



ECONOMY IX. IN THE PAHLAVI PERIOD

ECONOMY

ix. IN THE PAHLAVI PERIOD

From Reżā Shah's rise to power to his abdication (1299-1340 Š./1921-41). Upon seizing power, Reżā Shah's priority was to establish the authority of the state over the whole country and to build a strong central bureaucracy. He formed a national army, introduced conscription, and set about the establishment of social and economic infrastructures and the reform of the country's financial, administrative, legal, and educational systems (for details of these reforms, see Banani and Savory; for an economic assessment of the economy under Reżā Shah, see Yaganegi, Baldwin, Bharier, Issawi, 1971, Lenczowski, 1978, Katouzian, Wilber, and Karshenas; see also [EDUCATION](#); [FINANCE](#)).

In addition to initiating legal and institutional reforms, Reżā Shah placed considerable emphasis on the development of the country's infrastructure. He embarked on a number of important transportation and communication projects, the most ambitious of which was the construction of the 1,394 km long Trans-Iranian Railway, linking [Bandar-e Šāh](#) (now Bandar-e Torkaman) on the Caspian Sea with [Bandar-e Šāhpūr](#) (now Bandar-e Emām Komeynī) on the Persian Gulf. The project started in 1927 and took eleven years to complete. It cost around \$150 million and was financed mainly by additional



excise taxes on imports of tea and sugar (Issawi, 1978, p. 131). By comparison, expenditure on other types of infrastructure, such as development of water resources, electricity generation, and housing, was rather limited.

Thus, the first half of Reżā Shah's rule, from 1921 to 1929, was primarily devoted to building a new national state and to providing the legal and political framework necessary for a proper functioning of a modern market economy. During this period most of the pre-1921 financial and trade agreements were still largely in force. The free trade regime originally imposed on Persia following the treaties of [Golestān](#) (1813) and Torkamānčāy (1828) agreements remained largely intact (Issawi, 1971, pp. 72-73), while the British-owned Imperial Bank of Persia (see [BANKING i](#); [ESKENĀS](#)) continued its monopoly on issuing notes, and the [Anglo-Iranian Oil Company](#) (AIOC) was still operating under the original terms of concession granted to [William Knox D'Arcy](#) by Możaffar-al-Dīn Shah (for modification of the D'Arcy agreement under Armitage-Smith in December 1920, see Bamberg, p. 27). The autarchic policies adopted by the new Soviet state, depriving Persia of one of its most important non-oil export markets, and the onset of the Great Depression in 1929 with its unfavorable impact on Persia's exports, forced Reżā Shah to reconsider the country's economic policy in the three important areas of oil, trade, and finance.

Under a new oil concession signed with the Anglo-Iranian Oil Company in 1933, while the concession area was reduced and the duration of the concession was extended by thirty-two years, the AIOC also agreed to a "general plan" of increasing payments to Persia (for details see Bamberg, chap. 2, and Stobaugh). Under the new concession oil royalties were stabilized and started to increase along with oil production over the latter half of Reżā Shah's rule. The royalties and other sums paid to Persia per ton of oil produced rose steadily from 0.23 in 1931 to 0.44 pound sterling in 1939 ([Table 1](#)). However, oil revenues still accounted for a relatively small part of government's total revenues, and according to the calculations carried out by Amuzegar and Fekrat (pp. 21-22), at no time during the 1910-50 period did oil income exceed 15 percent of total government revenues (see also Karshenas, [Table 3.2](#)). Insofar as foreign revenues were concerned, however, during the 1921-41 period oil exports for most years accounted for more than 60 percent of the country's total exports. But due to the oil concessionary system in place at that time, Persia's share of foreign exchange receipts from oil exports was relatively small, and non-oil exports continued to be the dominant factor in



balancing the country's external accounts.

Although the resolution of the oil dispute in 1933 had favorable consequences for the country's finances, the royalties and other payments received by Persia were not large enough to cushion the domestic economy against adverse movements in the world economy and the loss of export markets in the U.S.S.R. Before the October Revolution the Russian markets accounted for 70 percent of Persia's non-oil exports, but over the 1921-41 period the U.S.S.R. share in Persia's non-oil exports declined, falling to 40 and 27 percent, respectively, in the 1925-29 and 1930-34 periods and finally stabilizing around 21 percent for the rest of the Reżā Shah's reign (Bharier, Table 5, p. 113). The vacuum created by Russia was filled primarily by Germany, with the German share of Persia's non-oil exports rising from 1 percent during 1925-29 to 32 percent over the 1935-39 period. A similar picture also emerges in relation to the geographical composition of Persia's imports (*ibid.*).

