Third Plan and only 39.5 percent and 41.0 percent, respectively, under the Fourth and Fifth Plans."⁵⁷

The Iranian state investments were concentrated in the most critical and dynamic sectors of the economy, giving the state extensive control over it. This preponderance was especially noticeable outside the light industry sector, in petrochemicals, steel, car assembly and analogous activities.

The state also provided large amounts of capital to the private sector via specialized banks. Table 5-10 shows credit to the private sector by specialized banks during 1970-1976. The state also used fiscal measures to maintain its dominance in the economy. Levying high import duties, licensing, and protection from foreign competitors in the form of tax holidays were the main fiscal measures which

guaranteed its position.

The Iranian state also provided physical infrastructure such as the construction of roads, ports, airports which was needed for industrial expansion and which the private sector was reluctant to construct. Between 1963 and 1978, dams were built in a number of provinces which helped to increase electricity production from 0.5 billion to 15.5 billion KW hours. In this period, furthermore, a number of new port facilities were established and roads and railroads were constructed.⁵⁸

In addition to these policies, the state also attempted to modify the haphazard planning methods inherent in the first two plans. As we pointed out earlier, the subsequent plans were more comprehensive than the first two, so that the public and private sector investments could be better coordinated. As we will see later on in this chapter, this attempt at increasing the comprehensiveness of development plans, however, was halted by hasty revision of the Fifth Plan, directly desired by the Shah, which resulted in the economic crisis of 1975-78.

In short period of time, nevertheless, Iran joined the ranks of many other developing countries which had embarked upon the first stage of an import-substitution strategy. The adoption of an ISI strategy and the rising oil revenues, especially after the 1973 oil shock, together with the country's relative political stability, produced a high rate

of economic growth. According to Table 5-11, Iran's GNP, in constant prices, grew at an average annual rate of 8.6, 11.6, and 7.0 per cent during the Third, Fourth, and Fifth Plans respectively.⁵⁹ In order to better understand the significance of Iran's GNP growth, we can compare it with other developing countries during the period under consideration. Compared to almost 50 developing countries, Iran with its 10.8 percent average annual growth of GNP in the 1962-75, had the highest rate.⁶⁰

During the 1960s and 1970s, the expansion of Iranian manufacturing activity was very rapid as Table 5-11 shows, with manufacturing value added growing on average by 13.5 percent per annum over the 1963-1977 period. In fact, Iran's manufacturing sector grew about twice as fast as the average growth of this sector in other developing countries.⁶¹ It should be mentioned, however, that this high degree of industrialization was achieved by a considerable amount of investment in construction. This sector, indeed, had a large share in industrial growth, and it generally grew faster than manufacturing output.⁶² Table 5-11 shows that the highest rate of growth was in the water and power and construction sectors. This growth was due to the rapid construction of hydroelectric dams, power stations, as well as roads, railways, schools, hospitals, public and private housing, offices and factories. In fact, after the oil price rise of 1973, construction activity was so high that its

growth rate almost caught up with manufacturing itself.

The industrialization process in Iran, however, contained some major weaknesses. Although Iran's growth achievements, like many other developing countries which adopted the ISI, were astonishing there was one major difference: while many other developing countries, apart from relying on primary exports and foreign loans, also promoted their manufacturing exports to pay for a proportion of their imports of capital and intermediate goods, Iran continued instead to rely heavily and almost exclusively upon oil exports. A look at Table 5-11 shows that the most striking feature of Iran's economy during the period under study was the increasing share of its oil industry in the total national output, particularly since 1973. Despite the oil's negative growth of -0.7 percent during 1973-78, its percentage share in the total GNP increased from 15.3 percent during the Third Plan to 41.7 percent during the Fifth Plan. This meant that the oil sector became the largest contributing sector in this period. The oil sector provided 84.6 percent, 76.2 percent, and 84.7 percent of total foreign exchange earnings while other exported goods and services provided only 15.4 percent, 23.8 percent, and 15.3 percent during the Third, Fourth, and Fifth Plans respectively.⁶³

The significance of oil becomes more pronounced if we note the dependence of the country on oil revenues for its

foreign trade. While oil accounted for 78.7 percent of total exports (total oil and non-oil exports) during 1963-68, 82.8 percent during 1968-73 and 96.7 percent during 1973-78, the exports of manufactured goods were around 4.9 percent in 1955-56, attained the figure of 9.3 percent in 1974 and came down to 6.4 percent in 1975, largely due to the recessionary conditions in world economy.⁶⁴

In short, the ISI strategy in Iran made the Iranian economy more dependent on oil exports and the import of capital goods. In fact, the industrialization process did not generate foreign exchange to finance its own intermediate and capital goods requirements. The hasty industrialization in Iran also created acute sectoral imbalances. As Table 5-11 clearly indicates, although the growth in the agriculture and manufacturing sectors were respectable, their proportional growth did not accompany the increasing share of the oil sector. This is an indicator of sectoral imbalance in the economy, reflecting a weak intersectoral and interindustrial integration.

There were other significant shortfalls in the industrialization process in Iran too. Iranian industries have never been exposed for a considerable period to foreign competition, so they were not internationally competitive.⁶⁵ Instead of giving domestic industry the necessary time to be able to become competitive on an international scale, the policy of high tariff walls

shielded the industry from the strength of foreign competition and have added to its inefficiency. According to a 1972 estimate, goods manufactured in Iran were 25 to 35 percent more expensive than the average world prices.⁶⁶ An official West German report in 1974 illustrates this point well:

Iranian industry produces at too high a price and is not internationally competitive. The reasons for this lie in the high dependence on imports, low levels of value-added, inappropriate plant size and inadequate project planning. Whereas the intention was to replace imports and to save foreign exchange, the establishment of enterprises that are restricted to the technologically relatively simple final stages of production, such as the assembly of cars, radios and electrical domestic appliances, has led to a disproportionate increase in the need to import the necessary components.⁶⁷

The Iranian production units, furthermore, were less efficient compared to other countries. In 1976 it was calculated that it took 45 hours to assemble a GM Chevrolet in Iran while the same process was possible in 25 hours in West Germany.⁶⁸ In 1970, the Central Bank of Iran (Bank Markazi) admitted the high cost of production in Iranian industry:

Despite the considerable prosperity of various domestic industries in recent years many of these industries are still in the assembly phase and their value added in international prices is rather low. Therefore, due to the high cost of production, the prices of some industrial goods cannot compete with those of similar products abroad.⁶⁹

Another important weakness of Iran's industrialization

during this period was that it totally discouraged the hope for a growth of capital goods industries while it encouraged the production of finished consumer goods with heavy reliance on foreign sources for both machinery and intermediate goods.⁷⁰ Import substitution in Iran was supposed to occur at all stages of manufacturing production and include not only final consumer products but also intermediate and capital goods. Although this more or less happened, it was not balanced. It was consumer non-durable goods such as textiles, clothing, shoes, processed foods, and furniture produced for a larger domestic market that came as the first import substitutes manufactured locally. This was due to the large domestic market, the requirement of a relatively simple machinery, and the possibility of changing output easily to meet changing demand conditions. Then came consumer durables such as cars, televisions, refrigerators, washing machines, etc., items which were more luxurious and had a far limited domestic market.

Gradually, the industrialization process broadened to cover production of intermediate and capital goods. While progress with local production of intermediate goods such as paper, printing, rubber and chemicals was much more rapid, there was little import substitution of capital goods such as machinery and imports of these goods accounted for over 90 percent of the domestic market during 1960-1972.⁷¹ By 1970, consumer goods output increased to 68 per cent of

manufacturing goods over the 1962 figures of 62 per cent. A similar pattern developed in exports, with exports accounting for only 5 per cent of the sector's output in 1962, falling to 2 per cent in 1970.⁷² The import of capital goods, furthermore, increased from \$106.7 million in 1963 to \$3828.4 million in 1977.⁷³

This problem is more acute if we consider the fact that most of the plants producing finished goods were merely assembling rather than making the components. Iran had no independent modern technology and made few attempts to create and build its technological base.⁷⁴ The fiscal policies of the government created a competition free environment for firms (private and foreign) to set up assembly operations to import capital and intermediate goods and produce finished consumer goods.

Finally, contrary to the Iranian state's highly publicized objective of greater social and economic equity, as included in the Shah's White Revolution of early 1960s, ISI widened the gap between the urban and rural per capita consumption significantly, so limited the extent of internal market which in turn led to failure of ISI. The tendency of the Iranian income distribution to widen with growth can be detected from Table 5-12. As this Table shows the intersectoral distribution of income between urban and rural areas had significantly widened with development.

Further evidence as to the worsening of income

distribution in Iran is provided by an ILO study. In this study, the International Labour Office concluded that the Gini coefficient for Iran's income distribution in 1969/70 was "higher than any country in East and Southeast Asia, considerably higher than in Western countries and probably as high or higher than in Latin American countries for which data are available".⁷⁵ According to this study, while ten percent of the population at the apex of the income scale accounts for forty percent of total private consumption, the thirty percent of the population at the bottom of the income scale accounts for only eight percent of private consumption. Pesaran best explains the unequal income distribution in Iran in this period:

Over the whole period from 1959 to 1974, the expenditure share of the top 20 percent of households in urban areas increased uniformly from 52 to 56 percent, and the share of the bottom 40 percent of households declined from 14 to 11 percent. Similar trends can also be observed for rural areas. The rapid expansion of consumer goods industries in the vicinity of fast-growing urban centres such as Tehran, Esfahan and Tabriz, together with neglect of the agricultural sector, also aggravated the significant regional disparities that existed among the various regions with respect to income, provision of health care, educational facilities and so on. According to Urban-Rural Household Budget Surveys carried out by the Statistical Centre of Iran, the average household expenditure in the central province was 2.7 times that in Kerman, twice that in Sistan and Baluchestan and 1.4 times that in Kurdistan provinces in 1971-72. In the area of health care, about half of the country's doctors in 1973 were located in Tehran, where there was one doctor for every 878 inhabitants, while for the rest of the

country this figure was 5,011, and in some remote provinces such as Elaam it was as high as 12,570. The regional disparity in the degree of literacy was also extremely marked. The rate of literacy in Tehran was estimated in 1973 to be 76 percent, while the figure for the rest of the country was 38 percent.⁷⁶

Consequently, as the Iranian economy began to move on with the ISI strategy, the intersectoral distribution of income between urban and rural areas began to widen significantly. The sharp skewed pattern of income distribution, in turn, heavily constrained the ISI which was mainly based on the domestic market. With half the population living in the rural areas under miserable conditions and almost 72 percent of people in both urban and rural areas having an income below or near subsistence level, the ISI could not be successful.⁷⁷

In sum, as we have showed so far, the fundamental characteristics of the ISI in Iran were (a) the whole process of industrialization was heavily dependent on oil, (b) industries were more heavily oriented toward the production of consumer goods, (c) industries were heavily reliant on import of foreign technology, skilled manpower, and the capital goods for sustaining production, (d) industries were not internationally competitive and thus were inefficient, (e) industries' export capability was declining through time, (f) agriculture was, by and large, ignored, and finally (g) industrialization was biased

against rural areas.

Notwithstanding these characteristics of ISI in Iran, the state industrial policies since 1962 brought to the country a decade of rapid growth with price stability. By 1973, before the huge oil price increase, Iran was enjoying one of the highest rates of economic growth among developing countries. As we pointed out, some of the major economic indicators testify to this observation. In the words of two Iranian economists,

Judged in terms of GNP, the economic performance after 1963 was a respectable 10.3 percent current-price rate of growth of GNP until 1967 and a remarkable 16.4 percent from 1968 to 1972. By contrast, the rate of inflation, as measured by the GNP deflator, grew imperceptibly from 1963 to 1967 at a rate of 0.6 percent per annum; 1968 to 1973 witnessed an acceleration to 3.4 percent per annum, a rate judged to be very acceptable, especially by modern standards.⁷⁸

However, the rise in oil prices marked the end of this period which was one of relative economic stability in prices, wages and in the Iranian state's revenues.

4-2- Economic Crisis: 1975-1978

The course and the pace of the development of industry changed after the rising prices of oil in 1973. The quadrupling of oil prices in this year increased Iran's per-barrel oil revenue from \$0.98 in January 1971 to \$9.49 in January 1974. This meant a dramatic increase in earnings from oil exports, from 174 billion rials (\$2.3 billion) in

1970 to 1,401.7 billion rials (\$20.7 billion) by 1974 (see Table 5-13).

This increase in export price of oil translated into an increase in the Iranian state revenues from oil, which increased from 85.5 billion rials in 1970 to 1,205.2 billion rials in 1974 (see Table 5-14).⁷⁹ The increase in the state revenues not only solved Iran's foreign exchange problems overnight, but also presented the Iranian state with a golden opportunity to redress the economic and social inequities that its not-well-thought-out social reforms and the rapid industrialization of the 1960s had created.⁸⁰ The increase in oil prices also meant that for the first time the Iranian state was in a position to reduce the rate of extraction of the country's nonrenewable oil reserves without undermining the country's growth potential or causing a deep economic recession.

However, since optimism pervaded among state officials, especially the Shah, who assumed the tremendous influx of wealth would solve all Iran's problems, it was decided to accelerate the social and economic trends of the 1960s. This decision embarked Iran upon an unprecedented and ambitious development program that was envisioned by the Shah to make Iran a leading developed nation.⁸¹ The ensuing events, nevertheless, turned out to be the opposite of the dreams. The Shah's decision to disburse the greater part of the new wealth not only introduced a profound discontinuity in the

country's economic progress but also undermined the very policies which in the previous decade brought to Iran a period of rapid, although uneven, growth. Iran, as a result, went through an unprecedented economic crisis during the mid- to late-1970s.

In the summer of 1974, the total expenditure of the Fifth Plan whose implementation had started in March 1973, was doubled. The developmental budget was increased from the original \$36 billion to \$69 billion and some \$50 billion was allocated for current expenditure. Total expenditure of the revised Fifth Plan was put at \$120 billion of which \$100 billion was to be financed by oil (Table 5-8).⁸² The importance of these figures becomes more apparent when compared with the Fourth Plan's expenditure of \$10 billion.

As we pointed out earlier, the decision to revise the Fifth Plan was dictated by the Shah, although economists of the Plan Organization were concerned that because of the lack of a viable infrastructure, skilled manpower and possible shortages of water and electricity, rapid industrialization would cause more damage to the economy and would hinder economic development.⁸³ Contrary to the previous plans, the Fifth Plan was revised under conditions where financial resources did not constitute a constraint. The basic constraint on the country's development until 1973 was insufficient foreign exchange. With the oil price rise this constraint was removed and the possibilities for

development seemed limitless. In the words of Graham,

Throughout the country there was a feeling of a transformation about to take place. ... Money, it seemed, could sweep away all the problems of development; and those that remained could be tackled with the latest technology imported from abroad.⁸⁴

The over-confident Shah called for the revision of the Fifth Plan in order to utilize the vast financial resources generated by the increased export price of oil. The Plan Organization began to prepare a framework for the revision of the Plan. Its framework, which was ready in July 1974, projected three alternative scenarios. "A modest (31 percent) increase in public sector investment from 1,548 billion rials to 2,028 billion rials; a medium (98 percent) increase to 3,064 billion rials and a higher (141 percent) increase to 3,730 billion rials".⁸⁵ At the same time various Ministries also were asked to submit their own individual estimates of their proposed new expenditure. The Plan Organization's framework, coupled with the Ministries' proposals, was presented at a special meeting presided over by the Prime Minister. During this meeting, the blueprint for the revised plan was drawn. In a following meeting at Ramsar on the Caspian, presided over by the Shah, the revised Plan was approved and thus both current and development expenditures went up sharply.⁸⁶

Graham describes the crucial role played by the Shah in revising the Fifth Plan,

By the time of the Ramsar meeting there were

really only three actors -the Shah, the Prime Minister Amir Abbas Hoveida, and Majidi. The decision on what to do was to be the Shah's: Hoveida was there like an obedient doctor to give the Shah the political pulse of the country, Majidi was the Harvard-trained technocrat with the statistics and the projections. The Shah through the alchemy of his leadership would turn this into national objectives in the march towards the Great Civilization.⁸⁷

Razavi and Vakil (who held positions in the Plan Organization during the 1970s) also acknowledge the fact that the Shah was the only vital actor in this regard,

To repeat: there was no dialogue, only a set of directives. The question of feasibility almost did not enter the equation. The report on Iran's long-term prospects was placed on the shelf and, for all practical purposes, never referred to again. In his solitary confidence, the Shah had already decided what to do with the 287 percent increase in oil revenues -if not in detail, at least in the broad thrust.⁸⁸

In Amuzegar's words, thus, "the near doubling of the Fifth Plan size ... was probably the Shah's riskiest economic policy decision".⁸⁹

The result of this decision was a two-year superboom. Iran went on a spending spree. The state increased its expenditures in practically every field of activity. Large sums were made available for social and educational services; education up to university level was made free; food subsidies increased rapidly; many public and private projects were approved and credit to private sector was also increased enormously. As a result of the policy of injecting the new-found wealth into the economy through these

activities, per capita income increased in an unprecedented manner, leading to a widening gap between aggregate supply and demand and consequently double-digit inflation.⁹⁰

Domestic production, although increasing, did not meet the rising demand. The Iranian state hoped to fill the gap by imports. To this end, a policy of import promotion was adopted which resulted in a considerable increase in the share of consumer goods in Iran's merchandise imports (Table 5-15). While during 1974 imports doubled the amount recorded in 1973 to \$6.6 billion, it again doubled to nearly \$12 billion in 1975. The rial was revalued, so its value lowered to 67.625 rials per dollar from 75.75 rial per dollar in 1970, making foreign goods and services cheaper for Iranians.⁹¹ In addition, all foreign exchange controls were removed. However, the implementation of this new policy encountered many obstacles. The bottlenecks created in the ports and the transportation networks meant that up to 200 ships had to queue at a time to unload their cargoes with an average waiting time of 160 days.⁹²

Consequently, as a result of increasing demands, large supply of money, the increase in national income and finally the lack of an efficient mechanism for imports to reach the market, there was a sharp increase in inflation, severe shortages and rapid price increases in 1975 and 1976.⁹³ According to official figures the compound rate of inflation between 1973 and 1977 was 93.8 per cent or an annual average

of 18 per cent.⁹⁴ Further, accelerated private and public investments in a wide range of economic activities accentuated the shortages of skilled manpower, building materials, and electric power.⁹⁵ Indeed, as Looney observed,

The outstanding increase in government expenditures resulted in an unprecedented expansionary effect on liquidity and effective demand. The situation encouraged producers to utilize their plants at full capacity, while importers responded rapidly with an increased volume of foreign goods in an attempt to balance supply and demand. As a result, the demand for the means of production and for primary and intermediate goods increased while available infrastructural facilities were used at maximum capacity. However, due to the shortage of skilled workers and to infrastructural bottlenecks, the supply of domestically produced goods could not increase at the same rate as the demand. Inflationary pressures, therefore, mounted along with increase in the cost of imports and production.⁹⁶

In sum, the near doubling of the Fifth Plan size and thus the ensuing rapid acceleration of economic growth soon led to an unprecedented rate of inflation, preventing the completion of the Fifth Plan development projects. By the end of 1975-1976, thus, the economy was out of balance.

