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AN OVERVIEW OF IRANIAN ECONOMY BEFORE 1979 REVOLUTION
Chapter 2

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2.1 Introduction:
This pre-revolution (1979) review will give us rationale on which the whole Iranian development fabric is woven by the Government. It is a well recognized fact that economic development phase of Iran is always full of economic disorders. We have to see how did the different dynastic governments tried to establish economic stability and growth rate facing challenges political, religious and also western colonial pressures and political dominance.

We may classify the pre-revolution period of Iranian economy as
2.2 The Period of Qajar Dynasty (1888-1925)
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2.2 The Period of Qajar Dynasty (1888-1925):
The first reconstruction phase in contemporary Iran started in the form of dependent economy from the time of Nasereddin Shah Qajar. Nasereddin Shah is the pioneer of a route in the economic history of contemporary Iran which was continued in the future history of Iran in different forms.

Iran’s efforts were based on the tribal texture of Qajar family and the Ottoman’s efforts based on the Islamic and religious caliphate. None of them achieved to destroy the texture of feudalism and the growth of capitalism remained slow in both. In 1888, the revenues of the country were mainly earned from the three sectors of taxes paid in cash, taxes paid in kind and the custom duties. Reduced government income by losing the taxes received from the lost provinces in Caucasus following the defeat from the Tsarist Russia and the decreased extraterritorial trade and the deficit in commercial balance and also the ever-increasing depreciation of Rial against foreign currencies on the one hand and the lack of responsible economic policies to use the domestic
potentialities especially to improve the agriculture and irrigation system on the other hand, provided for the economic bankruptcy.

The ever-increasing growth of imports alongside deficit of foreign trade since the beginning of the 19th Century was among the major difficulties faced by the Qajar Kings. During years 1868 to 1900, the volume of foreign trade increased from 4000 Liras to 8000 Liras and in spite of increased exports, the deficit of extraterritorial trade of Iran doubled from nearly 1000 Liras to 2000 Liras.

The economic modernization of this period which was considerable only in short intervals under the wise leadership of bureaucratic system especially under the command of the two distinguished viziers was practically very slow because of numerous difficulties. This disordered structure, gradually stabilized the Iranian economy on the bases of dependence on commerce and foreign investment. During the reign of Nasereeddin Shah, there were difficulties such as increase of inflation, reduction of government revenues and deficit of extraterritorial trade balance. Under heavy financial pressures, the government started the economic policy of excessive conveyance of operation rights, privileges and advantages to England and Russia in order to finance the costs and prevent political tensions.

The Qajar family lacked a clear and target-oriented policy for modernization and instead of organizing social forces and make efforts for extensive participation of social layers and classes for overcoming backwardness, took a passive and mean position against the foreigners. Harsh social tensions in the future of Iran were a reflection of these inabilities.

This period had been influenced by different factors: decay of the feudal society, relative growth of commercial bourgeoisie and petit bourgeoisie, familiarity of the intellectuals with the ideas and living style of the Europeans and especially the unequal and colonial relations with England and Tsarist Russia which paved the way for a great anti-feudal and anti-colonial movement. The main demands of the movement included construction, legislative parliament, securing and safeguarding individual rights and private ownership and other demands of capitalistic rights. The Constitutionalism Movement which started in 1905 deepened in following years and by its expansion, other social classes such as peasants, workers and petit bourgeois
also brought their demands to the scene in a more serious and organized manner. Among the Asian countries, Iran was the first country to begin the war against the dictatorship of kings and the cruelty of foreign colonial powers. Upon pressure by people in 1906, Mozafarredin Shah, the successor to Nasereddin Shah, issued a command about the Constitution and declared regulations for parliament elections. The first Iranian parliament approved the constitution. According to the new constitution, the powers of king were limited by the parliament and the right of legislation, approving budgets and privileges were assigned to the parliament.