In addition to the loss of Russian markets, Persia suffered from worsening terms of trade and stagnant exports caused by the worldwide economic depression. Over the period 1928-29 the value of imports (1,579 million rials) exceeded that of the non-oil exports (967 million rials) by 612 million rials, or 63 percent of total non-oil exports during that period (see Bharier, chap. 6 and Bānk-e mellī-e Īrān, p. 155, notwithstanding slight discrepancies between the two). The large deficit in the non-oil trade balance, the regime's understandable unwillingness to turn to external debt financing, and the fact that revenues from oil exports were primarily set aside for military purposes and capital goods imports, rather than to finance imports of consumer goods, led to Persia's first foreign exchange crisis under the Pahlavis. The crisis brought about a sharp depreciation of the silver *qerān* against the gold standard currencies, and the *qerān* was devalued by 53.5 percent against the pound sterling (the value of pound sterling was raised in 1930 from fifty-eight to eighty-nine *qerāns*). This devaluation introduced further uncertainties into an already volatile foreign exchange market, forcing the government, in effect, to introduce foreign exchange controls in February 1930. These controls were then supplemented by the Foreign trade monopoly law (Qānūn-e enḥeṣār-e tejārat-e kārejī), granting the government monopoly over all foreign trade (imports as well as exports). This act marked a major departure from the *laissez faire* policies that had prevailed over the first part of Reżā Shah's rule (see further Karshenas, chap. 3, and Ashraf, pt. iv).

The Foreign trade monopoly law, in effect, restored Persia's autonomy over her



foreign trade (lost under the Torkamānčāy Treaty), providing a basis of an import-substitution development strategy and directly involving the government in a number of key sectors of the economy. The law allowed the government to grant import permits to the private sector on the condition that the imports be paid for from proceeds of non-oil exports. The immediate impact of the implementation of the law was, therefore, to establish a balance between the value of imports and of non-oil exports. In fact, in 1931, for the first time in many years, the value of non-oil exports (at 718 million rials) exceeded that of imports (at 631 million rials; see Bharier, Table 4, and for slightly different figures, see Bānk-e mellī-e Īrān). Within two years, however, the controls proved unworkable and the full implementation of the law lapsed. The more lasting effect of the law was to increase the involvement of the government in productive activities. By 1935 the government had established seventeen trading companies, which directly or indirectly controlled 33 percent of imports and 49 percent of exports. These companies also provided the government with a substantial degree of control over the country's financial, as well as physical, resources. Bānk-e mellī, which was founded in 1927 to perform some of the functions of the central bank, played a singularly important role in the process of financial mobilization that followed (see further [Bānk-e mellī-e Īrān](#)).

Over the period 1928-37 the public sector expenditures in constant 1928 prices increased from 392 million rials to 977 million rials, showing an average annual growth rate of 11 percent (Karshenas, p. 71). A large part of this increased government expenditure was devoted to infrastructural investments, primarily in the areas of transportation and communications. Another important area of government investment activities was light industries, such as textile, soap, sugar refining, and tobacco product industries. Over the period 1930-40, 265 new plants employing approximately 47,000 workers were established in the country by both public and private sectors (Karshenas, Table 3.3). The state owned and operated the largest of these industrial establishments, prominent examples being the state arsenal, sugar refinery, and tobacco and cement factories. The private sector investments were limited by comparison and were confined largely to production of textiles, glass, matches, leather products, and beverages. During this period private initiative was very much subordinated to state enterprises and operated under the firm supervision of the government (Ashraf, p. 329).

No national income data are available for the 1921-41 period, and any attempt



at an overall evaluation of the country's economic performance under Reżā Shah must inevitably be speculative. The available time series evidence on monetary aggregates and price level changes over the 1937-41 period, however, suggests only modest increases in the level of aggregate output. Over the 1937-41 period money supply (the *M1* measure defined as private sight deposits plus notes and coins in circulation) rose at an average annual rate of 21.8 percent, while over the same period wholesale and consumer prices rose by average annual rates of 18.1 and 20.3 percents, respectively (Table 2). This leaves only a narrow margin of between 1.5 to 3.7 percent per annum to account for possible growth in real aggregate output and for the monetization of the economy.