The inconsistent trend of economic performance in Iran in post-1973 period is illustrated by the gross domestic product (GDP) figures presented in Table 5-16. While the growth rates of nominal GDP have at least been impressively high, though fluctuating during this period, the growth of GDP at 1975 prices is alarming. By 1977/78, the Iranian

economy had become so overheated, as witnessed by high rates of inflation, that real growth was negative.⁹⁷ In other words, growing inflation undermined real economic growth, which averaged 5.8 percent annually in the 1973-76 period and -3.5 percent annually between 1976 and 1978.⁹⁸

Furthermore, as a result of an increase in imports and current expenditure, the government was left with a deficit of \$ 1.7 billion in 1975, whereas in 1974 it had a surplus of \$ 5.2 billion. Iran's balance of payments also plunged into a deficit of \$1 billion, a deterioration of nearly \$6 billion over the previous year.⁹⁹ Indeed, as Binder observed,

By the end of 1975 Iran found itself overextended. It had a deficit of nearly \$4 billion in its balance of payments, inflation was about double the admitted 14% to 15%, bottlenecks had developed in many areas, but particularly in the ports and in road transport.¹⁰⁰

Notwithstanding the fact that the personalist-authoritarian characteristic of the Iranian state allowed the inception, formulation and implementation of these ambitious, ill-conceived, unrealistic, and grandiose goals dictated by the Shah, the clientele characteristic of the state also contributed to the failure of Iran's industrialization and the economic crisis of the early- to mid-1970s. In this regard, the Shah's military build-up of the 1970s, especially after the oil price rise in 1973, which was facilitated and, to some extent, encouraged by the

United States is noticeable.

Since his accession to power in 1941 the Shah focused his attention on strengthening the Iranian army. In this regard, as we pointed out in earlier chapters, it was the clientele relationship with the U.S. that made this possible through extensive military assistance. The U.S. military aid to Iran, however, continued only until the late 1960s. In this time, a strategic shift in U.S. policy occurred and U.S. military assistance to Iran was replaced with direct arms sales. As Gasiorowski observed,

With Iran's high economic growth rate and its apparent political stability. U.S. military and economic aid to Iran declined rapidly in the mid-1960s and both were discontinued altogether in November 1967. U.S. military aid to Iran was gradually replaced with direct arms sales, which grew from a negligible amount in 1964 to \$127.7 million in 1970.¹⁰¹

No longer dependent on the U.S. military aid, the Shah decided upon a massive build-up of the Iranian armed forces in the late 1960s. In this regard, two factors worked to the Shah's advantage. First there was President Nixon's statement on the island of Guam that "the USA was now concerned to encourage third-world states to assume greater responsibility for their own defence and that the USA would encourage this process".¹⁰² In this connection, the American government decided to authorize the unlimited sale of conventional military equipment to Iran, without the prior approval of the Senate and Defence Departments.

Secondly, the oil price rise of 1973 encouraged and facilitated the Shah's decision to equip the Iranian army with the most advanced types of weapons.

By the late 1970s, military spending had risen to very high levels, absorbing 10.6 percent of gross national product. The figures for the Iranian military expenditure and its share in GDP during 1973-1978 are shown in Table 5-17. As can be noted, during this period, military expenditure increased from 145 billion rials in 1973 to 693 billion rials in 1978 which means a 37 percent average annual increase. Furthermore, the share of military expenditure in GDP increased from 8.1 percent in 1973 to 14.1 percent in 1978.¹⁰³

Notwithstanding the political benefits of military expenditures for the Shah as well as the politico-economic functions they fulfilled for the U.S. interests in the region,¹⁰⁴ it seems there has been a negative relationship between military spending and economic development in Iran. In other words, this military expenditure, which was encouraged and facilitated by the cliental relationship with the U.S., not only was incompatible with the capabilities or needs of Iran but also had negative consequences for economic development of the country. Military expenditures took up a large amount of the oil revenues which could otherwise have been used for socio-economic development of the country.

Despite the prevailing disagreement in the literature about the effects of military spending on economic development,¹⁰⁵ most researchers on Iran's military expenditures in the 1970s have argued for the negative relations between these expenditures and economic performance in Iran. Theodore Moran, for example, argues that military power was emphasized too much by the Shah in post-1973 period, to the detriment of economic development of the country. He discusses alternative uses for funds that were invested in the military and maintains that the rural and urban economic development as well as employment were the three areas in which government funds were most needed.¹⁰⁶

Ann Schulz, in her comprehensive study of the effects of military spending on economic development of Iran, concludes that,

Given the pervasiveness of poverty in Iran, the traditional structure of its industries, and the major role of agriculture as a provider of employment, long-term growth could probably have been higher if military spending had been reduced and if the resources saved had been invested in productive ways. The quality of life of Iranians living in poverty certainly could have been improved, and that would almost certainly have contributed to overall productivity.¹⁰⁷

K. Mofid, in his "guns vs. butter" depiction of military spending in Iran, also adheres to the same argument that military expenditure had negative effects on social

welfare. According to him, not only "a large part of this expenditure went on ready-made military hardware from abroad (mostly from the USA), with no real contribution to Iran's domestic economy" but also "the speed at which arms were being imported, caused a serious absorptive capacity problem".¹⁰⁸ Last but not least, Robert Looney study of Iran's military spending concludes that the Shah's military build-up directly led to the economic deterioration of Iran in the 1970s and partly was responsible for the economic crisis in this period.¹⁰⁹

All this said, one more change might also account for the economic crisis in this period. In other words, in addition to accelerating inflation and increasing imports, especially foodstuffs and military hardware, the falling price of oil in the mid-1970s also contributed to the emerging economic crisis. The Iranian state failed to increase its revenues from oil exports as anticipated. Continued worldwide recession, a mild European winter in 1975, and a relatively modest increase in OPEC price of oil soon reduced Iran's oil production and thus revenues. Whereas Iranian oil exports had increased by a mere 1.1 percent in constant prices in 1974, they registered a sharp drop of 11.1 percent in 1975. Table 5-18 shows that the contribution of the value added of oil to Iranian GDP at current prices declined from 45 percent in 1974-75 to 37 percent in 1975-76, from 84 percent of government revenue in

1974-75 to 77 percent in 1975-76, and from 89 percent of current foreign exchange receipts in 1974-75 to 87 percent in 1975-76. Aside from these, due to global inflation in 1975, Iran was forced to pay much higher prices for imported goods and services than it had expected. In June 1975, the state realized that because of worldwide inflation it paid 50 percent more for goods and services than it had expected.¹¹⁰

In short, as a result of three interrelated trends - drop in the Iranian state oil revenues, accelerating inflation, and swelling imports- an unprecedented economic crisis emerged in the country during 1975-78. While the first factor was obviously out of the Iranian state's control, the other two were direct results of ambitious policies of the state, particularly the Shah. This crisis undermined the economic stability of the previous decade and led to so many efforts not only by the state to prevent its collapse but also by opposition groups to challenge the state.

5) CONCLUDING REMARKS

In this chapter, we have reviewed the industrial policies of the Iranian state during the 1962-1978 period. Based on our analysis, it is clear now that access to large-scale financial resources earned by oil revenues seem to have solved few of Iran's real problems of economic

development during the period under consideration. On the contrary, in many ways the spending of oil revenues, especially in the post-1973 period, tended to compound the obstacles to achieving the Shah's declared objectives of creating a strong, export-oriented, non-oil economy by the early 1980s. Iran, on the one hand, became increasingly more dependent on oil exports and, on the other, the country became more reliant on imports of foodstuffs and consumer goods. Iran's agriculture and even the much-emphasized industrial sector appeared unable to support domestic demand and for sure could not earn the country through export the foreign exchange it would need in time of declining oil revenue.

The reasons for this trend were attributed to the characteristics of the Iranian state. The economic development and in this case industrial policies, which were shaped and influenced by the state's characteristics, did not coincide with economically optimal use of oil revenues. The heavy involvement of the Shah in economic decision-making, which led to the formulation and implementation of these goals, resulted in oil revenues being wasted, economic development halted, inflation accelerated and imports of foodstuffs and military equipment increased. The unique opportunity created by the oil price rise of 1973 was then lost.

Table 5-1

**Division of the Oil Revenues Between the Treasury General
and the Plan Organization, 1963-73**

Year	Oil Revenue Billions of Rials	Share of Treasury General		Share of the Plan Organization	
		Billions of Rials	Percent of Total	Billions of Rials	Percent of Total
1963-64	27.7	11.4	41.2	16.3	58.8
1964-65	36.4	14.1	38.7	22.3	61.3
1965-66	50.0a	12.4	24.8	37.6	75.2
1966-67	47.4	13.3	28.1	34.1	71.9
1967-68	54.0	14.5	26.8	39.5	73.2
1968-69	61.8	15.0c	24.3	46.8d	75.7
1969-70	70.0b	14.7	21.0	55.4	79.0
1970-71	83.8	17.6	21.0	66.2	79.0
1971-72	157.3a	34.0	22.6	116.3	77.4
1972-73	178.2	36.6	20.5	141.6	79.5
1973-74	311.2	91.2	29.0	220.0e	71.0
Fifth Plan (1973-78)	6,732	2,125	32.0	4,607f	68.0

a Includes oil bonuses of 10.5 billions of rials and 3.5 billions of rials in 1965 and 1971.

b Excludes 6.3 billions of rials advance payment by the Consortium.

c Includes 2 billions of rials transfer from the Plan Organization oil revenues for the implementation of the new civil code.

d Excludes 2 billions of rials mentioned in (c).

e Estimated.

f Estimated by assuming that 100 percent of Plan Organization's requirements in the Fifth Plan will come from oil.

Source: F. Fesharaki, Development of the Iranian Oil Industry (New York: Praeger, 1976), p. 135

Table 5-2
Revenues and Disbursements of the Plan Organization
(billions of rials)

	First Plan (1949-55)		Second Plan (1956-62)		Third Plan (1963-67)		Fourth Plan (1968-72)		Fifth Plan (1973-78)	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Revenues										
Oil	7.8	37	61.0	73	153.0	66	385.0	63	6,623.5	80
Other ¹	13.2	63	22.2	27	79.0	34	225.0	37	1,660.7	20
Total	21.0	100	83.2	100	232.0	100	610	100	8,239.2*	100
Disbursements										
Agriculture	5.25	25	17.4	21	47.3	20	92.5	15	309.2	6.6
Transp&Comm.	5.75	28	27.3	33	53.8	23	113.8	19	492.1	10.5
Industry&mines	3.0	14	7.0	8	17.1	7	113.	19	845.8	18.0
Others	7.0	33	31.5	38	113.8	50	290.6	47	3,050.4	64.9
Total	21.0	100	83.2	100	232.0	100	610.0	100	4,697.5	100

1) Only 20 percent of the planned expenditure was actually disbursed.

2) This is total Iran's oil revenues.

* Note: this is total Iran's oil revenues not PO's revenues

Sources: Compiled from F. Fesharaki, 1976, p. 137 and Razavi and Vakil, The Political Environment, 1984, pp. 71, 74.

Table 5-3
Projected Revenues and Expenditures of the First Plan,
1949-56 (in billion rials*)

	Amount	% of total
REVENUE		
Oil revenue	7.8	37.1
Sale of government property	1.0	4.8
Private participation	1.0	4.8
Borrowing--Bank Melli Iran	4.5	21.4
World Bank	6.7	31.9
Total Revenue	21.0	100.0
EXPENDITURE		
Agriculture	5.3	25.0
Roads, railways, airports	5.0	23.8
Mines and industry	3.0	14.3
Establishment of Iran oil		
Exploration Company	1.0	4.8
Post, telegraphs, telephones	0.8	3.6
Social welfare works	6.0	28.5
Total expenditure	21.0	100.0

Source: Plan Organization, Division of Economic Affairs, Review of the Second Seven Year Plan Program of Iran, Tehran, 1960, P. 4.

*See Table 1, appendix for the exchange rate.

Table 5-4

**Projected Revenue and Expenditures of the Second Plan,
1955-1962 (in billion rials*)**

	1st plan commitments	2nd plan projects	2nd plan other	Total	%
EXPENDITURE					
Agriculture and irrigation	6.3	9.5	2.5	18.3	39
Communications and telecommu- nications	5.4	17.5	---	22.9	33
Industries and mines	2.8	6.8	1.0	10.6	15
Public utili- ties and services	2.8	15.6	---	18.4	26
Total Expenditure	17.2	49.3	3.5	70.2	100
	Total oil - Budget = Plan Organization revenue revenue revenue revenue				
REVENUE					
Total Revenue	101.5	28.5	73.0		

Source: Plan Organization, Second Seven-Year Development Plan of Iran, 1956, pp. 1-5.

*See Table 1, appendix for the exchange rate.

Table 5-5

Projected and Actual Development Expenditures under the Third Plan,
1962-67 (in billion rials*)

Sector	original plan	%	1964 revision	%	1965 revision	%	Actual	%
Agriculture & irrigation	30.3	22	45.0	23	49.0	21	47.3	23
Industries & mines	16.6	12	21.9	11	27.0	12	17.1	8
Electricity & fuel	26.1	19	27.0	14	41.5	18	32.0	16
Communications & tele- communications	30.0	22	50.0	25	56.0	24	53.8	26
Education	13.5	10	17.9	9	17.4	8	17.5	9
Health	10.0	7	13.9	7	13.5	6	13.2	6
Labour & manpower	6.2	4	8.0	4	3.6	2	2.8	1
Urban development	4.5	3	8.0	4	7.0	3	7.2	4
other	2.8	2	8.3	4	15.0	6	13.7	7
Total Expenditure	140.0	100	200.0	100	230.0	100	204.6	100

Source: Central Bank of Iran, Annual Report and Balance Sheet, Tehran, 1965, P. 54.

*See Table 1, appendix for the exchange rate.

Table 5-6
Projected and Actual Revenues under the Third Plan,
1962-67 (in billion rials*)

Source	1964		1965		Actual	
	revision	%	revision	%		%
Revenue from oil	134	61	154	62	153	67
Treasury bonds	10	5	13	5	14	6
Foreign loans	17	8	61	24	21	9
Domestic loans	48	22	19	8	36	16
Other	11	5	4	2	5	2
Total Revenues	220	100	250	100	229	100
less admin. expenses	4		4		5	
loan repayment	16		16		19	
Revenue for Development	200		230		205	

Source: Central Bank of Iran, Annual Report and Balance Sheet, Tehran, 1965, p. 38; 1968, pp. 226-7.

*See Table 1, appendix for the exchange rates.

Table 5-7
Projected Revenues and Expenditures under the Fourth Plan,
1968-72
(in billion rials*)

	Amount	Per cent
REVENUES		
Plan organization share of oil revenues	385	63
Foreign loans	150	25
Gas and petrochemical revenues	21	3
Treasury bonds	50	8
Other	4	1
Total Revenues	610	100
less admin. expenses	5	
repayment of foreign loans	47	
repayment of domestic loans	28	
other	50	
Total Development Revenues	480	
EXPENDITURES		
Agriculture and livestock	65.0	13
Industry and mining	99.0	21
Gas and oil	26.3	5
Water	48.5	10
Power	38.0	8
Transport and communications	80.0	17
Telecommunications and broadcasting	20.3	4
Rural development	9.1	2
Urban development	7.0	1
Construction and housing	23.0	5
Education	35.0	7
Arts and culture	1.8	--
Tourism	3.8	1
Health	13.8	3
Social welfare	4.9	1
Statistics, research, etc.	4.6	1
Total Expenditures	480.0	100

Source: Plan Organization, Fourth National Development Plan 1968-72, 1968, pp. 62-3.

*See Table 1, appendix for the exchange rates.

Table 5-8
Original and revised allocations to the Fifth Plan
(billion rials)

Revenues	Original allocations	Revised allocations
Oil and gas	1,577.4	6,628.5
Direct taxes	350.5	547.0
Indirect taxes	438.1	668.0
Foreign loans	433.4	150.0
Treasury bonds and bank credits	364.5	50.0
Miscellaneous	180.1	253.0*
Total	3,344.0	8,296.5
<i>Expenditures</i>		
<i>Original allocations</i>		
Development projects and new permanent expenses of the plan		1,560.0
Payments of foreign funds		221.7
Payments on domestic credits		63.9
Current operating expenses		1,498.4
Total		3,344.0
<i>Expenditures</i>		
<i>Revised allocations</i>		
Current expenditure		3,393.3
Public affairs		(452.8)
Defence		(1,968.7)
Social affairs		(754.0)
Economic affairs		(217.8)
Fixed investment		2,848.1
Repayment of foreign loans		405.0
Miscellaneous payments		905.0
Investment abroad		745.1
Total		8,296.5

Source: Plan Organization and Kayhan Research Associates, Iran's Fifth Plan (Tehran, 1975).