By the fall of Qajar dynasty in Iran and as a result of movements of the people and especially the bourgeois democratic revolution of Constitutionalism, the route becomes clear for enforcing economic transformation and taking new steps towards modernization of the Iranian economy. It is true that these policies were mixed with much inadequacies, but this juncture of time should be considered the actual starting point of the modernization of Iranian economy.

In 1925, A.H. Reza Khan called for the Constitutional assembly, dismissed the Qajar Dynasty and seized the throne.

2.3 **Reza Shah Reign (1925-41)**:

Reza Shah introduced the concept of centralized economic planning to Iran at the expense of older societal values and traditions. Reza Shah consolidated power by developing support in three areas; the army, the government bureaucracy, and the court circle. Once his power was consolidated, he pursued economic, social, and cultural reforms. Reza Shah believed that the secret of modernization lay in replacing many religious and social norms of traditional society with the values of a twentieth century nation-state. Reza Shah’s policies favored the urban over the rural, the wealthy over other classes and industry in general over agriculture. Developing this “new order” gradually cost Reza Shah most of his base of support. Nevertheless, government centralization enabled him to achieve full control over the economy.

During Reza’s reign, the Iranian national budget grew from approximately US$15 million in 1925 to US$166.5 million in 1941 (based on the 1936
exchange rate). Because industrial development was based on oil revenues, the government’s lack of control over the oil industry created periodic tensions with foreign oil companies.

In Iran’s mixed economy, however, the planners had no direct power over private sector investments and development; instead, they had to rely on indirect measures, such as fiscal and financial incentives.

The number of registered commercial and industrial companies increased from 93 to 1735 from 1932 to 1949 and reached 2165 companies in 1945. The position of industrial production improved and reached from 9.4% in 1936-37 to 18.4% in 1940-41. It is worth mentioning that from the total of 1300 million Rials investment between years 1938-1939, 550 million Rials belonged to the government and Reza Shah himself. In this period the workforce in oil industry reached from 20,000 to near 31,000.

Following the economic changes by Reza Shah including the exclusive foreign trade which increased the annual government income for 1.2 billion Rials, the dissatisfaction of traditional merchants of Iran in the bazaar who were closely connected to the Shitte Clergy increased. The economic concentration policy, income tax and goods and service tax alongside exclusion of foreign trade led to the bankruptcy of a lot of such merchants. Furthermore, 216 different guilds became exempt from paying taxes on the aim of reducing their financial dependence on the bazaar organizations thus eliminating the influence of the authorities and heads of union who were closely related to the clergy on their subordinates, i.e. the craftsmen, petty businessmen and the laborers to a large degree. These policies of Reza Shah side by side the religious transformation and especially the reforms in the judicial system which reduced the influence of the clergy caused numerous tensions in years 1927-28 and again in 1936-1937 on the side the clergy and the bazaar against the governing regime. These tensions were violently suppressed by the well-organized army-police system. The economic changes initiated by Reza Shah, although not all-sided and comprehensive, brought about a relative but unstable industrial growth for the backward country of Iran.

The Increasing Role of Oil in the Economy of Iran Between 1942 to 1951, oil extraction increased nearly 5 times, in spite of severe domestic challenges, which is much more than the 10 last years of Reza Shah’s reign. The market
demand for Iran's oil in the industrial countries, investment and discovery of new resources were the causes behind this rapid increase. The Iranian income from oil which was less than 2 million Liras before 1932, increased to nearly 4 million Liras in the last years of Reza Shah's rule and to above 16 million Liras in the tension years after Reza Shah through 1951.

2.4 Mohammad Reza Pahlavi (1941-1979):

The late Shah of Iran, Mohammad Reza Pahlavi ruled from 1941 to 1979. The Shah assumed the throne when Britain and Russia ousted his father Reza Shah Pahalavi (Reza Shah) from power because of his perceived alignment with Germany in World War II Reza Shah had assumed power in 1921 when as an officer in Iran's only military force the Cossack Brigade (reflecting Russian influence in Iran in the early 20th century), he launched a coup against the government of the Qajar Dynasty Reza Shah was proclaimed Shah in 1925, founding the Pahlavi dynasty. The Qajars had been in decline for many years before Reza Shah's takeover. That dynasty's perceived manipulation by Britain and Russia had been one of the causes of the 1906 constitutionalist movement, which forced the Qajars to form Iran's first Majles (parliament) in August 1906 and promulgate a constitution in December 1906.