The period under Moḥammad-Reżā Shah (1320-57 Š./1941-79). The downfall of Reżā Shah and the presence of foreign troops in Persia from 1941 to 1946 radically altered the balance of political forces. A prolonged period of political and economic uncertainty and confusion ensued, characterized by frequent changes in the government, rising prices, and food shortages. Many political coalitions and caucuses were formed only to be broken soon after (Abrahamian, chaps. 4-5; for a detailed analysis, see Azimi, *passim*). The general cost of living index increased fourfold during 1941-43, rising by 95.9 percent in 1942 and by 110.7 percent in 1943 (Table 2). Many of the new industrial plants were forced to curtail their operations or to shut down completely largely due to shortages of raw materials and spare parts. The shortages of imported raw material and equipment also provided an important impetus for development of local small-scale industries. These developments were, however, rather short-lived. Various attempts by the government to solve the financial and economic crises proved totally inadequate, and the state of economic uncertainty continued well after the end of the Second World War.

Two important initiatives emerging from the crisis, however, turned out to have far-reaching implications for the country's politico-economic system. One was the creation of a High economic council (Šūrā-ye 'ālī-e eqtešād) in 1945 with the aim of preparing a general economic plan (Baldwin, chap. 2; Mehner), and the other was the law of October 1947 committing the Persian government to renegotiating the terms of the 1933 oil concession with the Anglo-Iranian Oil Company (for accounts of the origins of oil nationalization, see Elwell-Sutton; Fesharaki; Stobaugh; Bamberg, chaps. 15-16). The idea of economic planning in Persia was first suggested in a 1939 memorandum (Mehner, p. 167).



However, it was not until 1949 that Persia's first development plan (covering only the public sector) was put into effect. The plan was intended to cover seven years, but due to political and financial disturbances and shortages of funds, primarily arising from the oil nationalization, was terminated prematurely in September 1955 and replaced by another seven-year plan.

The first seven-year plan was modest in size and stipulated total government outlays of twenty-one billion rials, 9 billion of which was allocated to unfinished projects. The plan's focus was on government investment and expenditure programs and did not concern itself with private investment or the balance of aggregate savings and investment in the economy as a whole. In reality, it was composed of a list of government investment projects, together with the financial and technical details needed for their implementation. Despite its shortcomings, the first plan represented an important step toward comprehensive economic planning. It laid the foundations of a modern bureaucracy, The Plan and Budget Organization (*Sāzmān-e barnāma wa būdja*), for the formulation and implementation of four other development plans undertaken under Moḥammad-Rezā Shah.

However, the uncertainties surrounding the oil nationalization process dominated the political and economic situation in Persia during the 1949-53 period. There were a number of reasons for Persia's dissatisfaction with the 1933 agreement. First, royalty payments were made on the basis of the fixed sum of four shillings per ton of oil produced, depriving Persia of benefits from the rapid rise in international oil prices during the 1939-48 period (Issawi and Yeganeh, pp. 132-34). In fact, during this period oil prices had doubled in international markets, while Persia's direct receipts per ton had fallen by about 18 percent (Tables 1, 3). The depreciation of the pound sterling and the fact that the British government earned more from taxing AIOC's profits than Persia received through royalty and other payments further disadvantaged Persia (Bamberg, p. 387). An important factor contributing to Persia's determination to obtain better terms from the AIOC was the new 50-50 oil agreement reached in Venezuela in 1948, followed by equally attractive new deals concluded in 1948 and 1949 between U.S. oil companies and the government of Saudi Arabia and Kuwait for oil produced in the Neutral Zone (Issawi and Yeganeh, p. 133). AIOC's inadequate response to Persia's demand led to the nationalization of the oil industry in 1951 under Dr. Moḥammad Moṣaddeq. In response, the British government froze Persia's sterling accounts in Britain, placed an embargo on exports of sugar, iron, and steel to Persia,



prevented the sale of the Persian oil on international markets, and referred the dispute to the International Court of Justice.

The result for Persia was a virtual halt in oil exports and increased financial difficulties for an already embattled economy. Oil production, which had been rising at a steady rate from 1942 to 32.5 million tons in 1950, halved in 1951, dropped to 1,029,000 metric tons in 1952, and recovered only slightly in 1953 and 1954 (Table 3). The loss of oil output from Persian oil fields during 1951-54 was promptly compensated for by production increases in other Middle East countries (Issawi and Yeganeh, Appendix, Table 1).