* Including 135 billion rials revenue from foreign investments and loans.

Table 5-9

Gross Domestic Fixed Capital Formation

Year	Fixed capital formation			
	Total GDFCF	State	All Private	Foreign Private
1959	151.4	59.8	91.7	n.a.
1960	160.6	52.8	107.8	n.a.
1961	148.0	54.5	93.5	n.a.
1962	129.5	47.0	82.5	n.a.
1963	139.6	55.3	84.3	11.7
1964	162.1	57.9	104.1	9.0
1965	224.4	106.3	118.1	22.6
1966	238.1	104.5	133.6	15.9
1967	318.1	153.6	164.5	14.4
1968	387.8	216.2	171.6	19.9
1969	389.1	235.8	153.2	26.9
1970	467.3	281.0	186.3	19.0
1971	541.8	303.8	238.0	25.5
1972	673.1	335.8	338.6	23.4
1973	652.2	364.3	288.0	7.2
1974	622.2	401.8	220.4	5.0
1975	1,047.6	647.0	400.6	4.0
1976	1,222.4	674.0	548.4	5.4
1977	1,249.6	719.7	529.9	4.3

Source: based on M. Gasiorowski,
U.S. Foreign Policy and the Shah, 1991, p. 137.

Table 5-10
Credit to the private sector by specialized banks
(billion rials)

	1970 /71	1971 /72	1972 /73	1973 /74	1974/ 75	1975/ 76
Industrial and Mining Development Bank	11.6	15.6	20.0	29.0	43.5	88.0
Industrial credit Bank	8.3	8.9	13.7	18.2	31.6	54.6
Agricultural Cooperative Bank	20.5	21.7	25.2	30.1	45.2	52.4
Mortgage Bank	10.1	11.7	15.1	17.4	23.9	35.1
Development and Investment Bank	-	-	-	1.7	4.9	9.5
Agricultural Development Bank	-	-	-	3.2	9.7	26.5
Construction Bank	-	-	-	-	1.0	4.4
Total	50.5	57.9	74.0	99.6	159.8	270.5

Source: Amuzegar, Iran: An Economic Profile, 1977, p. 133.

Table 5-11
Average Annual Growth Rates and Average Percent Share
in the Total GNP for Each Economic Sector
1963/64 to 1977/78

Economic Sectors	1963/4-1967/8		1968/9-1972/3		1973/4-1977/8	
	Avg An'l % Growth Rate	Avg % Share in GNP	Avg An'l % Growth Rate	Avg % Share in GNP	Avg An'l % Growth Rate	Avg % Share in GNP
Agriculture	3.4	25.9	3.9	19.0	4.6	9.6
Oil & Gas	13.2	15.3	15.2	18.0	-0.7	41.7
Manufacture & Mining	12.6	12.8	13.8	16.0	15.8	11.0
Construction	13.0	5.0	7.1	4.4	14.4	4.14
Water/Elec- tricity	33.2	1.7	11.2	2.5	16.3	0.88
Services	9.1	41.3	14.2	41.8	15.3	30.7
Total GNP	8.6	100.0	11.6	100.0	7.0	99.9

Source: E. Baku, "Oil Revenue and ...", 1980, p. 83.

Table 5-12

Per Capita Consumption Expenditures of the Urban and Rural Households
(rials at constant 1959 prices*)

Year	Cu	Cr	Cu /Cr**
1959	14,923	7,012	2.12
1960	15,740	7,164	2.19
1961	15,857	7,400	2.14
1962	16,502	7,638	2.16
1963	16,213	7,443	2.17
1964	16,743	7,993	1.09
1965	16,277	8,375	1.94
1966	18,714	8,314	2.25
1967	19,197	8,648	2.21
1968	22,027	8,590	2.56
1969	24,659	8,134	3.03
1970	26,820	8,243	3.25
1971	25,866	8,036	3.21
1972	27,542	7,423	3.71
1973	31,843	8,351	3.81
1974	34,159	9,183	3.71
1975	38,595	9,328	4.13
1976	40,789	10,706	3.80

Source: based on Parvin and Zamani, "Political Economy of Growth and Destruction", p. 47 table 2.

Cu = per capita urban private consumption expenditure

Cr = per capita rural private consumption expenditure

*See Table 1, appendix for the exchange rates.

**Last column is my calculation.

Table 5-13

Value of Petroleum Exports
1970-1978

Year	Petroleum exports (in billions of rials)	Rate of change
1970	174.0	16.7%
1971	281.1	61.6%
1972	322.9	14.9%
1973	656.3	103.3%
1974	1,401.7	113.6%
1975	1,348.1	-3.8%
1976	1,671.1	24.0%
1977	1,639.3	-1.9%
1978	1,194.7	-27.1%

Source: based on Kamran Dadkhah,
"The Inflationary Process of the
Iranian Economy, 1970-1980", IJMES,
17 (August 1985), p. 372 table 1.

Table 5-14

**Iranian State Revenues from Oil and Gas
1970-1978**

Year	state revenues from oil and gas (in billions of rials)	Rate of change
1970	85.5	11.9%
1971	155.6	82.0%
1972	178.5	14.7%
1973	311.3	74.4%
1974	1,205.2	287.2%
1975	1,246.8	3.5%
1976	1,421.5	14.0%
1977	1,497.8	5.4%
1978	1,013.2	-32.4%

Source: based on Kamran Dadkhah, "The Inflationary Process of the Iranian Economy, 1970-1980", IJMES, 17 (August 1985), p. 372 table 2.

Table 5-15

**Commodity Composition of Iran's Imports
classified by their use (percentage)**

Type of use	1972	1975	1977
Consumer goods	12.9	17.1	18.6
Intermediate goods	62.1	53.1	54.2
Capital goods	25.0	29.8	27.2
Total	100.0	100.0	100.0

Source: Central Bank of Iran, Annual Report and Balance Sheet, 1351 (192-3), 1352 (1973-4), 1353 (1974-5), 2534 (1975-6), and 2535 (1976-7).

Table 5-16
Gross Domestic Product in Iran: Levels and Rates
of Growth, 1972/73 to 1977/78

	Levels					
	Year					
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78
(billions of rials)						
GDP at market prices	1,268.4	1,868.6	3,137.0	3,561.1	4,606.6	5,393.3
GDP at 1975 prices	2,873.4	3,210.7	3,461.1	3,561.1	3,940.9	3,859.4
Rates of Growth						
Year						
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78
(percent)						
GDP at market price	25.1	47.3	67.9	13.5	29.4	17.1
GDP at 1975 price	16.9	11.7	7.8	2.9	10.7	(2.1)

Source: Gail Johnson, High-Level Manpower in Iran, 1980, p. 13 table 2-1.

Table 5-17
Ratio of Military Expenditures to GDP
1973-1978 (million rials)

Year	Military Expenditure	GDP Share of Defence (%)
1973	145	8.1
1974	218	7.1
1975	707	20.3
1976	665	14.8
1977	561	10.7
1978	693	14.1

Source: K. Mofid, The Economic Consequences of the Gulf War, 1990, p. 54.

Table 5-18
 Contribution of Oil to Iranian Economy
 1973-76
 (percent)

	1973/74	1974/75	1975/76
Contribution of value added of oil to GDP at current prices	30.3	45.0	36.8
Contribution of oil revenue to total government revenue	63.1	84.3	76.7
Contribution of oil sector receipts to total current foreign exchange receipts	81.4	89.4	87.3

Source: Central Bank of Iran, Annual Report and Balance Sheet, 2534 (1975/76), p. 7.

Endnotes

1. See, for example, F. Fesharaki, Development of the Iranian Oil Industry (New York: Praeger Publishers, 1976); Robert Stobaugh, "The Evolution of Iranian Oil Policy, 1925-1975", in G. Lenczowski (ed.), Iran Under the Pahlavis (Stanford: Hoover Institution Press, 1978), pp. 201-252; and J. Bharier, Economic Development in Iran: 1900-1970 (London: Oxford University Press, 1971), pp. 154-169.

2. M. Ali Fekrat, "Economic Growth and Development in Iran," in Jane W. Jacqz, ed., Iran: Past, Present and Future (New York: Aspen Institute for Humanistic Studies, 1976), p. 76.

3. For different development plans' emphasis on the necessity of industrialization see J. Sedaghat-Kish, Sanaye dar Towseah-e Eqtesadi-e Iran [The Role of Industry in Economic Development of Iran] (Tehran: Khusheh, 1973), chapter 7 and J. Amuzegar, Charahay-e Irani Baray-e Hall-e Masael-e Irani [Iranian Solutions for Iranian Problems], Tahqiqat-e Eqtesadi, 21-22 (1960).

4. F. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), p. 139. See also D. Housego, " 'Quiet Thee Now and Rest', A Survey of Iran", The Economist, (August 28, 1976), p. 31 and Halliday, "Iran: The Economic Contradictions", MERIP Reports, 6,8 (July-August 1978), pp. 12-13.

5. F. Vakil, "Iran's Basic Macroeconomic Problems: A 20-Year Horizon", in J. Jacqz (ed.), Iran: Past, Present and Future, p. 86.

6. J. Amuzegar and A. Fekrat, Iran: Economic Development Under Dualistic Conditions (Chicago: University of Chicago Press, 1971), pp. 33-42 and R. Looney, Economic Origins of the Iranian Revolution (New York: Pergamon Press, 1982), pp. 90-98.

7. Fred Halliday, Iran: Dictatorship and Development, p. 139.

8. J. Amuzegar and A. Fekrat, Iran: Economic Development Under Dualistic Conditions, pp. 58-68. See also M.A. Katouzian, "Some Observations on the Iranian Economy and its Recent Growth," Tahqiqat-e Eqtesadi, No. 9 (Tehran: 1972), p. 71, and Amuzegar, Iran: An Economic Profile (Washington, D.C.: The Middle East Institute, 1977), pp. 66-67.

9. F. Halliday, "Iran: the Economic Contradictions", MERIP Reports, 6,8 (July-August 1978), and J. Amuzegar, Iran: An Economic Profile, p. 66.

- 10.H. Katouzian, The Political Economy of Modern Iran, 1926-1979 (London: Macmillan, 1981), pp. 259-60; W. Bartsch, "The Impact of the Oil Industry on the Economy of Iran", in R. Mikesell (ed.), Foreign Investment in the Petroleum and Mineral Industries (Baltimore: The Johns Hopkins Press, 1971), pp. 253-55; F. Fesharaki, Development of the Iranian Oil Industry, pp. 144-48; and Amuzegar & Fekrat, Iran: Economic Development, pp. 65-68.
- 11.E. Baku, "Oil Revenue and Socio-Economic Development in Iran, 1963-78", Ph.D. Dissertation, University of Wisconsin-Madison, 1980, p. 99.
- 12.Amuzegar and Fekrat, Iran: Economic Development, p. 69.
- 13.On petrochemicals in Iran see J. Amuzegar, Iran: An Economic Profile, pp. 67-70 and A. Bhattacharya, The Myth of Petropower (New York: Macmillan, 1977).
- 14.F. Halliday, Iran, Dictatorship and Development, pp. 145-146.
- 15.On centralizing effects of oil revenues in Iran see A. Najmabadi, "Depoliticization of a Rentier State: The Case of Iran", in Beblawi and Luciani (eds.), The Rentier State (London: Croom Helm, 1987).
- 16.H. Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran", in M. A. Cook, (ed.), Studies in the Economic History of the Middle East (Oxford: Oxford University Press, 1970). See also G. Luciani, "Allocation Vs. Production States", in Beblawi and Luciani (eds.), The Rentier State.
- 17.On behavioral impacts of oil on Iranian economy see, for example, Amuzegar and Fekrat, Iran: Economic Development Under Dualistic Conditions, pp. 38-39, 57; K. Mclachlan, "The Iranian Economy, 1960-1976", in H. Amirsadeghi (ed.), Twentieth Century Iran (London: Heinemann, 1977) and W. Bartsch, "The Impact of the Oil Industry on the Economy of Iran", p. 252.
- 18.K. Mofid, Development Planning in Iran: From Monarchy to Islamic Republic (Cambridgeshire, England: Menas Press, 1987), pp. 37-38.
- 19.On Morrison-Knudson activities in Iran see G. Baldwin, Planning and Development in Iran (Baltimore: The Johns Hopkins University Press, 1967), p. 28; R. Cottam, Nationalism in Iran (University of Pittsburgh Press, 1964), p. 208; and D. Wilber, Contemporary Iran (New York: Praeger, 1963), p. 173.

20. The British oil embargo was responsible for the lack of revenues that had been foreseen. This disrupted Iran's development efforts, forcing the Mosaddeq government essentially to abandon the First Plan. As a result of these problems, of the envisioned 21 billion rials, only four billion rials was actually spent. This meant that since the inception of the Plan only 20 percent of the envisaged expenditure had been effected. See, for example, Jahangir Amuzegar, "Capital Formation and Development Finance," in Ehsan Yar-Shater, ed., Iran Faces the Seventies (New York: Frederick A. Praeger publishers, 1971), pp. 67-68 and Homa Motamen, Expenditures of Oil Revenue: An Optimal Control Approach With Application to the Iranian Economy (New York: St. Martin's Press, 1979), p. 105.

21. The Second Plan started as an investment program listing the projects that should be undertaken by the Plan Organization. But like the first plan, it lacked a comprehensive development strategy. As Table 5-4 shows the plan called for an initial expenditure of 70.2 billion rials (\$933 million) in the public sector, a considerable increase over the First Plan. Four major economic sectors were assigned for the allocation of the plan's expenditure: industry and mining (15.1 percent), transport and communications (32.6 percent), agriculture-irrigation (26 percent), and social affairs (26 percent). See Plan Organization, Gozarash-e Eiray-e Barnameh-e Haft Saleh-e Dowum [A Report on the implementation of the Second Seven-Year Plan] (Tehran: 1964), p. 3.

22. It should be noted that most of the Second Plan's allocation for the agricultural sector was devoted to completion of three large dams, namely Karaj, Sefid Rud, and Dez. See, for example, Razavi and Vakil, The Political Environment of Economic Planning in Iran, 1971-1983: From Monarchy to Islamic Republic (Boulder: Westview Press, 1984), p. 23 and H. Pesaran, "Iranian Economy during the Pahlavi Era" (DAE Working Paper, Department of Applied Economics, University of Cambridge, October 1994), p. 7.

23. On the one hand, construction of roads, dams, ports, airports, schools, and urban projects were emphasized. On the other, to achieve import substitution industrialization, the plan called for large amounts of public and foreign capital to be made available to the private sector through a series of specialized development banks that were established or expanded in this period, including the Industrial Credit Bank, the Industrial and Mining Development Bank, and the Agricultural Bank of Iran. See, for example, Razavi and Vakil, The Political Environment, pp. 23-25 and R. Benedick, Industrial Finance in Iran (Boston: Harvard University, 1964), pp. 83-86, 102, 119-122.

24. The Second Plan faced considerable confusion as oil revenues increased faster than anticipated. Various ministries sought and received additional revenues for the direct expenditures, reducing the Plan and Budget Organization's share of the oil income by 25 percent. The Plan Organization, further, lost its independence to the Prime Minister's Office in 1959, and its responsibility to carry out development projects was transferred to individual ministries. As a result, the Second Plan only consisted of an investment program which covered that portion of the public funds available to the Plan Organization, and the planning was neither total nor coordinated. The economic boom fuelled by huge government expenditures outside the plan and by heavy foreign borrowing, created strong inflationary pressures. With foreign exchange reserves nearly exhausted, the IMF and the World Bank imposed, through the newly created Central Bank of Iran, policies which led to a recession that lasted three years. The IMF required the implementation of the following conditions on the part of the Iranian state: (1) reduction in the state's expenditures, (2) reduction in the import of unnecessary goods, (3) checks on banking credit, (4) retirement of some of the state's debt, and (5) cancellation of the privilege of merchants to postpone payment of customs dues on imported goods. See J. Bharier, Economic Development in Iran, p. 92; P. Avery, Modern Iran (London: Ernest Benn Ltd., 1965), pp. 463, 491; and K. Mofid, Development Planning in Iran, pp. 44-47.

25. The Third Plan was put into writing in the newly established Division of Economic Affairs of Plan Organization, where about 25 economists (of these 6 to 10 were part of the Harvard Advisory Group) formulated its outline. See P. Olsen and P. Rasmussen, "An Attempt at Planning in a Traditional State: Iran" in E. Hagen (ed.), Planning Economic Development (Homewood: Richard Irvin, Inc., 1963), p. 236.

26. K. Mofid, Development Planning in Iran, p. 49.

27. Division of Economic Affairs, "The Third Plan Frame, 1962-1967" (Tehran: Plan Organization, 1961).

28. See J. Amuzegar, Iran: An Economic Profile, pp. 78-110, 163-164, and Razavi and Vakil, The Political Environment of Economic Planning, p. 28. For auto industry in Iran see T. Saghafi-Nejad, "Transfer of Technology and Development: A Framework and Some Observation from Iran", in K. Farmanfarmanian (ed.), The Social Sciences and Problems of Development (Princeton University, 1976).

29. George Baldwin, Planning and Development in Iran, chapters 3 & 8.

30. Razavi and Vakil, The Political Environment, p. 30. For further critical analysis of the Third Plan see K. Mofid, Development Planning in Iran, pp. 51-59. On lack of coordination between the requirements of the Third Plan and the administrative machinery see P. Olsen and P. Rasmussen, "An Attempt at Planning...", pp. 235-245.

31. Plan and Budget Organization, Fourth National Development Plan, 1968-1972: A Summary (Tehran), p. 39. See also R. Looney, Economic Origins of the Iranian Revolution, p. 25.

32. J. Amuzegar, "Capital Formation and Development Finance", p. 74.

33. Manouchehr Sanandaji, Strategy-e Sanaye va Maaden dar Barnameh-e Omrani-e Chaharum [The Industrial and Mining Strategy of the Fourth Development Plan], Majalleh-e Otaq-e Bazargani, May 1970. See also J. Sedaghat-Kish, Sanaye dar Towseah-e Eqtesadi-e Iran, pp. 85-126.