The Shah was anti-Communist, and the United States viewed his government as a bulwark against the expansion of Soviet influence in the Persian Gulf. In 1951, under pressure from nationalists in the Majles (parliament) who gained strength in the 1949 Majles elections, he appointed a popular nationalist parliamentarian Dr. Mohammad Mossadeq as the Prime Minister. Mossadeq was widely considered left-leaning and the United States was wary of his policies, which included his drive for nationalization of the oil industry. Mossadeq's followers began an uprising in August 1953 when the Shah tried to dismiss Mossadeq and the Shah fled.

The Shah tried to modernize Iran and orient it towards the West, but in so doing he also sought to marginalize Iran's Shiite clergy. He exiled Ayatollah Ruhollah Khomeini in 1964 because of Khomeini's active opposition, which was based on the Shah's anti-clerical policies and what Khomani alleged was the Shah's forfeiture of Iran's sovereignty to the United States. Khomeini fled to and taught in Najaf, Iraq, a major Shiite theological center that contains the
Shrine of Imam Ali, Shiism's foremost figure. There, he was a peer of senior Iraqi Shiite clerics and, with them, advocated direct clerical rule or velayat-e-faqih (rule by a supreme Islamic jurisprudent). In 1978, three years after the March 6, 1975, Algiers Accords between the Shah and Iraq’s Baathist leaders, which settled territorial disputes and required each party to stop assisting each other’s oppositions, Iraq expelled Khomeini to France, from which he stoked the Islamic revolution. Mass demonstrations and guerrilla activity by pro-Khomeini forces, allied with a broad array of anti-Shah activists, caused the Shah’s government to collapse in February 1979. Khomeini returned from France and, on February 11, 1979, declared an Islamic Republic of Iran, as enshrined in the constitution that was adopted in a public referendum in December 1979 (and amended in 1989). Khomeini was strongly anti-West and particularly anti-U.S. and relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

In this historical juncture, the national economy developed palpably and effective measures were taken in fighting the economic backwardness of Iran. During the years of the fourth 5-years economic plan of Shah, between years 1967-1973, Iran’s economic growth was 11.6% based on fixed prices. General national income during years 1971-1974 increased 21.2% based on current prices and 14.2% based on fixed prices. In 1974, due to rapid increase in oil extraction and doubled price of oil in global markets, the foreign currency incomes of the country grew about 3.3 times more than before and this caused a considerable surplus for about 8.2 billion dollars for the government of Iran. The increased budget was spent on Third Economic Plan of years 1962-1968 and Fourth Economic Plan of 1968-1973 and Fifth Economic Plan of 1973-1978 and increased the economic development of the Country. During two economic plans and as a result of spending 9.5 billion dollars the GDP increased for 8, 14 and 30 percent, respectively, during years 1970-73. The initial plans for economic development were devoted to preparing the infrastructures including restoration of transport system, agriculture sector especially agrarian reforms and irrigation master plan. In the future plans, industry, mining and human resources were considered. After mutual negotiations between the Consortium and the Iranian government, a new
agreement was concluded in March 1973 under great influence of Shah. Based on this Agreement which was enforced since July 1973. National Iranian Oil Company undertook the entire responsibility of oil industries and simultaneously undertook to provide the Consortium “a certain quantity of oil in a fair guaranteed price” for 20 years. Consequently, the free pricing of oil and determining quantity to be exported was, to some degree, out of control of the government. It can be said that the Iranian oil was put under control of Iran but the control of Consortium, although limited, remained in force.