The sudden loss of oil revenues, combined with continued political instability, placed the Persian economy under siege. The principal exchange rate applicable to most imports and to non-oil exports depreciated by 100 percent between 1950 and 1953, and prices, which on average had been falling over the 1944-50 period, started to rise strongly again. Between 1951 and 1953 the index of wholesale prices rose by an average annual rate of 13.7 percent, and the general consumer prices rose by 8.2 percent (Table 2). Although traditional sectors of the economy, particularly those oriented toward exports, began to expand, the general economic stagnation and financial crisis continued unabated due to shortages of imported raw materials and spare parts (Mahdavy; Clawson and Sassanpour; see also [AGRICULTURE](#); [ANGLO-IRANIAN OIL COMPANY](#); [BARNĀMA-RĪZĪ](#); [COMMERCE](#)). When attempts at mediation, including that of the World Bank, failed to resolve the Anglo-Persian dispute by negotiation, Moṣaddeq's government was overthrown by *coup d'état* in August 1953.

Cyclical growth and stabilization (1954-63). The fall of Moṣaddeq's government marked the beginning of a new era of "oil and autocracy" in Persia's economic development. The new oil agreement reached in August 1954 between Persia and a Western consortium of oil companies, which took over the functions of the old AIOC, once again put Persia's oil resources under foreign control. As oil exports resumed in October 1954, production began to rise steadily from 16.2 million metric tons in 1955 to 52.4 in 1960 (Table 3). Total foreign exchange revenues from the oil sector also increased substantially but at a slower rate than oil production, rising from \$139 million in 1955 to \$359 million in 1960 (Amuzegar and Fekrat, Table 3.1).

The resumption of oil exports and increased technical and financial assistance from the United States enabled the government to launch the second seven-



year development plan (1956-62). This plan had the same framework as the first one but was implemented on a larger scale. Like its predecessor, the second plan was a medium-term government financial program and lacked a comprehensive and coherent development strategy. It concentrated primarily on a number of large infrastructural projects. For example, most of the plan's allocation for the agricultural sector was devoted to the completion of three large dams, namely Karaj, Safidrūd, and Dez.

The implementation of the second plan was accompanied by an expansionary monetary and credit policy, which led to a rapid expansion of the private sector investment, especially in the area of construction. Real gross fixed capital formation by the private sector on average increased by 39.3 percent annually over the period 1955-59, outstripping the growth of the public sector investment (Karshenas, Table 5.1). The money supply (the *M1* measure) grew by 18, 24, and 19 percents over the years 1956, 1957, and 1958, respectively (Table 2, above). The private sector credit rose by 46 percent in 1957, 61 percent in 1958, and 32 percent in 1959 (Central Bank of Iran, *Annual Report*, 1960 and 1961). The result was a classic boom fueled by excessive monetary expansion, and by speculative activities in land, real estate, and commodities. The economy started to overheat, and consumer prices, which had stabilized over the 1954-55 period, started to rise rapidly. Imports outstripped exports, and the country's foreign exchange reserves started to dwindle. In response to the ensuing financial crisis, the government introduced in 1959 a number of measures to control private sector credits. These measures, however, proved totally inadequate, and toward the end of 1960 the government was forced to embark on an "Economic Stabilization Program," prescribed by the International Monetary Fund. The stabilization program involved stringent restrictions on imports, cuts in government expenditures, and further curtailment of private sector credits. These policies proved highly effective. Inflation moderated significantly, and average consumer prices rose only by 1.6 percent in 1961 and by 0.9 percent in 1962 (Table 2, above; Central Bank of Iran, *Annual Report*, 1962, Table 25). Foreign exchange payments for imports of goods and services declined steadily from \$611 million in 1959 to \$528 million in 1962, and, with oil revenues increasing, the external current account showed a modest surplus in 1962 (Table 4). The result, however, was a marked slow-down in general economic activity and a deep recession developed in two politically sensitive sectors, namely, construction and domestic trade. Over the 1960-63 period, the real wages of unskilled construction workers declined at an average annual rate of 2.4 percent (Table



2). In comparison, the recession had relatively little adverse effects on the modern sectors of the economy (Pesaran, 1985, p. 21).