34. K. Mofid, Development Planning in Iran, pp. 66-67 and J. Bharier, Economic Development in Iran, p. 191.

35. Bharier, The Economic Development in Iran, 1900-1970, p. 193, particularly ft. 60; K. Mofid, Development Planning, pp. 59-80; Razavi and Vakil, The Political Environment, pp. 31-35; and J. Amuzegar, The Dynamics of the Iranian Revolution (State University of New York Press, 1991), p. 176.

36. R. Looney, Economic Origins, pp. 26-27.

37. However, as an important objective the Fifth Plan placed special emphasis on agriculture. It aimed at 5.5 percent rate of growth in agriculture by offering incentives such as increased agricultural credit, low prices for seeds, chemical fertilizers and other basic requirements. On the emphasis of the Fifth Plan on industrial development as well as the state projected investment in industry see J. Sedaghat-Kish, Sanaye dar Towseah-e Eqtesadi-e Iran [The Role of Industry in Economic Development of Iran], pp. 149-168.

38. Looney, Iran at the End of the Century: A Hegelian Forecast (Lexington, Mass.: Lexington Books, 1977), p. 72.

39. K. Mofid, Development Planning, p. 90.

40. K. Mofid, Development Planning, p. 100.

41. According to Fesharaki, the revised Fifth Plan anticipated that 24 per cent of government revenues (almost \$29.1 billion) will be spent on defence. See Fesharaki, "Iran's Petrodollars: Surplus or Deficit?", in J. Jacqz (ed.), Iran: Past, Present and Future, p. 313.
42. Razavi and Vakil, The Political Environment of Economic Planning in Iran, pp. 35-36, 68-77, and Amuzegar, Iran: An Economic Profile, pp. 166-75.
43. Plan Organization, Iran's Revised Fifth Development Plan, 1973-1978, (May 1975), p. 301.
44. Graham, Iran: The Illusion of Power (New York: St. Martin's Press, 1979), p. 38.
45. R. Looney, Economic Origins, p. 43.
46. On the factors which may account for these shortfalls in planning see, for example, K. Mofid, Development Planning, pp. 172-176, 267-274, and G. Baldwin, Economic Development in Iran, pp. 14-21.
47. Baldwin, Planning and Development in Iran, p. 28. See also Bostock and Jones, Planning and Power in Iran (London: Frank Cass, 1989), p. 115.
48. Baldwin, Planning and Development in Iran, p. 29.
49. For a detailed account of the process which led to the PBO's loss of its independence see F. Bostock & G. Jones, Planning and Power in Iran.
50. Razavi and Vakil, The Political Environment, p. 149.
51. Razavi and Vakil, The Political Environment, p. 26.
52. Razavi and Vakil, The Political Environment, p. 65.
53. See, for example, R. Graham, Iran: The Illusion of Power, p. 79. Sullivan stated that although the economists in the Plan Organization were fully aware that rapid industrial development without proper planning would lead to staggering inflation, shortages, and social problems, they did not dare to mention to the Shah that his dreams might turn into a nightmare in the future. See W. Sullivan, Mission to Iran (New York: W.W. Norton, 1981), p. 70.
54. For a detailed information on the fact that economic development planning was relaxed in favour of the Shah's whims see Razavi and Vakil, The Political Environment of Economic Planning in Iran, pp. 37-60.

55.M. Parvin and A. Zamani, "Political Economy of Growth and Destruction: A Statistical Interpretation of the Iranian Case", Iranian Studies, 12,1-2 (Winter-Spring 1979), p. 66.

56.A critical analysis of ISI can be found in A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America, Journal of Political Economy, 82 (1968), pp. 2-32 and J.H. Power, "Import Substitution as an Industrialization Strategy, Philippine Economic Journal, 5 (1966), pp. 167-204.

57.M. Gasiorowski, U.S. Foreign Policy and the Shah: Building a Client State in Iran (Cornel University Press, 1991), p. 136.

58.A. Bayat, Workers and Revolution in Iran (London: Zed, 1987), p. 24.

59.The slower pace of the GNP growth during the Fifth Plan can be attributed to the negative growth rate of the oil sector. This can be shown by calculating the non-oil GNP during this period. The non-oil GNP's growth during the Fifth Plan was 13.3 per cent.

60.See Hollis Chenery, Structural Change and Development Policy (Oxford University Press, 1979), pp. 450-453.

61.See UNIDO, World Industry Since 1960: Progress and Prospects (New York: United Nations Industrial Development Organization, 1979), p. 38.

62. On the construction fever created by the oil price rise since 1973 see Katouzian, The Political Economy, pp. 256-8 and J. Amuzegar, Iran: An Economic Profile, pp. 105-110.

63.See T. Walton, "Economic Development and Revolutionary Upheavals in Iran" Cambridge Journal of Economics, 4 (1980), p. 279, table 2, and I. Baku, "Oil Revenues and Socio-Economic Development in Iran, 1963-1978", p. 94, table 12.

64.See E. Baku, "Oil Revenue and Socio-Economic Development in Iran", p. 96, table 13 and Chawla, "Economic Development of Iran", India Quarterly, 37,2 (April-June 1979), p. 165.

65.K. Hameed and M. Bennett, "Iran's Future Economy", Middle East Journal, 29,4 (1975), p. 426.

66.M. Parsa, Social Origins of the Iranian Revolution (New Brunswick: Rutgers University Press, 1989), p. 69.

67.Halliday, "Iran: The Economic Contradictions", p. 14.

- 68.R. Graham, Iran: The Illusion, p. 121.
69. Central Bank of Iran, Annual Report and Balance Sheet, 1351 (1972/73), p. 45, quoted in Looney, A Development Strategy for Iran, p. 157.
70. Parvin and Zamani, "Political Economy of Growth and Destruction", p. 62.
71. Rodney Wilson, Trade and Investment in the Middle East (London: Macmillan Press, 1977), p. 66.
- 72.R. Looney, Economic Origins of the Iranian Revolution, p. 31.
73. For detailed information on the value of intermediate and capital goods' imports by Iran during 1962-77 see K. Mofid, Development Planning in Iran, pp. 165-66, table 4.11.
- 74.F. Halliday, "Iran: The Economic Contradictions", p. 14.
75. ILO, Employment and Income Policies for Iran (Geneva: International Labour Office, 1973), appendix C, p. 6.
- 76.T. Walton, "Economic Development and Revolutionary Upheavals in Iran", p. 283. For a more detailed account of regional disparities and relevant statistical sources see M. H. Pesaran, "Income Distribution and its Major Determinants in Iran", in J. W. Jacobs (ed.), Iran: Past, Present and Future, pp. 267-286.
- 77.R. Chawla, "Economic Development of Iran", p. 169.
78. Razavi and Vakil, The Political Environment, p. 61.
79. Fekrat, "Economic Growth and Development in Iran", in J. Jacqz, ed., Iran: Past, Present and Future, p. 76. There is an interesting fact which can be realized from a comparison of Tables 5-13 and 5-14. That is the difference between the total value of oil exports and the Iranian state revenue. Part of the difference can be explained by the time lag between exports and the realization of revenue, and part by the practice, by the National Iranian Oil Company, of keeping a portion of oil revenues to itself as compensation for certain expenditures. However, not all of the difference can be explained in this manner. One explanation might be that huge amounts of money were transmitted from the NIOC to the Pahlavi Foundation. We will return to this point in chapter 6.

80. Indeed, the rapid growth and industrialization during the Third and Fourth Plans had produced a series of balance of payment problems. Furthermore, during the last years of the Fourth Plan that is, between 1970 and 1972, the Iranian state had grown uneasy with a slow but accelerating inflation. Especially because of fear of fuelling inflation through deficit financing, the Iranian state grew short of resources for both ordinary and development expenditures. See, for example, Central Bank of Iran, Annual Report and Balance Sheet, (1970) and (1972).

81. See Vakil and Razavi, The Political Environment, pp. 66-70.

82. Central Bank of Iran, Annual Report and Balance Sheet, 1353 (1975), pp. 11-17; Bashiriyeh, The State and Revolution (London, Croom Helm, 1984), p. 86; and Graham, Iran: The Illusion of Power, p. 78.

83. Razavi and Vakil argue that the economists of the Plan Organization were against this ambitious, unrealistic revision, but fail to say if they expressed their objection openly. Graham, nevertheless, argues that they did not actually opposed the revision. For more detail see Razavi and Vakil, The Political Environment, pp. 69-70 and Graham, Iran: The Illusion of Power, p. 78.

84. R. Graham, Iran: The Illusion, pp. 17-18.

85. R. Graham, Iran: The Illusion, p. 77.

86. On the process which led to the revision of the Fifth Plan see Razavi and Vakil, The Political Environment, chapter 4 and Graham, Iran: The Illusion of Power, chapter 5.

87. Graham, Iran: The Illusion of Power, p. 78.

88. Razavi and Vakil, The Political Environment, p. 70.

89. Amuzegar, The Dynamics of Iranian Revolution, p. 179.

90. As a matter of fact, national income increased by an annual average of 35 per cent and in two years per capita income trebled. Higher incomes and subsidised prices by the state, in turn, increased consumption and thus demand for consumer goods rose by 12 per cent annually. See, for example, H. Bashiriyeh, The State and Revolution in Iran, 1962-1982, p. 89. See also Central Bank of Iran, The Annual Report and Balance Sheet, 1357 (1978/79), pp. 9-13.

91. See Central Bank of Iran, Annual Report and Balance Sheet, 1351(1973), pp. 6-7.

92. During 1974-1975, Iran paid well over \$1.0 billion in demurrage charges for delays in the unloading of ships. See, for example, Graham, Iran: The Illusion, pp. 87-88 and The Economist, "A Survey of Iran", August 28, 1976. Halliday's estimation of demurrage charges is \$1.5 billion. See Halliday, Iran, Dictatorship and Development, p. 163. This amount was over 7 percent of the annual Iran oil revenues.

93. By 1976, the situation was terrible enough that the Economist prefaced its survey of Iran with the following observation: "This is the story of a developing nation that rode too fast, stumbled and is now unsure of its footing". See The Economist, " 'Quiet Thee Now and Rest': A Survey of Iran: ".

94. Bashiriyeh, The State and Revolution, p. 89.

95. For further information on the economic crisis in the mid- to late-1970s see, for example, Amuzegar, The Dynamics, pp. 177-181; H. Motamen, Expenditure of Oil Revenues, chapter 4; and Looney, Economic Origins, chapters 6-8.

96. Looney, Economic Origins, p. 199.

97. The huge increase in oil prices in post-1973 produced in the Iranian economy severe inflation which was unprecedented in scale and its consequences. For various accounts of the causes of this inflation see K. Dadkhah, "The Inflationary Process of the Iranian Economy, 1970-1980", International Journal of Middle East Studies, 17 (August 1985).

98. Most of the growth that did occur in the mid-1970s was concentrated in the oil and construction sectors, which grew in real terms by 115 and 126 percent, respectively, between 1972 and 1977. By contrast, the service sector grew by only 27 percent in real terms, while the manufacturing and mining and agricultural sectors declined by 16 and 33 percent, respectively. By 1977 the oil and service sectors accounted for 32.5 and 40.3 percent of GNP, while the shares of agricultural and of manufacturing and mining had fallen to 8.5 and 9.1 percent. See, for example, Gasiorowski, U.S. Foreign Policy and the Shah, p. 134.

99. H. Bashiriyeh, The State and Revolution in Iran, 1962-1982, p. 89. See also H. Moghtader, "The Impact of Increased Oil Revenue on Iran's Economic Development, 1973-76", in E. Kedourie and S. Haim (eds.), Towards a Modern Iran: Studies in Thought, Politics and Society (London: Frank Cass, 1980), p. 259.

100. Binder, Revolution in Iran: Three Essays (New York: American Academic Association for Peace in the Middle East, 1980), p. 24.

101. M. Gasiorowski, "Security Relations Between the United States and Iran, 1953-1978" in N. Keddie and M. Gasiorowski (eds.), Neither East Nor West: Iran, the Soviet Union, and the United States (New Haven: Yale University Press, 1990), p. 153.

102. F. Halliday, Iran: Dictatorship and Development, p. 93.

103. K. Mofid, The Economic Consequences of the Gulf War (London: Routledge, 1991), pp. 54-55. For further information on military spending see, for example, F. Kazemi, "The Military and Politics in Iran: The Uneasy Symbiosis", in E. Kedouri and S. Haim (eds.), Towards a Modern Iran, pp. 217-240, and Saikal, The Rise and Fall, pp. 154-161.

104. It is important to note that during the 1972-1977 period, the U.S. as the largest supplier of arms to Iran supplied \$14.6 billion worth of arms [Halliday, Iran: Dictatorship and Development, p. 95]. The military relationship with the U.S. as well as the various U.S. military missions in Iran since 1941, fulfilled a number of important functions which served not only the Shah but also the U.S. corporate and military interests. Major benefits accrued to the U.S. arm manufacturers, especially after 1973. Since we shall have more to say in chapter 6 about this issue, it suffices to say at this point that through their huge arms sales to Iran, the U.S. arm manufacturers could increase benefits, achieve economies of scale, offer lower per-unit production prices to the American armed forces, and invest in comprehensive research and development programs in order to maintain their edge over foreign competition [L. Pryor, "Arms and the Shah", Foreign Policy, 31 (Summer 1978), pp. 56-71].

105. See, for example, P. Frederikson and R. Looney, "Defense Expenditures and Economic Growth in Developing Countries", Armed Forces and Society, 9,4 (Summer 1983), pp. 633-645; S. Deger and R. Smith, "Military Expenditure and Growth in Less Developed Countries", Journal of Conflict Resolution, 27,2 (June 1983), pp. 335-363; D. Limm, "Another Look at Growth and Defense in Less Developed Countries", Economic Development and Cultural Change, 31,2 (January 1983), pp. 377-384; H. Askari and V. Gorbo, "Military Implications of the Military Expenditures in the Middle East", Journal of Peace Research, 2 (1974), pp. 341-343; N. Ball, "Military Expenditure and Socio-Economic Development", International Social Science Journal, 35,1 (1983), pp. 81-97; and M. Naur,

"Industrialization and the Transfer of Civil and Military Technology to the Arab Countries", Current Research on Peace and Violence, 3,3-4 (1980), pp. 153-176.

106.T. Moran, "Iranian Defense Expenditures and the Social Crisis", International Security, 3,3 (Winter 1978/1979), pp. 178-192.

107.Ann Schulz, Buying Security: Iran Under the Monarchy (Boulder: Westview Press, 1989), p. 151.

108.Mofid, Development Planning in Iran, pp. 193-194.

109.R. Looney, "The Role of Military Expenditures in Pre-Revolutionary Iran's Economic Decline", Iranian Studies, 21,3-4 (1988).

110.The Economist, December 20, 1975, p. 68. On the Shah's complaint about global inflation see his interview in Business Week, November 17, 1975, p. 69.

CHAPTER SIX:
THE IRANIAN RENTIER STATE
AGAINST DEVELOPMENT

1) INTRODUCTION

In the preceding chapters, we demonstrated the significance of the state in analyzing the economic syndrome of Iran and tried to establish a relationship between the characteristics of the state and lack of economic development of the country. In chapters 4 and 5, particularly, we examined the agricultural and industrial policies of the Iranian state during the 1962-1978 period in order to substantiate our first argument that the characteristics of the state influenced and shaped these policies in a way which proved to have counter-productive consequences.

The present chapter seeks to substantiate our second argument that although the economic policies of the Iranian state were influenced by its characteristics and thus did not bring about a sustained economic development of the country, they benefitted the particularist interests of the state. In demonstrating this argument, this chapter divides the particularist interests of the state into three categories namely, autonomy-augmenting, legitimacy-acquiring

and property-enhancing and demonstrates how various measures were taken by the state to serve these interests.

2) AUTONOMY-AUGMENTING, LEGITIMACY-ACQUIRING, AND PROPERTY-ENHANCING MEASURES

As we stated in earlier chapters, since the early 1960s, due to rising oil income, the Iranian state's intervention in the economy increased. Rising oil revenues allowed the state to enlarge its own economic activities. Further, the state was involved in trade and the distribution of goods, and regulated prices in the private sector. Oil revenues provided a secure financial base for the state, which in turn increased its autonomy.¹

While such a level of intervention limited the market's operation and politicized capital allocation and accumulation, it obviously well-suited the state's power interests. The benefits of economic control, as we stated before, were three-fold: it permitted the Iranian state to try to generate legitimacy through oil expenditures, it allowed the creation of dependence, on the one hand, and thus, creation of power and autonomy, on the other and finally, it directly served the state's property interest.

This is why we argue that the Iranian state in order to ensure its continued material and political privileges sought to sustain its control over the national economy and extract surplus from the national resources through its hold

on power. Therefore, the Iranian state's action (and inaction) normally reflected its interests rather than societal preferences, especially the lower and middle classes. In other words, the state, particularly the Shah, pursued its highest goal which was the strengthening of its position and thus designed economic policies from this narrow perspective.

This is clearly evident from our argument in chapters 4 and 5 which examined the state's developmental policies. In these chapters we demonstrated that the agricultural and industrial policies of the Iranian state resulted in widening economic inequality and burgeoning inflation.² In agriculture and industry, the state economic development strategies consistently,

favoured the rich over the poor, big over small enterprises in both industry and agriculture, the urban over the rural and nomadic populations. It produced excessive inflation, profits, corruption, rapid urban migration and overcrowding, and the concentration of the enterprises and wealth in government, and a few private hands, as well as an influx of Western fashions, fads and films. It encouraged a large infusion of foreign capital techniques and military advisers. The way oil income was handled in Iran (and in several other oil-exporting countries) intensified the economic and cultural split between two cultures -the rich and the technocratic Western-educated bourgeoisie on the one hand, and the traditional poor and the bazaar classes (traditional merchants, moneylenders and artisans) on the other.³

According to our analysis in chapter 4, the Iranian state's emphasis on land reform was born out of political

expediency and was intended to enhance the political security of a state which lacked legitimacy and popular support. The result of this reform was not improvement in the situation of rural population who comprised almost half of the Iranian population. The change in the Iranian agricultural policies of the late 1960s and early 1970s, as we see later in this chapter, also was not aimed at benefiting the poor peasants. The whole farm corporation and agribusiness proposal would benefit a segment of the upper class as well as the multinational, especially American, corporations.