In 1974, following the accelerating increase of oil price, the foreign currency income increased notably. The share of Iran in global oil market was 6 million barrels a day, i.e. 10.6 percent of the total crude oil production in the world. The treasury improved so well that Iran repaid her foreign debts before their maturity dates and furthermore, Shah granted loans to the countries in trouble, directly or through international institutions. The government also started to invest overseas. The increasing trend of foreign currency income led to adoption of new decisions to change the country’s budget. In 1973, the budget was doubled and the volume of cash money rapidly increased because of the great acceleration of current and development costs and extensive loans of banks to private sector. The total payments of Iran during 1973-1977 was near 10 billion dollars which was 3 percent of the GNP of the country. The increase of cash funds which was followed by a 15.5% inflation rate, made the government adopt anti-inflation policies. This policy was implemented through reducing current costs and increasing development costs which was mainly invested on by the government. The outcome of these policies was reduction of inflation to 9.9 percent. In 1976, the oil export increased for 10.2 percent and due to high price of oil in global market, the revenues from oil and gas reached 24.17 billion dollars. This amount was a new record in the history of oil export revenues in Iran.

During years 1973-1977 the average growth rate of industries was 7.4 percent and the mean growth rate per capita was 5.6 percent. Execution of large industrial projects reduced the unemployment in these years and the unemployment rate reached 2.9 percent which was unique in the history of contemporary economy of Iran. The growth of industries was mainly through government investments. Average growth of investment in this period reached
22.9 percent and the relation of investment to GNP to 34.4 percent which was again unprecedented. The high economic growth led to huge class differences, increasing inflation and lack of attention to villages. During this period, Iran entered into a plan according to which the governmental oil industries were supposed to develop quickly and enter into the oil market directly, without refusing to cooperate with foreign cartels.

During Shah reign, there were four Five Years Development Plans, i.e. FYDP (1948-55), Second FYDP (1955-62), Third FYDP (1962-68), Fourth FYDP (1968-72); Fifth FYDP (1972-78). During the middle and late 1950s, economic instability exacerbated chronic social problems, such as over centralization of government, concentration of land in the hands of relatively few wealthy landlords, enormous bureaucracy, and regressive tax laws. As early as 1949, the Shah voiced his intention to consider needed changes especially in land reform. It was not until the 1960s, however, that he actually instituted agrarian reform. The intervening decade was a period of consolidation following the regime of Reza Shah; it also featured a period of government control by Mohammad Mossadeq.

During the reign of Mohammad Reza Shah, significant increases in oil revenues, coincident with the centralization of the economy, compound societal stress and imbalance. The modernization that continued throughout the Shah's rule affected the economic infrastructure but not monarchical political structure.

The economic growth and huge investment in industry sector increased the number of workers and salaried people. The second stage of economic modernization under leadership of Reza Shah added to the number of workers and changed the class composition of the society to a large extent, but the economic projects of Mohammad Reza Shah caused a major leap. The approximate number of workers and agricultural laborers was estimated about 3.5 million. During Reza Shah's reign until the end of 1941, the workforce of the Country had reached 16 percent but in mid-70s, this figure doubled and reached about 34 percent. Thus, the rural working class changed into the largest social class of Iran. Poverty and misery, not only among the industrial urban workers but also among the construction workers and especially in villages was painful. The workers objections which had a major role in the
political events of 1941-1953, although suppressed by the army after the military coup, played an even more important role during the climax of economic crisis.

At the end of 1974, 620 unions and 20 workers federations were active in Iran. The syndicates worked under control of the Ministry of Labor and the Intelligence Organization and all industrial institution and factories were supervised by SAVAK (Iran Intelligence and Security Organization). The workers movement decline in the early years of agrarian reforms but intensified since 1975 and entered into the serious stage of fighting at the climax of revolution of Khuzestan oil workers who closed the oil pipelines. In 1974, the punishment up to 15 years confinement and even death penalty was approved for worker activities in industrial institutions.

For the purpose of a comparison, we have compared 5 years from the Mohammad Reza Shah’s Regime, 1972 to 1977, with 5 years in the Islamic Republic time, 1997 to 2002. The increase of added value of the most important industrial products of Iran during the Shah’s time belonged to automobile industry, radio and television, electric appliances, miscellaneous industries, basic metals and cement, with little differences. The automobile industry has the first place in the total value of industrial products in 1977 and then metals and other industries occupy the next positions.