The recession, particularly affecting the migrant construction workers and the traditional merchants in the *bāzār*, rekindled the fire of social discontent, leading to political unrest throughout 1962-63 and, finally, mass demonstrations in June 1963. The Shah's response to the deteriorating socioeconomic conditions was a six-point reform program, known as the "White Revolution" (Enḡelāb-e safīd) and the suppression of opposition groups by force. The reform process had already started with the program of land redistribution, largely masterminded by Ḥasan Arsanjanī, the minister of agriculture in 'Alī Amīnī's cabinet (Zonis, chap. 3; Abrahamian, chap. 9). The implementation of the 1962 Land Reform Law covered all estate holdings in excess of one entire village or comprising parts of different villages which could be regarded as equivalent to one whole village. Mechanized farms, tea plantations, fruit orchards, and groves were exempted. Compensation offered to landlords was based on previous tax assessments, and the land obtained by the government was then sold on favorable terms to sharecroppers (Lambton, 1969; Denman; Hooglund). The other socioeconomic reforms announced in 1963 included nationalization of forests and pastures, female suffrage, profit-sharing for industrial workers, return of state industries to private enterprise, and formation of literacy corps (for other details of the "White Revolution," see Amuzegar, 1977, chap. 17). The announcement of these reform programs, particularly those concerning land redistribution and female suffrage, aggravated the prevailing political and economic uncertainties instead of relieving social tensions and led to a revival of old alliances between the clergy, *bāzār* merchants, and intelligentsia in opposition to the Shah (Pesaran, 1985). The result was further political turmoil, culminating in mass demonstrations of June 1963. The regime responded by using military force, imprisonment and torturing members of the opposition, and exiling to Turkey Ayatollah Khomeini, the most eminent and vocal of the opposition to the regime (Zonis; Abrahamian). These political developments signaled the beginning of a new phase in Persia's economic history, preparing the grounds for a vigorous industrialization process.

Sustained growth and industrialization (1963-78). The period between 1963 and the start of the revolutionary upheavals in 1978 undoubtedly represents the longest period of sustained growth in per capita real income the Persian economy has experienced. During the 1963-77 period gross Domestic product



(GDP) grew in real terms by an average annual rate of around 10.5 percent with the annual population growth rate of around 2.7 percent and placed Persia among the fastest growing of both developing and developed economies in the world. As a result, Persia's per capita income (in current prices) rose from \$170 in 1963 to \$2,060 in 1977. The corresponding figures in constant 1974 prices were \$250 and \$1,500 (Central Bank of Iran, *Iran's National Income Accounts, 1338-56/1959-1977*, Tables 10 and 22). This rapid growth was not just a statistical result of increased oil revenues. In fact, the non-oil GDP grew by an average annual rate of 11.5 percent, which is slightly higher than the average annual rate of growth achieved by the GDP that includes oil (Table 5).

However, not all sectors shared equally in this growth process. Over the 1963-77 period the agricultural sector grew at an annual average real rate of around 4.6 percent, while the industrial and the service sectors showed annual growth rates of 15.0 and 14.3 percents, respectively (Table 5, above). The production of cars, television sets, refrigerators, and other household durables increased manifold. For example, over the relatively short period from 1969 to 1977, the number of private cars produced in Persia increased steadily from 29,000 to 132,000. The number of television sets produced rose from 73,000 in 1969 to 352,000 in 1975, falling to 264,000 in 1977 (Table 6). In comparison, the production of major agricultural crops showed only marginal increases (Table 7). The growth of the oil sector was much less even over the period. It grew by 13.3 percent per annum between 1963 and 1972 but, with the quadrupling of oil prices in 1973-74 and the subsequent weakening of the international oil markets, the oil sector lost its earlier momentum and showed, in real terms, only a slight increase over the 1973-78 period (Table 5). However, the importance of oil in the economy continued its upward trend throughout the period under consideration. The share of the oil sector in GDP at current prices rose steadily from 13.9 per cent in 1962 to 23.3 percent in 1972, peaking at 47.4 percent in 1974 before falling back to around 32.5 percent in 1977 (Table 8). The rise in the relative importance of the oil sector was achieved largely at the expense of the agricultural sector. Over the same period the value added in the agricultural sector as a share of GDP fell from 32.1 percent in 1962 to 8.5 percent in 1977 (Table 8, above). A similar but less pronounced trend can also be seen in sectoral composition of output in constant prices. Oil revenues, both as a percentage of government revenues and as a percentage of foreign exchange receipts, also rose substantially over the 1963-78 period (Table 4 and Table 9). The share of oil revenues in the government budget was around 47 percent in 1963 and rose to 63 percent in 1978, after having fallen



from its peak of 86 percent in 1974 (Table 9). The increasing dependence of the economy on oil revenues was even more striking in the foreign exchange sector. In 1963 oil revenues accounted for 76 percent of all foreign exchange receipts, while in 1978 this figure stood at 80 percent, after having peaked to 89 percent in 1975 (Table 4).