In chapter 5 we demonstrated how the industrial policies of the Iranian state failed to bring about a higher standard of living for the bulk of the Iranian people. The economic development and industrialization process was also influenced by political considerations of the Shah. In chapter 5, further, we examined some of the calamitous consequences of these policies for Iran. Although economic growth did occur during the 1962-78 period, Iranian society was characterized by unequal distribution of income, deterioration of the standard of living for rural population and also many urban inhabitants, the decline of agriculture sector, and the heavy dependence of the country on imports. Since these policies resulted in deterioration of the country's agriculture and industry, which adversely affected the peasant, working and middle classes, it safely can be

argued that they were aimed at serving particular interests of the state, especially the Shah, rather than general interests.

Consequently, we propose that the Iranian state's most important interest was the perpetuation of its hold on power and of the material privileges this entailed. Economic development was a goal only to the extent that it coincided with or was a side-effect of the pursuit of this interest. To serve this interest, therefore, the state increased its control over the economy through interventionist policies. This control over the economy was the most useful tool to strengthen state autonomy, legitimacy, and property interests.

The Iranian state's autonomy-preserving and legitimacy-enhancing strategy which was positively related also to its property interests was three-fold:

- 1) the first component was to secure, in any possible way, the state's economic base, i.e., capturing a maximum share of oil rent from the multinational oil companies;
- 2) the second component was to secure the continuous U.S. support of the Shah and the Iranian state. The clientele relationship with the U.S. not only enhanced the autonomy of the Iranian state in the domestic context but also served, to a great deal, the personal ambitions of the Shah, especially in making Iran the strongest country militarily in the region;

3) the third component was the use of oil rent for coopting the important societal elements, especially those individuals or groups which could become threatening to the state's monopoly position; to let the industrial elite partake in the bonanza to a limited degree as a worthwhile investment for the state; to neutralize or coopt the members of opposition such as the National Front, Tudeh party, clergy, etc. as well as the bulk of peasants, workers, and government employees coopted.

In what follows we try first to highlight how these various policies served the autonomy interest of the Iranian state. Secondly, by describing various measures taken by the state to acquire legitimacy, we examine why its exercise in legitimacy generation failed. Finally, we demonstrate how the state was instrumentalized by the Shah and the upper class in order for them to enhance their property.

2-1- Autonomy-Augmenting

2-1-1- Oil: The most important strategy to keep or even enhance Iranian state autonomy was securing its oil revenues by enhancing its control over the national oil industry. The 1954 Consortium Agreement and later on, the 1973 Purchase and Sales Agreement can be cited as evidence to the Iranian state's desire to take over the national oil industry.

Although oil was discovered in Iran before the end of the nineteenth century and oil production began in 1908, it

took the Iranian state half a century to assert its national sovereignty effectively.⁴ The British from the very beginning acquired a complete monopoly of Iranian oil and continued its exploitation up until the Mosaddeq period (1951-53).⁵ The British-owned company known as the Anglo-Iranian Oil Company (AIOC), paid very small revenues to the Iranian state: "between 1915 and 1950 the company had a profit of \$613 millions and paid only \$316 millions to the government".⁶ This dominance, therefore, resulted in not only low revenues for Iran but also British government power over the Iranian oil income.⁷

It was in response to this as well as the increased suffering and hardship among the majority of Iranians, especially during the World War II, which a growing movement called for oil nationalization. As we said before, on 19 February 1951, Dr. Mosaddeq who at the time headed the Iranian Majlis Oil Committee, submitted a draft project for the nationalization of Iranian oil industry and all the AIOC properties in Iran. In May 1951 when Mosaddeq has already been appointed as Prime Minister by the Majlis, the Iranian oil industry was declared nationalized. As we saw before, the Iranian and British governments failed to agree on the terms of a settlement and therefore the latter boycotted Iran's oil on international markets, blocked Iran's southern ports, froze Iran's sterling reserves in London banks, and ordered British oil personnel to go on strike. As a result

of this embargo, Mosaddeq failed to achieve immediate goals of nationalization and later was overthrown by a coup supported by both the British and the United States. The restoration of the Shah set the stage for a quick settlement.

Despite all other differences, however, the Shah shared a common purpose with the Mosaddeq government, though they differed widely in their methods of pursuing this aim. When Mosaddeq was overthrown, due to prevailing internal and external circumstances, the Shah saw that it was necessary to end the nationalization crisis in order to enable himself to establish and consolidate his own power. The Shah and the Iranian state, therefore, abandoned the "control" aspect of nationalization movement and opted mainly for "ownership". "Nationalization was not cancelled, it was effectively nullified by complicated new contractual arrangement which enabled the major oil companies to continue raking in the lion's share of the profit from Iranian oil".⁸ In 1954, therefore, the agreement with the Consortium of International Oil Companies was concluded under the U.S. auspices.⁹ The final composition of the new cartel in control of Iran's oil production and marketing took the following form:

% Share of the Participants in Iran's Oil Consortium

Participants	Share %
British Petroleum (former AIOC)	40
Royal Dutch-Shell	14
Standard Oil (Exxon)	7
Gulf	7
Socony Mobile Oil	7
Standard Oil California	7
Texas Oil Company (Texaco)	7
CFP (French)	6
Independents	5
Total	100

In sum, under the new agreement, although Iran could obtain a fifty/fifty division of profits, effective control over price and production still laid with the Consortium. The state, especially the Shah, therefore, traded control over the Iranian oil industry for its immediate and vital need which was to establish its rule.

This agreement, however, did not mean that the Iranian state gave up forever the goal of complete nationalization. On the contrary, the state was fully aware of the shortcomings of the agreement and through an evolutionary policy tried to enhance its control over the oil industry.¹⁰ No major change, however, came about until the early 1970s during which the Iranian state that had already joined the Organization of Petroleum Exporting Countries (OPEC) tried to use the increasing militancy within OPEC and wrest the control of its oil out of the hands of the Consortium.¹¹ This was achieved on 20 March 1973, in an

agreement whereby the Consortium handed over all remaining operations and ownership to National Iranian Oil Company (NIOC).¹² Further, as a result of outbreak of Yom Kippur war of October 1973 and subsequent use of oil as a political weapon by Arab members of OPEC, the balance of power shifted decisively in favour of OPEC governments and away from oil companies. This resulted in quadrupling oil revenues for the Iranian state.¹³

The Iranian state's control of the national oil made all economic or social actors realize that their fortune depended on the quality of their relationship to the state. As was demonstrated earlier, the Iranian state's success in securing the lion-share of the oil rent was not mirrored in its similarly successful management. The Iranian state, however, following the logic of a personalist-authoritarian, rentier and client state, was concerned more with state autonomy, state legitimacy and with the self-enrichment of the state officials and its clients, than with economic development.

2-1-2- The United States: Another factor which helped not only to keep but also to enhance the Iranian state autonomy was its patron-client relationships with the United States. As we stated earlier in chapter 3, although this relationship had two apparent negative consequences for the state, it, however, helped the Iranian state to consolidate

its power and keep its autonomy vis-a-vis the societal elements.¹⁴

Aside from the reinstatement of the Shah in 1953, Washington helped him to consolidate his power in post-coup period. In the early years after the Shah's restoration, the Iranian state was largely concerned with organizing and developing the instruments of its authoritarian rule which would presumably render forever impossible a repetition of the Mosaddeq experience. As we have already pointed out, American aid, both economic and military, began to flow freely. The opposition was crushed ruthlessly. Some elements from within the opposition were either exiled or coopted. Friends of the Shah were richly rewarded and an elaborate system of political repression was established.¹⁵

The armed forces, which cooperated with the CIA to set out the 1953 coup, also formed the major domestic power base of the Iranian state, especially the Shah, and assumed a special role in helping him to consolidate his power.¹⁶ In this period, the U.S. extended massive military aid in arms, training, and expertise to the Iranian state. This aid as well as American personnel present in Iran played a decisive role in helping the state to re-emerge as an autonomous entity within the Iranian polity.¹⁷

The U.S. support of the Shah which extended to the 1960s and 1970s was crucial in maintaining the autonomy of the Iranian state vis-a-vis societal forces. The Shah with

help from the U.S., therefore, centralized politics, perhaps more rigorously than ever before in Iran's modern history, around the institution of the monarchy. The Iranian state drew heavily on the U.S. economic, military, and political support in carrying out its so-called economic development programs, its political repression and its military build-up. The Shah not only could enhance the autonomy of the Iranian state in general but also his own autonomy in particular. During the 1960s and 1970s until his fall, the Shah was the central power in Iran, his power more than ever reinforced by the armed forces and secret police and all important decisions concerning security, development, economics, politics, and society were made by the Shah, and only the Shah. Khosrow Fatemi aptly describes this point:

... to operate his system, the Shah had effectively made himself the sole decision-making authority in every significant phase of Iran's political affairs. He regularly presided over the meetings of councils, commissions, and even ad hoc committees and gave specific orders on issues ranging from the price of eggs to the duration of medical education, from minimum wages for textile workers of Isfahan to the electrification of the Trans-Iranian Railroad system, and from the discount rate of the Central Bank to the use of natural gas as opposed to water for the secondary recovery of Khuzistan oil wells. In addition, more than 20 of his top aides who held the country's most important military and civilian positions had regular and frequent audiences with him—one to five times a week—to present their reports and receive instructions.¹⁸

Consequently, the U.S.-Iranian relationship both

satisfied the American global strategy for containing the Soviet Union and enhanced the Iranian state's repressive and cooptative capabilities and therefore greatly increased its autonomy. Furthermore, this cliency relationship paved the way for the realization of American economic interests as well as the Shah's dream of becoming the dominant regional power.¹⁹ Since American assistance was a major factor in the Shah's return to power in 1953 as well as the Iranian state's consolidation of power afterwards, it was natural for the Iranian state as a client to serve the American interests in the region. Iran not only followed the American line closely in its foreign policy, but also provided huge business opportunities for the American corporations. Since the explication of the former is beyond the scope of our dissertation, we only focus on the latter i.e., the economic factors which helped reinforce this clientele relationship.²⁰

The most important beneficiaries of the 1954 Consortium Agreement were the American oil companies which received a 40 per cent share of Iranian oil that had been controlled by the British-owned AIOC before nationalization. In the words of an American scholar, "The Shah demonstrated his gratitude for the American role in restoring him to power by granting American oil companies a 40 percent share of Iranian oil. This arrangement became a cornerstone of U.S.-Iranian relations".²¹ It is argued that one of the U.S. motives to

become involved in the coup which resulted in Mosaddeq's overthrow was its desire to advance the interests of U.S. oil companies by helping them gain a share in Iran's oil industry.²²

The United State profited from the Iranian oil settlement of 1954 in both tangible and intangible ways. The tangible benefits included, inter alia, employment and investment opportunities. By 1978, almost 3,000 foreigners were employed in the Iranian oil and related industries, one-third of which were Americans.²³ American companies, further, not only gained the 40 per cent share of the Consortium but also were partners in three other joint venture-producing companies.²⁴ According to the United States Department of Commerce, by 1978 total investment of American companies in the Iranian oil industry was \$457 million.²⁵

The most significant intangible benefit of Iranian oil for the American interests in the region was the security of supply. Although he was one of the main forces behind OPEC's price increases in 1973, the Shah repeatedly declared that the Iranian state would not use oil as a weapon and would not mix oil and politics. Events since the Shah's downfall have well illustrated the significance of this pledge.

American military industry also benefited from huge Iranian arms purchases, especially after the oil price rise of 1973. Right after the 1953 coup, the Iranian state began

to buy billions of dollars worth of the latest weapons from the United States. This could be done because the interests of the Shah and the Americans in Iran were very close. The Iranian state at that time was mainly concerned with its domestic stability, so the Shah became determined to expand, reorganize, and modernize the Iranian military relying heavily on assistance from the United States. The Americans desired the internal stability of Iran as well as the Shah's support since they regarded him as the most effective means of securing American interests in the country and sought to build up Iran's military capabilities.²⁶

As we pointed out before, the United States provided Iran with large amounts of economic and military assistance in this period. In one estimate, "between 1946 and 1970 Iran received \$1,365.6 millions in military aid from the USA; of this aid to Iran \$830.4 millions came in the form of military assistance, [...] the remaining \$504.1 millions came in the form of credit".²⁷ In this period, various U.S. military missions also arrived in Iran. These missions were clearly related to the politico-economic interests of the United States. In the words of one observer of Iran,

The U.S. military missions to Iran from 1943 to 1978, therefore, were clearly related to economic and political interests of the United States, Europe and other industrial nations not only in the context of World War II, but also in the context of the post-war realignments, alliance systems, international agencies, and economic recovery and reconstruction programs. The missions, moreover, entailed the eventual involvement

of American advisors, both civilian and military, in nearly every phase of Iranian governmental and financial institutions related in the remotest fashion to Iran's internal and external security.²⁸

In the early 1970s, the Iranian armed forces in active duty numbered over a quarter of a million.²⁹ Moreover, the quality of the military in terms of equipment and manpower rose very sharply. This military build-up was supported by increases in the defence budget. The military budget increased over 34 times from 2,544 million rials in 1954 to 92,100 million rials in 1972.³⁰

The announcement of the Nixon doctrine which permitted the Shah to purchase virtually any type of conventional weaponry in the U.S. arsenal as well as the quadrupling of oil revenues in 1973 resulted in an astonishing increase in Iranian military expenditures between 1972 and 1977.

"Between 1974 and 1977, the government defence spending rose from \$3,680 billion to \$9,400 billion- an increase of 141 and 650 percent over that of 1973, respectively".³¹

As we pointed out earlier, the Nixon doctrine was based on the assumption that the United States should reduce its overseas commitments and in turn should assist local states in assuming responsibility for their own defence and that of their region. Accordingly, the United States was to supply arms rather than troops in order to equip its allies with large arsenals in crucial areas.³² It was in this period

that Iran "emerged as the key pillar of support for American interests" in the region.³³ This was achieved "without any American resources since the Shah was willing to pay for the equipment out of his revenues".³⁴

For the Shah, the Nixon doctrine was a welcome development. In this time and mainly as a result of oil price increases, the Shah began talking of grander designs including his plans to make Iran the world's strongest non-nuclear military power. So many U.S. arms salesmen as well as a few from Britain and France flowed into Iran. Iran, in the words of General Ellis Williamson, chief of the US Military Assistance Advisory Group (MAAG) from 1971 to 1973, became "a salesman's dream".³⁵

The militarization of the country was reflected in the increase in the military budget. In the revised Fifth Economic Development Plan, the Iranian state was undertaken to spend a total of 1,968.7 billion rials (about \$28 billion at constant prices which was nearly 30 percent of all Iran's oil revenues) on defence during the plan period.³⁶ It is worth mentioning that between 50 and 80 percent of this expenditure was made on foreign purchases, particularly from the United States. In 1977, the country became the world's largest single purchaser of U.S. arms. During the 1972-1977 period, total U.S. arms sales to Iran amounted to \$14.6 billion.³⁷

Since the purchased arms were far too sophisticated and

the Iranian forces lacked the required training, the presence of U.S. advisors and technicians was necessary. It is estimated that by 1977 around 26,000 U.S. military personnel and their dependents were stationed in Iran, all of whom had diplomatic privileges under a 1964 Law.³⁸

All in all, the huge expenditures on arms by the Iranian state, took the country's limited resources away from economic and social development and increased the nation's dependence on the Americans. This had at least two tangible benefits for the Iranian state, particularly the Shah. It, on the one hand, bolstered the Iranian state and increased its autonomy. On the other, many people in the upper class, especially the Shah and royal family, pocketed millions of dollars as a result of arms deals with the United States. The Iranian arms purchases have, according to Iranian and American sources, been accompanied by considerable corruption, particularly commissions or bribe-taking by middlemen acting for U.S. or other arms firms. Even the Shah himself is said to have ratified taking of commissions.³⁹ Large amounts of money changed hands both ways. While the Americans made large profits, the corruption among bureaucrats, military officials and members of the royal family increased. According to an investigation by the American Senate, firms like Northrop had paid \$2.1 million, Grumman \$24 million and Textron \$2.9 million for hatching deals. These were a few of the many disclosures which came

to light.⁴⁰

In sum, the Iranian state, particularly the Shah, used the clientele relationship with the United States to boost its internal power and autonomy. The United States, in turn, benefited from this special relationship, which satisfied its political and economic interests in the region.

2-2- Legitimacy-Acquiring

2-2-1- Co-optation: The Iranian state autonomy and legitimacy also required that potential opponents were either coopted or neutralized. Thus, various measures were taken by the state, particularly the Shah, to secure the support of different groups, especially elite groups, in the Iranian society. In other words, the state did not rely solely on the use of force or threat of punishment to secure the support of Iranian society. The state also used the oil revenues and its extensive economic network to secure the Iranian society's loyalty; and also attempted to coopt various elite groups in the country.⁴¹

As we saw in chapter 4, the White Revolution, especially the Land Reform Program which was initiated in the early 1960s, was a clear evidence that the Iranian state aimed at securing some support in the rural areas and simultaneously weakening the large landowners.⁴² Land reform, therefore, brought the state into peasant life to an unprecedented degree. It managed to reduce the power of the

large landowners as mediators between the state and rural population and thus reached the rural area directly. Other state initiatives in the rural areas, mainly as parts of the White Revolution, including education and the construction of roads and dams, were undertaken in an obvious effort to not only integrate the peasants into the nation but also to win their loyalty to the state.