The 1979 Revolution which was supported by millions of people and by all social groups and classes, although fell in hands of traditionalist clergy, stroke some blows on the structure oriental totalitarian despotism and the centralized monarchic governments of Iran. It is true that the so-called Islamic Republic fulfilled some of the old wishes of the Shiite clergy who dreamt of caliphate and government since the time of Imam Ali, the first Imam of the Shiites, in the form of the sovereignty of Jurisprudent (Velayat-e-Faqih), but the structure and foundation of the Republic which came out of the combats of different social groups including workers, middle class and petit-bourgeois of Iran, contrary to the dictator regime of Shah, was based on division of power and in form inspired by the Western democracy. As a matter of fact, the political life of Iran had gradually revived itself based on economic growth and accumulation of more wealth by private sector and also establishment of necessary infrastructures. Although the Islamic Republic was miles away from
a democratic texture in the beginning, it can be undoubtedly claimed that the
governmental despotism during the recent two centuries has gradually
weakened from the semi-feudal rule of Qajar to the dictator reign of Reza
Shah and then the totalitarian regime of Mohammad Reza Shah under control
of intelligence organization and to the present day traditional Jurisprudential
Islamic Republic of Iran.
The process of democratization has accelerated and it has played in
determining role in gradual retreat of Iran dictators from their positions.

2.5 Conclusion:

Most of the regional wars in Iran, Ottoman and Egypt with the European
business parties were on the matter of control of global business routes and
restituting the past power to play a more significant role in global commerce
and overcome the economic crises of the ruling systems in these countries. For
instance, the merchants of Genoa, Pisa and Venice were interested in
establishing business centers in Type, Haifa, Tarabulus, Antioch and Cyprus
and get the trade in the region under their control. In Italy, the power of clergy
and the commercial power struggled for destruction of Byzantium hand in
hand and because of their victory, created Latin governments obedient to Pope
in Jerusalem, Acre, Odessa, Greece and Cyprus. Due to these defeats, the
splendor and grandeur of Isfahan, Baghdad, Cairo, Konya and Constantinople
were lost.

At the beginning of the 19th Century, the Middle Asia, India, Ottoman and
Iran all were passing through difficult stage. The control of the commercial
rout of Iran to India was seized from Iran and the British themselves took
control of business in Middle Asia by increased influence in Afghanistan
which gradually ended in separating Afghanistan from Iran. The business of
merchandise in Persian Gulf, India and the far east came under control of
British merchants and the traditional business route of East and West lost their
importance and in the Middle Asia, except Kabul who was a little lucrative,
other big eastern cities such as Herat, Qandahar and Ghazni entered their
economic fall. The only commercial route of Iran which was still open was the
route to Turkey and Russia. The fight over control of commerce in Caucasian
and Central Asian markets with a powerful neighbor such as Russia in the north was going on. Following two major military defeats of Iran against the Tsarist army in 19th Century, a large portion of the Iranian territory joined Russia and the remaining business routs with Russia, Caucasus and Central Asia also came under control of this Company.

The big economic crisis of Iran in mid-19th Century which was presumably related with the economic crisis in Europe, disjointed the already disrupted financial structure of the bankrupt government of Qajar even more and this bankruptcy process of foreign trade of Iran continued during the harsh social clashes and the Constitutionalism Revolution until the reign of Reza Shah. Since this date onwards, a serious historical change occurs in the composition of the foreign trade of Iran which embodies the entire structure of Iranian economy so far and that is the discovery of oil in Iran and the increase of its function not only in the foreign and domestic trade but also in all economic activities of the Country. Since the discovery of oil, the Iranian economy step by step converts into a single-product economy dependent on oil. The increased role of oil in the economy of Iran especially relates to the years after 1953 when the Shah returned to Iran and seized power through a military coup.
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