On the expenditure side, real consumption rose at an average annual rate of 11.1 percent over the 1963-77 period, while the average annual rate of increase in the gross fixed capital formation was around 18.2 percent. Under the influence of rising oil revenues, the public sector's shares of consumption and investment expenditures rose more or less steadily throughout the period. This rising trend was particularly pronounced in the case of the investment expenditures, where the share of the public sector rose from 41 percent in 1963 to 61 percent in 1974 and then fell back to 57 percent in 1977 (Table 10).

The benefit of rising real incomes, however, was not equally shared across different groups in the economy, and the unfavorable trends in income and wealth distribution that had prevailed in the early 1960s became even more pronounced. The expenditure share of the top 20 percent of urban households rose from 52 percent in 1959-60 to 56 percent in 1974-75, while the share of the bottom 40 percent of households declined from 14 percent to about 11 percent over the 1959-74 period. Similar unfavorable trends in expenditure disparities were also present among rural households across different regions and between rural and urban areas in the country as a whole. Disparities were further accentuated after the quadrupling of oil prices in 1974 (e.g., see Pesaran, 1974, 1976; Pesaran and Gahvari).

The rapid and unbalanced expansion of output, especially between the agricultural and the industrial sectors, also led to a substantial increase in the rate of migration from rural to urban areas. The degree of urbanization rose from 31 percent in 1956 to 49 percent in 1978 (Table 11). It is estimated that rural migrants accounted for 44 percent of the increase in urban population between 1956 to 1966, as compared to as much as 50 percent during the 1967-76 decade (Pesaran, 1985, p. 29).

Despite increasing oil revenues, Persia continually faced balance-of-payments problems over the period 1963-1972 and had to resort to foreign borrowings. Over the 1959-72 period foreign exchange payments for imports exceeded the receipts from exports in every year except in the recessionary years of 1962 and 1963. The accumulated deficits on the current account amounted to \$2,782



million over the 1959-72 period, which was \$246 million more than Persia's total revenues from oil and gas exports in 1972 (Table 4; as compared to Latin American economies, this indebtedness was, however, not excessive). However, the oil price increases during 1973-74 dramatically reversed the situation virtually overnight and converted Persia from a debtor to a creditor country. The accumulated balances on current account over the period 1959-78 was, in fact, in surplus and amounted to \$15,170 million.

During the 1963-72 period the rapid growth in output was achieved with a remarkable degree of price stability, but inflation started to be a problem during the period of the fifth five-year plan when the Shah decided, against all advice, to double the total expenditure allocations established prior to the oil price increases. Over the period 1963-72 (covering the third and the fourth plans) consumer prices rose by an average annual rate of around 2.6 percent, while the average annual rate of inflation during the period covered by the fifth plan was 15.7 percent (Table 2). Some of this increased inflation would have been inevitable and, in part, reflected the increased price inflation experienced in the industrialized countries in the aftermath of the oil price shock. However, the most important factor contributing to the rising prices in Persia during the 1974-78 period was the doubling of government expenditures and the associated expansion of the private sector credits.

Persia's rapid industrialization during the period under consideration was achieved primarily by government intervention and sustained by increased revenues from oil exports. The cornerstone of the industrialization policy was the "import-substitution industrialization strategy," which had emerged in response to the 1960-62 recession and to the Economic Stabilization Program that followed it. The main ingredients of this policy were high tariffs on consumer goods, preferential bank loans to the industrialists, maintenance of an overvalued rial, and food subsidies in urban areas. These policies led to the creation of an industrialist class very much dependent for its survival on state and foreign technology and expertise. The country's industrial structure was extremely insulated from the rigor of foreign competition. There were no real incentives to promote non-oil exports, and the industrial sector's dependence on "oil and state" continued to increase throughout the period. (For further discussions of this dependency and its politico-economic repercussions, see Mahdavy; Pesaran, 1982; for general critiques of the Shah's economic and social policies, see, e.g., Katouzian; Halliday.)