In urban areas, too, the Iranian state used its extensive economic control to increase its political power and to coopt the society. As a result of oil price rise of the early 1970s and economic boom in the country, employment for unskilled labour became so plentiful that many non-Iranians came to Iran seeking employment. Bureaucracy was used to coopt many Iranians, especially oppositional students and other ex-opponents. As we stated before, by 1977, Iran's salaried middle class was estimated at 630,000, of whom 304,404 were civil servants, and 208,241 were teachers or school administrators; thus a vast majority of Iranians owed their livelihood to the state.⁴³ Good governmental jobs, salaries, and perquisites were used to secure the support of many Iranians. Regarding the cooptation of new middle class, J. Bill aptly stated that,

This kind of wealth has provided the Iranian political elite with an enormous resource with which to attract the alienated intelligentsia. Offers are usually made in terms of numerous projects, jobs, and advisory positions... Thus economic concession is the most common and general policy for gaining the participation of the

professional-bureaucratic intelligentsia...
Political offers are also common....⁴⁴

The most remarkable mechanism of state patronage was the Pahlavi Foundation. Established in 1958, much of the foundation's financial resources came from the state.⁴⁵ As we will see later on in this chapter, the foundation was involved in many investments, including hotels, banks, cement plants, agribusinesses, etc. Although the main function and interest of the Pahlavi Foundation was to multiply the wealth of the royal family by means of investment, it also functioned as the principal source of salaries, pensions, and sinecures to the state's clients. The foundation financed the education of 12,000 students abroad over a period of nineteen years and sponsored a variety of youth, health, literacy, and pension programs. These "charitable" undertakings were, in large part, attempts to purchase the loyalty of the Iranian society.⁴⁶

2-2-2- The Collapse of the Regime of the Shah: Despite various measures taken to coopt the society, the Iranian state failed at last. The main reason for this, in our view, was the failure of the state's exercise in generating legitimacy. In this section, we seek to answer the following question: Why the Iranian state's exercise in legitimacy generation failed? The answer to this question becomes more prominent if we take into account that this failure had devastating economic effects such as soaring inflation,

increase in income inequity, negligence of agriculture, etc.

In a rentier state like Iran, according to the literature, legitimacy might be bought with public funds.⁴⁷ Although the Iranian state made numerous efforts to buy popular support, it was not fully successful in acquiring as well as maintaining legitimacy. The reason for this failure might be two-fold. On the one hand, during the 1960s and 1970s, the state was never considered legitimate by the Iranian society since the Shah was restored to power by the help of foreign powers, particularly the United States in the 1953 coup. The Iranian people in general and the nationalists in particular, thus, began to view the United States as the subjugator of Iran. As Mosaddeq stated in his memoirs, "it is obvious that the United States was not the defender of Iranian freedom and independence and wanted to use the pretext of the prevention of the spread of communism to gain from oil interests".⁴⁸

After the coup, although the Iranian state made efforts to create a nationalist ideology that emphasized Iran's imperial greatness, it could never adequately claim nationalistic credentials in the face of its clientele relationship with the United States. The increasing U.S. presence in Iran during this period, the American pro-British posture in the Anglo-Iranian conflict over the oil nationalization crisis, and the CIA's involvement in the overthrow of Dr. Mosaddeq's government planted the seeds of

suspicion of U.S. intentions in Iran and revived the resentment of foreign power rivalries and interventions in Iranian society.

From after the 1953 coup, the Iranian state had to rely extensively on the United States for military, economic, and political support. The special relationship with the U.S. bolstered the state and enabled it to crush the opposition. In return, the Iranian state provided exemptions from Iranian laws to U.S. military personnel, which caused outrage among Iranians and brought Ayatollah Khomeini to the centre stage of political activity; allowed U.S. listening posts (to spy on the Soviet Union); and provided support for U.S. foreign policy.

On the other, after the Shah consolidated his power, the state systematically alienated all power groups in the country but, simultaneously, failed to produce any social base of support.⁴⁹ As we stated before, right after the 1953 coup up until the late 1950s, the Iranian state attempted to either suppress or co-opt the opposition, especially the nationalist and communist groups. Once this task was done, the Iranian state turned on the large landowners who dominated the rural areas. The Land Reform Program of the early 1960s was largely designed to destroy the power base of this class. The land reform, however, failed to achieve its other political purpose, which was to create a class of peasant property holders that would

support the state.

With the liquidation of the large landowners and the suppression of the nationalist movement, the state then turned on the religious establishment in what is described as a "frontal attack".⁵⁰ The Iranian state's strategy of accommodation in the 1950s changed to a strategy of confrontation in the 1960s. In this regard, it is noteworthy that while immediately after the 1953 coup, the Iranian state began to suppress the Tudeh party and National Front, it carefully tried to avoid any policies that might offend or hurt the religious establishments. The Shah attempted to attract the support of the clergy by making periodic pilgrimages to Mecca and other holy cities and by promising that the monarchy would uphold the principles of Islam. Furthermore, the Shah worked hard to coopt Iran's leading cleric of the time, Ayatollah Borujerdi, by conferring with him and his colleagues on government matters. The religion establishment at this time, in turn, remained essentially separate from the political sphere. In fact in 1949, Ayatollah Borujerdi prohibited the clergy from joining parties and participating in politics.⁵¹ There was concern for the future of Islam in the face of the Shah's regime's modernisation programs, but with a few notable exceptions, the religious establishment accepted this separatist position. Even Ayatollah Khomeini favoured this position: "bad government is better than no government ... the clergy

always co-operate with the government if that is needed".⁵²

After Ayatollah Borujerdi's death in 1961, the Iranian state changed its policy of appeasement to a policy of confrontation which politicised the clergy. Ayatollah Khomeini in particular began to voice his critics of the Shah and his regime.⁵³ In the words of a leading scholar of Iran:

The influential Shi'i religious leaders that had begun to replace the deceased Ayatollah Borujerdi opposed both the policies of reform and those of repression. Although it remains a debatable question whether their opposition to the White Revolution resided primarily in their unhappiness with the substance of the program or in their condemnation of the methodology of its implementation, there is little doubt that they lined up against the Shah, whose actions they considered illegitimate and based on collusion with a foreign country. Throughout early 1963, Ayatollah Rohollah Khomeini spoke out against the tyranny of the Shah's government. On June 3, 1963, on the day commemorating the martyrdom of Imam Hussein at Karbala, Khomeini delivered a fiery speech denouncing the Shah and the corruption of his rule. Two days later he was arrested by the Shah's police and taken to Tehran, where he was placed in confinement. The next day the country broke into massive rebellion.⁵⁴

The rebellion, nevertheless, was crushed and Ayatollah Khomeini, one of the most serious opponents of the Shah, was exiled in Turkey on November 4, 1964.⁵⁵

Consequently, the liberal nationalists and the communists, then the large landowners, and finally various religious organizations came under attack by the Iranian state. In 1975, furthermore, the formation of the state-

sponsored Rastakhiz (resurgence) party and the abolition of the nominal two-party system completed the process of state suppression of the opposition by turning on the Bazaar merchants. By 1978, the Iranian state had managed to alienate all power groups in Iranian society but, simultaneously, had failed to produce any social base of support. As the state had lost its ideological appeal and had destroyed its traditional class base while failing to generate a new class base of support, it had to rely more and more on coercion and support from the United States.⁵⁶

The inability of the Iranian state to acquire legitimacy also was reinforced by two other factors. On the one hand, the Iranian state did not feel urged to acquire legitimacy due to lack of internal and external constraints. On the other, since legitimacy was inversely related to the state autonomy (that is, its ability to implement its own preferences) and to its property interest (the more it needs to spend and compromise its interests in order to acquire legitimacy, the less autonomous and the less able to pursue its self-aggrandizement), the Iranian state preferred to use outright repression.

In short, various factors may account for the inability of the Iranian state to acquire legitimacy and thus use coercion as its main tool of political and social control. One interpretation for the greater use of force could be the result of a more dynamic and diversified civil society in

Iran. The Iranian civil society, as we explained in chapter 3, by virtue of its diffusion and diversity, made elite cooptation very difficult for the Iranian state to achieve. The use of coercion, in turn, caused the alienation of all politically articulate social forces.

The Iranian state, further, failed simultaneously to generate a solid social base of support. This was at least partly due to the state's failure in its economic development policies. The agricultural and industrial policies of the state, though in part aimed at winning the support of the population, did not result in a better standard of living for the majority of the Iranian people, so failed to generate legitimacy.⁵⁷ All in all, as a result of the Iranian state's failure to acquire legitimacy, it collapsed in 1978.

2-3- Property-Enhancing

Both autonomy-keeping and legitimacy-acquiring policies adopted by the Iranian state were directly or indirectly benefiting its property interest. The Shah, royal family, court, the high ranking civilian and military officials as well as a handful of state clients, especially the industrial elites of Iran (i.e., the upper class) were the main beneficiaries of the state's developmental policies. Further, we argue that due to the nature of the Iranian state, in addition to the upper class so many multinational,

especially American, companies also were beneficiaries of the state's developmental policies.

The most important and powerful segment of the upper class i.e., the Shah and royal family benefited most from the state policies. The royal family numbered some sixty-three princes, princesses, and cousins of the Shah, who had shares in almost all businesses in Iran.⁵⁸ These shares were never in the Shah's name, and rarely in those of his family, but in the name of the Pahlavi Foundation. This foundation, worth over \$3 billion by the late 1970s, was established in 1958 in order to manage funds for royal projects, deliver pensions and grants to clients, and control such key economic sectors as large-scale agriculture, housing and construction materials, insurance, hotels, autos, textiles, food-processing, and publishing, with shares in some 207 companies in all.⁵⁹ The royal family, therefore, was the wealthiest family in the country, owning 137 of the 527 largest corporations and financial institutions. Their investments included 18 banks and insurance companies; 29 factories; 11 industries; 45 construction firms; 43 corporations involved in food, agriculture, and husbandry; 10 commercial businesses; 39 service companies; and 8 mining firms.⁶⁰

The Pahlavi Foundation which had in its possession most of what the Shah and royal family owned was set up by the Shah on a tax-exempt status, answerable to no one but

himself.⁶¹ Later, former US secretary of State William Rogers helped create a branch of this foundation as the Pahlavi Foundation of New York.⁶² Although the foundation was supposed to be a charitable organization, its charitable works were reputed to be a minimal part of its budget. In the words of the New York Times : "Behind the facade of charitable activities, the foundation is used in three ways: as a source of funds for the royal family; as a means of exerting influence on large sectors of the economy; and as a conduit for rewards to supporters of the regime".⁶³ In this connection, Minou Reeves, the former employee in the Empress's office, stated that:

Although the Foundation assisted Iranian students abroad, financed a few homes for the blind, the deaf and dumb, and orphans, and distributed food and clothing to the needy on religious holidays, its true function and its main interest was to multiply the capital of the Pahlavi Family by means of investment... The main investments were in stocks and shares, cement works, sugar refineries, insurance, banking, merchant shipping, hotels, gambling casinos and nightclubs. In addition, the Shah's brothers, sisters and nephews had interests in large commercial and industrial concerns.⁶⁴

The Shah and royal family's involvement in almost all major industrial and agricultural enterprises not only made them able to gain a measure of control over the private industrial establishments but also made the industrial elite dependent on them. The Shah and royal family dominated this group, and no segment within it enjoyed an independent power base. No one could launch a major economic undertaking

without including the Shah and royal family. Almost all large establishments in Iran needed the Shah's blessing to remain operative. As a result, industrialists generally gave the Shah shares in the operation.⁶⁵ However, "shares in the enterprises were usually too small to involve the holding organizations directly with the day-to-day administration of the company but were large enough to give the royal family access to confidential information and to allow audits conducted by their own personnel".⁶⁶

The example of the Shah and royal family was a source of contamination which infected every level of the state. In nearly all official state transactions, a certain percentage was illegally appropriated by the higher echelons of the bureaucracy for personal gain. In awarding state contracts, inviting tenders, in deciding on tariffs and export-import quotas, in concluding economic treaties and giving economic concession to foreign countries, in the purchase of arms and ammunition, -in short in any activity which involved money or for which a commodity changed hands- not only the Shah and royal family but also the court, the high ranking officials as well as state's clients captured a share of the transaction.⁶⁷

Consequently, officially sanctioned corruption, bribe-taking, and attaching a portion of all major contracts in the economy was widespread among the royal family, court, bureaucracy, military and industrial elite. The lowest

estimates of official corruption through the taking of commissions are of \$1 billion between 1973 and 1976. This siphoning off the economic surplus and its disbursement throughout the upper class was one material base of the Shah's power and secured the allegiance of his associates to the state and to his person. F. Hoveyda, one of the high-ranking officials in the Iranian state vividly endorses the existence of rampant corruption:

Corruption ran wild at the heart of the royal family. The Shah's brothers and sisters earned exorbitant commissions on contracts by acting as go-betweens, usually acting through companies in which they were the majority shareholders. ... Colossal fortunes were made in the time it takes to sign a contract. The scandals multiplied remorselessly.⁶⁸

The other segment of the upper class which largely benefited from the industrial and agricultural policies of the Iranian state was the industrial elite. Indeed, the state developmental policies during the 1960s and 1970s, not to include the 1950s, worked in favour of this class. The roots of this class can be traced back in the bazaar merchants, large landowners, industrial owners, big financiers, some of the former tribal chiefs, and a new stratum of business owners who were not bazaaris.⁶⁹ It was estimated that in

1972, 56 families owned shares in 177 of the 364 largest industrial firms and controlled 39 percent of them...In addition, 72 other families were represented in 88 other firms on the list of the largest. All told, 128 families and the Bank for Industrial and

Mining Development (a private bank with foreign participation) had shared in 73 percent of the firms referred to.⁷⁰

Different segments of the industrial elite prospered for different reasons, and through a variety of channels. The real estate and land owners benefited enormously from the high rise in the price of land and from the demand for new housing. Because of the joint effect of the mechanization of agriculture, land reform, the booming oil economy, and the attractive wages paid in the urban areas, Iran's urban centres experienced an inflationary rate of growth. Such expansion of urban centres experienced a huge increase in the price of land, with the price of urban land rising daily. Between 1967 and 1977, urban land prices increased by an estimated 2,000 percent.⁷¹

Another category of the industrial elite was engaged with the industrial sector. As we saw before, the bulk of Iran's modern industries was built in the 1960s and 1970s. Handsome loans by the government and the banks were behind most such industrial projects. To secure loans in the millions of dollars was beyond the political and economical capacity of ordinary people, for securing such loans required approval from the hands of agencies that were most often of government origin. They required possession of industrial licenses issued by the Ministry of Industry. Such licenses were not easy to obtain and to get one required great political influence. Given such considerations, it is

quite clear why a handful of influential families were developing into the industrial lords of Iran. Indeed, as we said before, for them to succeed, they had to offer some shares to a member of the Pahlavi family.⁷²

As we have already demonstrated, the Iranian state import substitution industrialization strategy was adopted in such a way that it came to rely heavily on foreign advisers and consumer goods. Large profits were ensured for local Iranian collaborators as well as foreign companies. The nature of newly established industries was assembly line production, and manufactured pre-fabricated parts which were mostly imported. In fact, most industries were using imported commodities (intermediate or capital), with some Iranian labour combined. Such companies often operated on a license from the producer of the parts, who was a shareholder or receiver of the royalties. Consequently, a good portion of these industries were closely associated with the multinational companies.

Finally, the agricultural elites were another segment of the elites who benefited most from the agricultural policies of the Iranian state, particularly in late 1960s throughout the 1970s. Even some members of the royal family such as the Shah's brothers, Mahmoud Reza and Abdul-Reza, as well as his nephew, Shahram (princess Ashraf's son) established huge agribusinesses on the Crown lands.⁷³ By 1978, thirty-six agribusinesses had been established on

200,000 hectares of irrigated land.⁷⁴ Fifteen of these farms were very large estates, i.e. between 5,000 to 25,000 hectares and controlled by multinational, particularly U.S. companies. One, for example, controlling 20,000 acres, was run by an Iranian living in California who had been successful there. "One banker and his family, Yazdani, owned several agribusinesses with a total registered capital of 5 billion rials. Another family, Bagherzadeh and partners, had a virtual monopoly over the poultry and egg market in all major towns".⁷⁵

Thus, the change in agricultural policies of the Iranian state in late 1960s and early 1970s mostly benefited multinational corporations and their counterparts in Iran. Regarding the agribusiness projects in Khuzestan, as Richards has vividly documented, the ultimate beneficiaries were the multinational corporations rather than the native Kuzestanis.⁷⁶ These agribusinesses, further, not only failed to increase agricultural productivity, but also contributed to a growing dependence on food imports.

In sum, the Shah, royal family, court, the high-ranking civilian and military officials as well as a handful of state clients instrumentalized the state in order to enrich themselves. The Iranian state economic policies were designed in such a way which resulted in the upper class success in amassing fortunes. While the Shah and royal family became the wealthiest family in the country, under

their domination the state officials as well as the industrialists, too, benefitted from the economic development policies during the 1962-1978 period.

3) CONCLUDING REMARKS

In this chapter, we substantiated our second proposition that the Iranian state's autonomously designated and implemented economic development policies benefitted its particularist interests in autonomy, legitimacy, and property. The Iranian state, particularly the Shah and his entourage, instead of working for the cause of developing Iran pursued their own particularist interests. To substantiate our suggestion that the Iranian state pursued its particularist interests rather than the general societal interests, we examined the various measures which were taken by the state to preserve its autonomy, acquire legitimacy and enhance its property. In this connection, we also reflected on the main reasons for the Shah's failure to acquire the loyalty of the Iranian people and consequently his collapse.

Endnotes

1.The Iranian state became autonomous from the society since it had oil revenues and had not to rely on income taxes and thus national economy. It also enjoyed a supportive international environment. Not only the United States but also many other foreign powers supported the Shah. In the words of an Iranian scholar, "the Shah's foreign policy was efficacious in the sense that his regime was supported by every single foreign power of consequence, regardless of its location in the spectrum of political ideology or power alignment. This support included Arab governments as well as Israel, the Soviet Union, the People's Republic of China, and the United States. Rarely does one find such an array of nations on the side of a government or international policy". H. Razi, "Development of Political Institutions in Iran and Scenarios of the Future" in A. Jabbari and R. Olson (eds.), Iran: Essays on a Revolution in the Making (Lexington: Mazda Publishers, 1981), p. 56.