An overall assessment. Overall, under the Pahlavis the Persian economy made



significant advances which compared favorably with the experience of countries such as Turkey and Egypt, which were in a better state of development after the First World War (Issawi, 1971, 1978). Reżā Shah's rule was characterized by nationalistic, autarchic economic policies, replacing the foreign concessionary economic system prevalent under the Qajars with state monopolies and direct government involvement in major infra-structural and productive investments. His model was the reformist and modernizing policies followed by Kemal Atatürk in neighboring Turkey. Reżā Shah established a state monopoly over foreign trade, imposed strict foreign exchange controls, founded Persia's first national bank (Bānk-e mellī), aimed at taking over the note-issuing function of the British-owned Imperial Bank of Persia (Bānk-e šāhī; see [BANKING IN IRAN](#)), initiated important reforms in the legal system, and introduced legislation with far-reaching effects in the areas of education, public health, government bureaucracy, and military conscription. Although Reżā Shah's economic program was driven more by nationalist fervor than by a coherent development strategy, there is no doubt that his economic and social reforms were instrumental in rescuing Persia from the political and economic anarchy that had afflicted the country in the aftermath of the First World War.

Initially, the Allied occupation of the country during World War II and the ensuing political uncertainties did not allow Moḥammad-Reżā Shah to exert much influence on economic or social policy. This initial period lasted until after the overthrow of Moşaddeq's premiership in August 1953 and was characterized by an intense economic and political struggle over the control of oil, one of the country's most valuable resources. Once securely in power, and with strong impetus from the Kennedy administration in the United States, Moḥammad-Reżā Shah continued with the secular reformist program of his father and initiated a series of social and economic reforms which, together with steadily rising revenues from oil exports, enabled the economy to experience one of its most impressive periods of sustained growth and low price inflation. Over the period 1963-77, the economy's aggregate output, measured by its Gross National Products at constant prices, rose by an average annual rate of 10.5 percent, while price increases were confined to average annual rates of between 2.6 and 3.0 percent.

However, the country's rapid industrialization, brought about primarily by government intervention and sustained by almost exclusive reliance on oil revenues, was subject to a number of unfavorable economic and social



consequences. Industrialization was largely under the state umbrella, with high tariffs on consumer goods, preferential bank credits to private industrialists, overvaluation of the rial, and generous subsidies on food consumption in urban areas—all at the expense of the agricultural and rural sector of the economy. This situation, in turn, led to a widening gap of income distribution in the urban areas and between the urban and rural areas and resulted in substantially increased migration from villages to urban centers. These trends were further accentuated by the implementation of the second and the third phases of the land reform, which were seen by many peasants as a reversal of the original land-redistribution program initiated in early 1960s.

The quadrupling of oil prices in 1973-1974 presented the regime with a golden opportunity to rationalize the development program and move toward a more balanced development of the agricultural/industrial and urban/rural sectors of the economy. The shah's response, against expert and ministerial advice, was a further hasty expansion of the industrial sector with greater reliance on Western technology and cultural practices, foreign experts, and imported workers. Inevitably, these economic policies exacerbated already entrenched social and economic inequalities and helped create fertile grounds for the flourishing of social discontent and revolutionary upheavals.

Despite worsening social and economic disparities, the standard of the living of the majority of the population improved substantially under the Pahlavis. Also, thanks to rising oil revenues and generally sound economic management, Persia was transformed from a country with large foreign indebtedness in 1920 to one with sizable net foreign assets in 1978. However, oil proved to be a curse as well as a blessing. Persia's vast reserves of oil and gas prompted foreign intervention, significantly diminished the urgency of promoting and expanding the non-oil export industries, and weakened the government's resolve to implement badly needed reform of the country's ailing tax system.