2.On state development policies which obviously served upper class interests see, for example, J. Foran, Fragile Resistance: Social Transformation in Iran from 1500 to the Revolution (Boulder: Westview Press, 1993), pp. 317-341; M. Parsa, Social Origins of the Iranian Revolution (New Brunswick: Rutgers University Press, 1989), p. 63; and E. Abrahamian, "Structural Causes of the Iranian Revolution", MERIP Reports, 87 (May 1980).

3.N. Keddie, "Oil, Economic Policy and Social Conflict in Iran", Race and Class, 21,1 (1979), pp. 12-13.

4.For a detailed description of Iran's oil history see, for example, F. Fesharaki, The Development of Iranian Oil Industry: International and Domestic Aspects (New York: Praeger, 1976); L.P. Elwell-Sutton, Persian Oil: A Study in Power Politics (London: 1955); and B. Nirumand, Iran: The New Imperialism in Action (New York: Monthly Review, 1969).

5.As we stated in chapter 2, in 1901, during the Qajar's period of concession-hunting by foreigners, a sixty-year oil concession was granted to William Knox D'Arcy, a British subject. By 1909, D'Arcy founded the Anglo-Persian Oil Company (APOC). The British continued with their domination of the Iranian oil industry during the first Pahlavi Shah. Nevertheless, due to Reza Shah's insistence in 1933, a new agreement with England was signed which increased Iran's oil revenues and also the APOC was renamed the Anglo-Iranian Oil Company (AIOC). Later on, when the Iranian oil was nationalized, Dr. Mosaddeq created the National Iranian Oil Company (NIOC).

6. Halliday, Iran: Dictatorship and Development (New York: Penguin Books, 1979), p. 141.

7. For a detailed exposition of major disputes between the Iranian and British governments see Fesharaki, The Development of Iranian Oil Industry, chapter 1.

8. "Iran: The New crisis of American Hegemony", Monthly Review, 30,9 (February 1979), p. 6. See also A. Saikal, The Rise and Fall of the Shah (Princeton: Princeton University Press, 1980), chapter 4.

9. See, for example, Anthony Sampson, The Seven Sisters: The Great Oil Companies and the World They Made (London: Hodder, 1975), pp. 130-136.

10. Indeed, the Shah in his book claims that "only through steadily increasing control over the production and distribution of our oil, shall [we] re-asserting our national sovereignty". See M.R. Pahlavi, Mission for My Country (London: Hutchinson and Co., 1961), p. 289.

11. In September 1960, representatives from Iran, Iraq, Saudi Arabia, and Venezuela met in Baghdad to coordinate their oil policies and to oppose the major oil companies' monopoly to fix prices. From that meeting was born the OPEC. On the history of OPEC see, for example, Abdul Kubbah, OPEC: Past and Present (Vienna: 1974).

12. This agreement which was known as the Purchase and Sales Agreement replaced the Consortium by the newly established Iran Oil Participants Ltd., which owned the Oil Services Company of Iran (OSCO). OSCO became a contractor to NIOC, and in effect carried out the same functions as the Consortium. Under this agreement, control of production and sales were given to NIOC, but little else changed in substance. See, for example, F. Fesharaki, "Iran's petroleum Policy: How Does the Oil Industry Function in Revolutionary Iran?" in H. Afshar (ed.), Iran: A Revolution in Turmoil (State University of New York Press, 1985), p. 103.

13. On the role played by the Shah in the oil price rise of 1973 see, for example, A. Saikal, The Rise and Fall of the Shah, chapter 4; F. Fesharaki, Development of the Iranian Oil Industry, pp. 109-116; and Robert Stobaugh, "The Evolution of Iranian Oil Policy, 1925-1975" in G. Lenczowski (ed.), Iran Under the Pahlavis (Stanford: Hoover Institution Press, 1978).

14. On Iran-U.S. clientele relationships during this period see, for example, M. Gasiorowski, U.S. Foreign Policy and the Shah: Building a Client State in Iran (Cornell

University Press, 1991); J. Bill, The Eagle and the Lion: The Tragedy of American-Iranian Relations (New Haven: Yale University Press, 1988); R. Cottam, Iran and the United States: A Cold War Case Study (University of Pittsburgh Press, 1988); B. Rubin, Paved With Good Intentions: The American Experience in Iran (New York: Oxford University Press, 1980); and G. Sick, All Fall Down: America's Tragic Encounter With Iran (New York: Random House, 1985).

15. The extent of the state's political suppression and the use of torture and terror by the Shah's secret police SAVAK can be judged, for example, from Baraheni's article [R. Baraheni, "Terror in Iran", New York Review of Books, (October 28, 1976), pp. 21-25, which is based on his testimony before the subcommittee on International Organization of the U.S. House Committee on International Relations. For more details see Halliday, Iran: Dictatorship and Development, chapter 4.

16. The fact of the CIA's intervention in Iran is obviously clear from the accounts given, for example, by A. Tully, CIA: The Inside Story (London: Arthur Barker, 1962), chapter 7, and K. Roosevelt, Counter-Coup: the Struggle for the Control of Iran (New York: McGraw-Hill, 1979).

17. According to Ramazani, the combination of American economic and military aid to Iran during the period 1950-1970 amounted to well over \$2.3 billion. See R. Ramazani, "Iran and the United States: An Experiment in Enduring Friendship", The Middle East Journal, 30 (1976), p. 327.

18. Khosrow Fatemi, "Leadership by Distrust: The Shah's Modus Operandi", The Middle East Journal, 36,1 (1982).

19. The United States which had a large military mission in Iran and was engaged in supplying and advising the Iranian armed forces and the Shah, was interested in strengthening Iran's defence against the Soviet Union and using the Iranian lucrative market for financing and improving its weapons technology. On how the U.S. businesses frequently profited from America's foreign policy toward Iran see Mark Hulbert, Interlock: The untold story of American banks, oil interests, the Shah's money, debts and the astounding connections between them (New York: Richardson and Snyder, 1982), chapters 1-4. On the economic motives, particularly, of the Nixon doctrine see Interlock, chapter 3.

20. Because since the 1953 coup the Iranian state had been to a great extent dependent on the U.S. for moral, political, economic, and military support, it was natural for its foreign policy to follow the American line closely. Iran

joined the Baghdad Pact (with Britain, Pakistan, Iraq, and Turkey) in 1955 and later, when Iraq withdrew as a result of the coup of 1958, Iran remained the pivotal link in the Central Treaty Organization, constituting a geographic bridge joining NATO and SEATO through Turkey and Pakistan. As a result of the 1969 Nixon Doctrine which encouraged reduction of American overseas involvements, Iran was chosen as a regional ally of the United States. For further analysis see R. Ramazani, Iran's Foreign Policy, 1941-1973 (Charlottesville: University Press of Virginia, 1975).

21.M. Hulbert, Interlock, p. 25.

22. See, for example, B. Nirumand, Iran: The New Imperialism in Action, p. 5 and M. Hulbert, Interlock, pp. 26-32.

23. See, for example, Khosrow Fatemi, "The Iranian Revolution: Its Impact on Economic Relations with the United States", International Journal of Middle East Studies, 12,3 (November 1980), pp. 303-317.

24. As Fatemi observes, these joint ventures were: "(1) Iran-Pan American Oil Company, a venture with Pan American Oil Company, a subsidiary of Standard Oil Company of Indiana; (2) Iranian Marine International Oil, an international joint venture including 16 2/3 percent by Philips Petroleum Company; and (3) Lavan Petroleum Company, a 50-50 joint agreement between Iran and four American oil companies: Atlantic Richfield Company, Murphy Oil Company, Sun Oil Company, and Union Oil of California". See Fatemi, "The Iranian Revolution".

25. Los Angeles Times, January 1, 1979.

26. On U.S. security interests in this period see, for example, M. Gasiorowski, "Security Relations Between the United States and Iran, 1953-1978" in N. Keddie and M. Gasiorowski (eds.), Neither East Nor West (New Haven: Yale University Press, 1990), pp. 145-165.

27. F. Halliday, Iran: Dictatorship and Development, p. 91. See also A. Saikal, The Rise and Fall of the Shah, pp. 154-161; M. Gasiorowski, U.S. Foreign Policy and the Shah, pp. 109-121; and F. Fesharaki, "Iran's Petrodollars: Surplus or Deficit? An Examination of Alternative Iranian Policies", in Jane Jacqz (ed.), Iran: Past, Present, and Future (New York: Aspen Institute, 1976). For the U.S. military assistance to Iran during 1950-1978 period see Gasiorowski, U.S. Foreign Policy, p. 112, table 6.

28. Thomas Ricks, "U.S. Military Missions to Iran, 1943-1978: The Political Economy of Military Assistance", Iranian Studies, 12, 3-4 (Summer-Autumn 1979), p. 187.

29. Between 1953 and 1978, the number of Iranian armed forces increased from 200,000 to 410,000. See, for example, E. Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982), p. 435.

30. For Iran's defence budget in 1939-1972 period see F. Kazemi, "The Military and Politics in Iran: The Uneasy Symbiosis" in Elie Kedourie and Sylvia Haim (eds.), Towards A Modern Iran (London: Frank Cass, 1980), p. 234, table 3. For the period of 1970-1977 see F. Halliday, Iran: Dictatorship and Development, p. 94, table 4.

31. A. Saikal, The Rise and Fall, p. 158. See also M. Gasiorowski, U.S. Foreign Policy and the Shah, pp. 109-121.

32. Bernard Reich, "The United States and Iran: An Overview" in Economic Consequences of the Iranian Revolution in Iran (Washington: Joint Economic Committee of the U.S. Congress, 1979), p. 7, and Anthony Sampson, The Arms Bazaar: From Lebanon to Lockheed (New York: Viking, 1977), p. 242.

33. B. Rubin, Paved With Good Intentions, p. 124.

34. H. Kissinger, White House Years (Boston: Little and Brown, 1979), p. 1264.

35. B. Rubin, Paved With Good Intentions, p. 135.

36. K. Mofid, Development Planning in Iran: From Monarchy to Islamic Republic (Cambridgeshire: Menas Press, 1987), p. 108.

37. F. Halliday, Iran: Dictatorship and Development, p. 95, table 5. See also K. Fatemi, "The Iranian Revolution: Its Impact on Economic Relations With the U.S.", p. 304.

38. See L. W. Martin, "The Future Strategic Role of Iran", in H. Amirsadeghi (ed.), Twentieth Century Iran (New York: Holmes and Meier, 1977). Altogether, it was estimated that by the Islamic revolution, there were more than 50,000 Americans working and living in Iran. See K. Fatemi, "The Iranian Revolution:...", p. 303. On the legal status of U.S. personnel in pre-revolutionary Iran see R. Pfau, "The Legal Status of American Forces in Iran", The Middle East Journal, 28 (1974), pp. 141-53. Pfau shows how diplomatic privileges were granted by the Shah to the American Military Community at the price of 2 hundred million dollars!.

39.M. Borqaie and H. Sarfaraz, Man va Khandan-e Pahlavi [Ahmad A. Masoud Ansari's Memoirs] (Tehran: Fakhteh, 1992), p. 29.

40.Assaf Hussain, Islamic Iran: Revolution and Counter-Revolution (London: Pinter, 1985), pp. 47-50 and B. Rubin, Paved With Good Intentions, p. 163. Many army commanders were involved in this, few of them even were prosecuted. For instance, the heads of the Navy and Gendarmerie were charged and prosecuted in 1976 and 1974, respectively [Halliday, Iran, p. 99, and A. Qarabaghi, Eeterafat-e General (The General's Confessions) (Tehran, 1986), pp. 96-98]. According to a U.S. congressional investigation in 1976, the Shah's nephew Prince Shahram (son of Ashraf Pahlavi) and the head of the air force, General Khatami (the Shah's son-in-law) both were acting as agents for Northrop [Quoted from Halliday, Iran: Dictatorship and Development, p. 99]. On reported bribes paid to Prince Shahram, Time magazine (June 23, 1975) says: "Northrop paid \$705,000 to Iranian Prince Charam {Shahram} Pahlavinia, a member of the imperial family, for services such as helping the company find a good Iranian architect. At the time, Northrop was part of a consortium that received a \$200 million contract to build a telecommunications system in Iran" [For a summary of charges against Shahram and Khatami see A. Jampson, The Arms Bazaar (London: Hodder, 1979), p. 241. On the issue of taking bribe and commission by Iranian military and civilian officials see, for example, The Financial Times, December 2, 1977; R. Graham, Iran: The Illusion of Power (New York: St. Martin's Press, 1979), chapter 9; Abbas Qarabaghi, Eeterafat-e General (The General's Confessions), The Memoirs of General Qarabaghi (Tehran: Nashr-e Ney, 1986); and Ahmad Faroughi Iran bar Zedd-e Shah [Iran Against the Shah] (Tehran: Amir Kabir, 1979)].

41.On the Iranian state's efforts to coopt some of the former members of various oppositional groups, particularly the National Front and the Tudeh party see, for example, M Soudagar, Roshd-e Ravabet-e Sarmayeh-dari dar Iran, pp. 232-236, 240-250; Asnad-e Laneh-e Jasousi [Documents of the Spy Nest] (meaning American Embassy in Tehran), Ahzab-e Siyasi-e Iran [Iranian Political Parties], vols. 2,3 (Tehran: 1987); Rasul Mehraban, Barrasi-e Mokhtasar-e Ahzab-e Boursioies Liberal dar Mogabelah ba Jonbesh-e Kargari va Engelabi-e Iran [A Brief Discussion about the Bourgeois-Liberal Parties vis-a-vis the Workers' Movement and Revolutionary Movement in Iran] (Tehran: Peyk-e Iran, 1981), pp. 182-83; and A. Badamchyan and A. Banaie, Heyathay-e Moetalefah-e Eslami [Islamic Coalitions] (Tehran: Aouj, 1983), p. 46.

42. According to James Bill, the Iranian state assumed that, the White Revolution, particularly the land reform, would not only gain the support of the peasants for the Shah and the state but also it would represent ideological concessions to the middle classes whose members had for years been asking for some changes in the rural areas. For a thorough explanation of the White Revolution as a politics of system preservation see J. Bill, The Politics of Iran: Groups, Classes, and Modernization (Columbus, Ohio: Charles Merrill Publishing, 1972), chapter 6.

43. E. Abrahamian, Iran Between, pp. 434, 438.

44. J. Bill, The Politics of Iran, p. 151. Another example of state effort to buy the support of the Iranian people can be seen in the Share Participation Law of 1972. In this time, the Iranian state in order to enhance its popular support launched the general scheme for workers share participation. This scheme required the sale of 99 percent of shares of state-owned production units and 49 percent of shares of all private manufacturing units to the workers, farmers and the general public by 1978. See Gail Johnson, High-Level Manpower in Iran (New York: Praeger, 1980), p. 34 and M. Milani, The Making of Iran's Islamic Revolution: From Monarchy to Islamic Republic (Boulder: Westview Press, 1988), p. 168.

45. One source of the Pahlavi Foundation was the sale of Crown properties in early 1950s. In the 1960s and 1970s, one of the largest sources of deposits for the Pahlavi foundation was the National Iranian Oil Company. After the revolution of 1978, some of the employees in the Central Bank of Iran claimed to have documents showing a pattern of payments from NIOC into the Pahlavi foundation. See, for example, Tim McGrik and Nigel Ash, "How the Shah Plundered Iran", 8 Days, December 8, 1979; M. Hulbert, Interlock, pp. 64-65; and R. Graham, Iran, pp. 155-56.

46. On charitable undertakings of the Pahlavi Foundation see, for example, E. Abrahamian, Iran Between, p. 437; R. Graham, Iran, pp. 155-163; Minou Reeves, Behind the Peacock Throne (London: Sidgwick and Jackson, 1986), p. 154; and Anthony Parsons, The Pride and the Fall (London: Jonathan Cape, 1984), p. 29.

47. H. Beblawi and G. Luciani, (eds.), The Rentier State (London: Croom Helm, 1987).

48. M. Mosaddeq, Khaterat va Neveshtahay-e Doctor Mossadeq [Memoirs and Writings of Dr. Mosaddeq] (Tehran: Paiez, 1986).

49. After the 1953 coup, as we pointed out before, the Iranian state began to suppress the National Front of Dr. Mosaddeq and its supporters as well as the Tudeh party. Once the opposition was crushed, the state turned on the large landowners whose power base was destroyed during the land reform of early 1960s. With the removal of the large landlords and suppression of the opposition, the state then turned on the religious establishment. Suffice it to say that after the outbreak of the Iranian revolution in 1977-78, the Shah and the Iranian state had only two centres of support left in a nation of 35 million people: the SAVAK and the Imperial Guard. On the Iranian state's loss of all social support see, for example, E. Abrahamian, Radical Islam: The Iranian Mojahedin (London: I.B. Tauris, 1989), pp. 11-27.

50. James Bill, The Eagle and Lion, p. 159.

51. S. Akhavi, Religion and Politics in Contemporary Iran: Clergy-State Relations in the Pahlavi Period (Albany: State University of New York Press, 1980), p. 24.

52. Ayatollah. R. Khomeini, Kashf-ul Asrar [Revealing the Secrets] (n.p.: 1943), p. 189. On Ayatollah Khomeini's ideas see Bashiriyeh, The State and Revolution in Iran: 1962-82 (London: Croom Helm, 1984), chapter 3.

53. On Ayatollah Khomeini's opposition to the law which provided American military personnel and their dependants stationed in Iran with full diplomatic immunity see J. Bill, The Eagle and the Lion, pp. 156-161 and Roy Mottahedeh, "Iran's Foreign Devils", Foreign Policy, 38 (Spring 1980), pp. 19-34. This law approved by the Iranian Majlis in October 13, 1964 was known in the U.S. as the Status of Forces Agreement (SOFA) and in Iran as the Capitulation Agreement.