BIBLIOGRAPHY

- E. Abrahamian, *Iran Between Two Revolutions*, Princeton, 1982.
- J. Amuzegar, *Iran. An Economic Profile*, Washington, D. C., 1977.
- J. Amuzegar and M. A. Fekrat, *Iran. Economic Development Under Dualistic Conditions*, Chicago, 1971.
- A. Ashraf, "Historical Obstacles to the Development 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*, London, New York, and Toronto, 1970, pp. 308-32.
- Idem, "State and Agrarian Relations before and after the Iranian Revolution. 1960-1990" in F. Kazemi and J. Waterbury, eds., *Peasants and Politics in the Modern Middle East*, Miami, 1991, pp. 277-311.
- F. Azimi, *Iran. The Crisis of Democracy, 1941-1953*, London and New York, 1989.
- G. C. Baldwin, *Planning and Development in Iran*, Baltimore, 1967.
- J. H. Bamberg, *The History of the British Petroleum Company II. The Anglo-Iranian Years, 1928-1954*, Cambridge, 1994.
- A. Banani, *The Modernization of Iran. 1921-1941*, Stanford, 1961.
- Bānk-e markazī-e Jomhūrī-e eslāmī-e Īrān, *Darāmad-e mellī-e Īrān, 1338-56*, Tehran, 1360 Š./1981.
- Bānk-e mellī-e Īrān, *Tārīkča-ye sī-sāla-ye Bānk-e mellī-e Īrān*, Tehran, 1338 Š./1959.
- J. Bharier, *Economic Development in Iran, 1900-1970*, Oxford, 1971.
- R. E. Benedick, *Industrial Finance in Iran. A Study of Financial Practice in an Underdeveloped Economy*, Boston, 1964.
- P. Clawson and C. Sassanpour, "Adjustment to a Foreign Exchange Shock. Iran, 1951-1953," *IJMES* 19, 1987, pp. 1-22.



D. R. Denman, *The King's Vista. A Land Reform Which Has Changed the Face of Persia*, Berkhamsted, U. K., 1973.

L. P. Elwell-Sutton, *Persian Oil. A Study in Power Politics*, London, 1955.

F. Fesharaki, *Development of the Iranian Oil Industry. International and Domestic Aspects*, New York, 1976.

F. Halliday, *Iran. Dictatorship and Development*, London and New York, 1979.

E. J. Hooglund, *Land and Revolution in Iran. 1960-1980*, Austin, 1982.

International Labour Office, *Employment and Income Policies for Iran*, Geneva, 1973.

C. Issawi, *The Economic History of Iran. 1800-1914*, Chicago, 1971.

Idem, "The Iranian Economy 1925-1975.

Fifty Years of Economic Development" in G. Lenczowski, ed., pp. 129-66.

C. Issawi and M. Yeganeh, *Economics of Middle Eastern Oil*, London, 1962.

M.-'A. Jamālzāda, *Ganj-e Šāyagān*, Berlin, 1917.

M. Karshenas, *Oil, State, and Industrialization in Iran*, Cambridge, 1990.

H. Katouzian, *The Political Economy of Modern Iran. Despotism and Pseudo-Modernism, 1926-1979*, London, 1981.

A. K. S. Lambton, *The Persian Land Reform, 1962-1966*, Oxford, 1969.

G. Lenczowski, ed., *Iran Under the Pahlavis*, Stanford, 1978.

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 from the Rise of Islam to the Present Day*, London, New York, and Toronto, 1970, pp. 428-67.

H. Mehner, "Development and Planning in Iran after World War II" in G. Lenczowski, ed., pp. 167-99.

M. H. Pesaran, "Income Distribution Trends in Rural and Urban Iran,"



presented to the International Conference on Social Sciences and Problems of Development, Persepolis (Persia), 1974.

Idem, "Income Distribution and Its Major Determinants in Iran" in J. W. Jacqz, ed., *Iran, Past, Present and Future*, Aspen, Col., 1976, pp. 267-86.

Idem, "The System of Dependent Capitalism in Pre- and Post-Revolutionary Iran," *IJMES* 14/4, 1982, pp. 501-22.

Idem, "Economic Development and Revolutionary Upheavals in Iran" in H. Afshar, ed., *Iran. A Revolution in Turmoil*, London, 1985, pp. 15-50.

M. H. Pesaran and F. Gahvari, "Growth and Income Distribution in Iran," in R. Stone and W. Peterson, eds., *Econometric Contribution to Public Policy*, London, 1976, pp. 231-48.

F. Rūḥānī, *Tārīḳ-e mellī šodan-e šan'at-e naft-e Īrān*, Tehran, 1352 Š./1973.

R. M. Savory, "Social Development in Iran During the Pahlavi Era" in G. Lenczowski, ed., pp. 85-127.

R. B. Stobaugh, "The Evolution of Iranian Oil Policy, 1925-1975" in G. Lenczowski, ed., pp. 201-52.

D. N. Wilber, *Iran. Past and Present*, 8th ed., Princeton, 1976.

E. B. Yaganegi, *Recent Financial and Monetary History of Persia*, New York, 1934.

M. Zonis, *The Political Elite of Iran*, Princeton, 1971.