54. J. Bill, The Eagle and the Lion, p. 152.

55. On the state-clergy relations during this period see, for example, S. Akhavi, Religion and Politics in Contemporary Iran: Clergy-State Relations in the Pahlavi Period; Said Arjomand, The Shadow of God and the Hidden Imam (Chicago: University of Chicago Press, 1984); N. Keddie, Roots of Revolution (New Haven: Yale University Press, 1981); M. Fischer, Iran: From Religious Dispute to Revolution (Cambridge: Harvard University Press, 1980); Abrahamian, Iran Between; and James Bill, The Eagle and the Lion.

56. On the Iranian state's loss of legitimacy see, for example, H. Razi, "Development of Political Institutions in Iran and Scenarios for the Future".

57. As we saw in chapters 4 and 5, the economic development policies of the Iranian state did not improve the standard of living of the bulk of Iranian people. In the words of an Iranian scholar,

... despite improvements in social services, the failure not only to meet rising expectations but also to keep up with many of the neighbouring countries - statistics published on the eve of the revolution show that Iran lagged behind many other Middle Eastern countries in such significant areas as adult literacy, university places, hospital beds, child health care, doctor-patient ratios, urban housing, and rural electrification [E. Abrahamian, Radical Islam, p. 17].

58. On the Shah and royal family see, for example, "Nokhbegan va Touzie-e Oudrat dar Iran (Elites and the Distribution of Power in Iran), in Asnad-e Laneh-e Jasousi, Az Zohur ta Soqut (Tehran: 1987), pp. 34-47. In a report published by a dissident group in Europe, it was claimed that the Shah and royal family had shares in most of the country's businesses. See Shapour Ravasani, Dowlat va Hokumat dar Iran (Tehran: Sham Publication, n.d.), pp. 251-259. Because of the paucity of information, it is difficult to verify the sources which claim the exact wealth of the Shah and royal family. But, however, what evidence there is of corruption in the Iranian state from various sources is compelling. Furthermore, right after the victory of the Islamic revolution, many documents were released by the revolutionary government which charged that the Shah and royal family misappropriated public funds. For instance, in a suit filed by the post-revolutionary state in New York, the Shah and his family were charged with misappropriating \$20 billion [Jeff Gerith, "Iranians Charge Documents Show Shah Took \$1 Billion From Nation", New York Times (December 5, 1979)]. In another suit, it was claimed that the Shah and his family had stolen \$35 billion from the country [See Keyhan Havai'i, Dey 26, 1363 (January 16, 1985), p. 2]. On the Shah, royal family, and court's wealth and corruption see Anne Crittenden, "The Shah in New York", New York Times, September 26, 1976; Eric Pace, "In Iran: It's Alms to the Poor and the Rich", New York Times, September 26, 1976; Reza Baraheni, The Crowned Cannibals: Writings on Repression in Iran (New York: Vintage Books, 1977), pp. 42-43; R. Graham, Iran, pp. 152-163; E. Abrahamian, Iran Between, pp. 437-38; E. Abrahamian, "Structural Causes of the Iranian Revolution", MERIP Reports; Keyhan, Tir 26, 1358 (July 17, 1979); Keyhan, Tir 23, 1358 (July 14, 1979); Keyhan, Mordad, 1, 1358 (July 23,

1979); Ettela'at, Esfand 12, 1357 (March 3, 1978); Keyhan, Khordad 16, 1358 (June 6, 1979); Keyhan, Shahrivar 9, 1358 (August 31, 1979); "Reformer in Shake", Time, September 12, 1960; "Next?", Time, May 19, 1961; "Reform With tears", Time, June 16, 1961; and M. Hulbert, Interlock.

59.E. Abrahamian, Radical Islam: The Iranian Mojahedin, p. 14 and J. Foran, Fragile Resistance, p. 313.

60. For a list of the Pahlavi Foundation's wealth see R. Graham, Iran: The Illusion of Power, pp. 21-217. See also S. Ravasani, Dowlat va Hokumat dar Iran, pp. 249-263.

61. On the Shah's complete control over the Pahlavi Foundation see Ann Crittenden, "The Shah in New York", The New York Times, September 26, 1976.

62. New York Times, September 26, 1976, section 3, pp. 1-2.

63.A. Crittenden, "Bankers Say Shah's Fortune is Well Above a Million", New York Times, January 10, 1979.

64.M. Reeves, Behind the Peacock Throne, p. 154.

65. It was reputed that 10 percent of the shares was customary. See G. Johnson, The High-Level Manpower in Iran: From Hidden Conflict to Crisis. The Shah and royal family acted as the credit mobiliser and provided protection and access to capital for various industrial elites. As A. Rezaie, one of the big industrialists in Iran, conceded, "without the Shahanshah's help and support I could never attain my present position" [Le Monde, October 5, 1973, quoted in Bashiriyeh, The State and Revolution in Iran, p. 41]. This mainly was because 70 per cent of the capital of Rezai came from low-interest state loans. His companies also were exempt from taxes, for five years in Tehran and for 12 years in the provinces. Another Large industrialist, A. Khayami, also benefited from the Shah's support and established his manufacturing industries by order of the Shah. For these two cases and others see R. Graham, Iran: The Illusion of Power, pp. 47-49.

66. Gail Johnson, High-Level Manpower in Iran, pp. 29-30.

67. For further analysis see B. Jazani, Capitalism and Revolution in Iran (London: Zed Press, 1980).

68. Freydoun Hoveyda, The Fall of the Shah (London: Weidenfeld & Nicolson, 1980), pp. 63-65.

69. On the industrial elite of Iran and their social origins see, for example, A. Qasemi, Oligarshi va Khandanhay-e Hokumatgar-e Iran [Oligarchy or the Ruling Families in Iran] (Tehran: Danesh and Arman, 1974); M. Zonis, The Political Elite of Iran (Princeton: Princeton University Press, 1971); S. Ravasani, Dowlat va Hokumat dar Iran, chapter 4; E. Abrahamian, Iran Between, p. 432; H. Bashiriyeh, The State and Revolution in Iran, pp. 39-43; Nokhbegan va Touzie-e Oudrat dar Iran; Ann Enayat, Nokhbegan-e Sanati-e Iran: Mansha, Mahiyat va Sakhtar [The Industrial Elites of Iran: Origins, Nature, and Structure] (Tehran: University of Tehran Press, n.d.); and R. Graham, Iran: The Illusion of Power, pp. 47-49.

70. Behrouz Montazami and Khosrow Naraghi, "Miraculous Growth and the Upheaval", Le Monde Diplomatique, December 1978, quoted in "Iran: The New Crisis of American Hegemony", Monthly Review, p. 8. Bashiriyeh quoting from two different sources gives a slightly different estimation. He states, "The upper bourgeoisie composed of some 150 families, mostly from a bazaar background, who owned 67 per cent of all industries and financial institutions... Out of the 473 largest private industries 370 were owned by ten families". See Bashiriyeh, The State and Revolution in Iran, 1962-1982, p. 40.

71. Ettela'at, August 23, 1977, quoted in M. Parsa, Social Origins of the Iranian Revolution, p. 76.

72. M. Parsa, Social Origins of the Iranian Revolution, p. 69.

73. M. Soudagar, Roshd-e Ravabet-e Sarmayeh-dari dar Iran, p. 310.

74. E. Hooglund, Land and Revolution in Iran, 1960-1980 (Austin: University of Texas Press, 1982), p. 85.

75. A. Najmabadi, Land Reform and Social Change (Salt Lake City: University of Utah Press, 1987), p. 151. M. Soudagar gives information about 24 such agribusinesses which operated in Iran by 1975. See Soudagar, Roshd-e Ravabet-e Sarmayeh-dari dar Iran, pp. 314-318 and 382-83.

76. See, for example, Helmut Richards, "Land Reform and Agribusiness in Iran", MERIP Reports, 43 (December 1975), pp. 3-18; John Freivalds, "Farm Corporations in Iran: An Alternative to Traditional Agriculture", Middle East Journal, 26 (Spring 1972), pp. 185-193; and F. Bagley, "A Bright Future after Oil: Dams and Agro-Industry in Khuzistan", Middle East Journal, 30 (Winter 1976), pp. 25-35.

GENERAL CONCLUSION:

This thesis was an effort to explain the main cause of the failure of economic development in Iran during the 1962-1978 period. In this regard, we developed a theoretical framework which was used to answer the following central question: why was Iran, in spite of the extraordinary resources that were available to it, unable to promote diversified economic development during this period? In doing so, our approach argued that the main characteristics of the Iranian state imposed basic constraints on socio-economic development of the country.

The Iranian state of the 1960s and 1970s was characterized as personalist-authoritarian, rentier, and client. It was a personalist-authoritarian state dominated by the Shah, whose main goal was to centralize power at the cost of other societal groups. Although we avoided in this thesis to reducing the Iranian state to the person of the Shah, we argued for his central power position within the state. As we pointed out in chapters 2 and 3, the Shah managed to construct a system of personalist-authoritarianism in which relatively all decisions were made by him. In the words of one Iran specialist,

In both relative and absolute terms, this monarch is more powerful than his father and

than any previous Iranian ruler. This king of kings can, in no political sense, be considered merely the "first among equals".¹

This close association of the state with the person of the Shah, though to some extent has been shared in other comparable monarchies, made the Iranian case rather unique.

The Iranian state also was characterized as a rentier state, which on a regular basis received substantial amounts of oil revenues. The availability of externally generated oil rents served to strengthen the state autonomy. This was mainly because the oil rents were directly transmitted to the Iranian state. Because of the externality of this economic resource, therefore, the Iranian state did not have to depend on the domestic means of production for its revenues. The state did not need to rely on taxation since most of its financial needs could be covered by the oil revenues.

As a result of the availability of oil revenues, therefore, the Iranian state during the 1962-1978 period acquired a high degree of autonomy. This autonomy, though in contrast to the stipulation of the theory of the rentier state did not make the Iranian state immune from the domestic social forces, made it possible for the state to develop its own particularist interests which were not reducible to those of the civil society.² On the other, this high degree of autonomy made it possible for the Iranian state, particularly the Shah, to follow various

economic policies without much regard for societal interests.

The Iranian state was also a client state dependent on the United States. As we stated in chapter 3, the foundation of this clientele relationship was laid after the 1953 coup against Prime Minister Mosaddeq. To understand this clientele relationship, we examined briefly, on the one hand, the nature of the global political and strategic milieu in which this relationship fit. On the other, we examined the domestic situation of Iran in order to demonstrate how this relationship was intertwined with the country's domestic policies.

In the course of this study our central arguments were supported. These arguments were that,

the characteristics of the Iranian state influenced and shaped its policies in a way which proved to have counter-productive consequences for the economic development of the country;

the Iranian state's autonomously designated and implemented economic development policies benefitted its particularist interests in autonomy, legitimacy, and property.

Accordingly, the centrality of the person of the Shah in the state made Iran hostage to the decisions of one leader. All socio-economic decisions fell in the hands of the Shah whose personal decisions often proved to go against the economic development of the country. These decisions almost always were politically-oriented and served the

particularist interests of the Shah and his entourage.

The rentier characteristic of the Iranian state was also detrimental to the economic development of the country. Although, because of availability of oil revenues Iran did not suffer from the lack of foreign exchange reserves, access to large-scale oil revenues solved few of Iran's real problems of economic development. The autonomy which was produced by oil revenues did not coincide with economic development of the country. On the contrary, the autonomy produced by oil revenues made it possible for the state to 1) pursue policies which were not only at variance with, but also in sharp contradictions, to economic development of Iran and the interests of the Iranian people; and 2) delay the painful task of diversifying the economy, which required economically difficult and politically unpleasant, and often dangerous, socio-economic decisions to be made.

Consequently, the availability of oil revenues created a situation in which the state became enabled to privilege political considerations over economic rationality. In this situation, further, interest in sound and efficient economic development rapidly waned and policies, which were followed by the state, were anti-development in results. Iran not only became increasingly dependent on oil export but also on imports of foodstuffs and consumer goods.

The client characteristic of the Iranian state also played a major role in thwarting the economic development of

the country. The cliency relationship with the United States, on the one hand, boosted the power position of the Shah and reinforced the autonomy of the state. Thus, the Iranian state, not only because of access to huge oil revenues but also because of a huge political, economic and military support received from the United States, acquired a high degree of autonomy to follow decisions that were politically oriented and thus economically harmful. On the other, this special relationship facilitated for the Shah to make his dream of making Iran the strongest country militarily in the region come true. The Iranian state, particularly the Shah's, decision to embark upon a massive build-up of the armed forces in the early 1970s, had detrimental impacts on the socio-economic development of the country.

Although these characteristics influenced and shaped the Iranian state economic policies in a way which proved counter-productive for the economic development of the country, they benefitted the particularist interests of the state in autonomy, legitimacy, and property. The Iranian state was instrumentalized by the Shah, royal family, and other segments of the upper class to serve their own interests. The various measures, which were taken by the state to achieve these interests, were discussed in the final chapter of this thesis.

Having highlighted the relationship between the

characteristics of the Iranian state and non-development of the country from 1962 to 1978, it now falls upon us to mention certain contributions of the thesis to our knowledge of the topic and approaches involved. This thesis was an effort to "bring the Iranian state back in" in order to explain the economic development failure in the country. Since our approach took politics to be central in explaining this failure, therefore, we focused on the characteristics of the Iranian state during the period under study.

The literature was criticized mainly in two ways. First, we argued that while the Islamic revolution of 1978 has been examined in detail, the failure of the Iranian state to bring about economic development in the country has received scant attention. If, however, this failure has attracted the attention of some scholars, the main goal has been to examine its impact on the coming of the revolution in the country.³ Thus, this thesis sought to fill some gaps in our knowledge of the economic development failure in Iran by treating this failure as a dependent variable whose causes need to be explored.

Finally, the literature's lack of interest in examining the Iranian state as an independent actor with an inner logic of its own, which played a very significant role in economic non-development of Iran, was criticized. We argued that the literature either does not consider the Iranian state as an important factor in explaining the failure of

economic development, or if it considers the importance of the state, the state is given too much pre-eminence and as a result society disappears as a separate force. We criticized both the cultural and economic accounts of the failure of economic development in Iran which neglected the pivotal role of the state. On the other, we criticized the political account of the failure which mainly considered the Iranian state either as a dependent state or omnipresence to the detriment of the social forces. By highlighting the major shortcomings of these two conceptualizations of the Iranian state, we proposed an alternative one in which the Iranian state, though enjoyed a high degree of autonomy, was treated as an actor whose policies were also influenced by internal and external factors. In other words, as we suggested, although the Iranian state enjoyed a high degree of autonomy, its economic policies were influenced by factors outside the circle of the state, internal or external.

To understand the source of the Iranian state autonomy, we, following some other Iran specialists, suggested using the theory of the rentier state. This theory, in our view, contributes to our understanding of the economic source of the Iranian state's autonomy, its heavy intervention in the economy and its promotion of industrialization. While the rentier characteristic of the Iranian state was considered, we also paid attention to the other two characteristics of the state in Iran, its personalist-authoritarian and

clientelism. Our attempt, thus, has been to integrate the perspective of political account of the failure, on the one hand, and the rentier state theory, on the other, to solve the puzzle of how, despite of availability of oil revenues, the Iranian state failed in its economic development endeavour. These two perspectives were linked to our own conceptualization of the state as weak to construct a comprehensive theoretical framework for studying the failure of economic development in Iran.

Endnotes

1.M. Zonis, The Political Elite of Iran (Princeton: Princeton University Press, 1971), p. 18.

2.A major shortcoming of the literature on the rentier state is its failure to situate the state within a historical perspective. Many rentier states like Iran have failed to translate oil rents into political legitimacy and hence political stability and power. For a critique of the literature on the rentier state see E. Davis, "Theorizing Statecraft and Social Change in Arab Oil-Producing Countries", in E. Davis and N. Gavrielides (eds.), Statecraft in the Middle East (Florida: Florida International University Press, 1991), pp. 1-35.

3. See, for example, E. Abrahamian, "Structural Causes of the Iranian Revolution", MERIP Reports, 87 (May 1980), pp. 21-26; H. Afshar, (ed.), Iran: A Revolution in Turmoil (Albany: State University of New York Press, 1985); J. Amuzegar, The Dynamics of the Iranian Revolution: The Pahlavi's Triumph and Tragedy (Albany: State University of New York Press, 1991); H. Bashiriyeh, The State and Revolution in Iran: 1962-82 (London: Croom Helm, 1984); F. Farhi, States and Urban-based Revolutions, Iran and Nicaragua (Urbana and Chicago: University of Illinois Press, 1990); John, Foran, Fragile Resistance: Social Transformation in Iran from 1500 to the Revolution (Boulder: Westview Press, 1993); Ahmad, Jabbari, "Economic Factors in Iran's Revolution: Poverty, Inequality, and Inflation", in A. Jabbari and R. Olson (eds.), Iran, Essays on a Revolution in the Making (Lexington: Mazda Publishers, 1981), pp. 163-214; N. Keddie, Roots of the Revolution: An Interpretive History of Iran (New Haven: Yale University Press, 1981); R. Looney, Economic Origins of the Iranian Revolution (New York: Pergamon Press, 1982); and M. Milani, The Making of Iran's Islamic Revolution: From Monarchy to Islamic Republic (Boulder: Westview Press, 1988).

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APPENDIX:

Table 1

Exchange Rates, U.S. Dollars/Rials

Year	Exchange rate	Year	Exchange rate
1949	39.50	1963	75.75
1950	48.25	1964	75.75
1951	83.54	1965	75.75
1952	87.10	1966	75.75
1953	82.00	1967	75.75
1954	75.60	1968	75.75
1955	76.50	1969	75.75
1956	76.50	1970	75.75
1957	76.50	1971	76.38
1958	76.50	1972	76.38
1959	76.50	1973	67.63
1960	76.50	1974	67.63
1961	76.50	1975	69.28
1962	76.50	1976	70.62

Source: Central Bank of Iran, Annual Report and Balance Sheet, (Various Years)