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Dependency theory and Iran under the shah

Hassan Mowlai

ATLANTA UNIVERSITY

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DEPENDENCY THEORY AND IRAN UNDER THE SHAH

A THESIS
SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF ARTS

BY
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DEPARTMENT OF POLITICAL SCIENCE

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DEDICATION

To my wife, Shahla and to all people who struggle for imperialism.
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CHAPTER I

INTRODUCTION

The gap that exists between "the rich and the poor" countries that we witness in today's world has been diversely explained by historians, sociologists and political scientists. However, even though these professionals may differ markedly in their opinions as to the causes and means of solving such disparities in the economic development and accumulation of wealth amongst the countries of the world, one may say that these varying hypotheses can be essentially classified into two basic categories or schools of thought--the diffusionist explanation and the dependency theory. The diffusionist school argues that underdevelopment in the Third World has existed long before the emergence of capitalism on a world scale. With the spread of capitalism and foreign capital into the Third World, modernized and relatively developed areas have evolved that in turn served as agents of further development in these countries to combat traditionalism and feudal relations of production, which are held mainly responsible for the Third World's underdevelopment. In this study, I will primarily focus on the latter.
The dependency school of thought has forwarded explanations for the ever widening cleavage that exists between the advanced industrialized countries on the one hand, and the underdeveloped countries on the other. The advocates of the dependency theory base their arguments supporting their views primarily on Marx's interpretation of history and the development of international relations. These views trace the origin of Third World underdevelopment through a history of colonialism that paved the way for continued exploitative relations between peripheral countries and more advanced metropoles in favor of the latter. The dependency adherents believe that such exploitative practices by industrialized countries have substantially contributed to the crippling of the Third World's social, economic, political and cultural development and made them increasingly more dependent upon the Western European and North American countries. The political ties that exist between these states and the Third World have served to perpetuate and sustain the latter's underdevelopment. These bonds have been said to have been established primarily through interrelated class interests between the metropolitan spheres of commerce and the periphery bourgeoisies. Hence, it has been speculated that revolutionary change is necessary
in order to effectively stabilize Third World countries' internal domestic affairs, and to stimulate international development, and this need for revolution in order to effect change is prescribed by the adherents of the dependency school. Additionally, most of the advocates of the dependency theory support socialism as a solution.

Historically, the dependency school has its origins in Latin America. Thus, its originators have developed their premises for their theories using the example of Latin America. However, this writer does not believe that the principles elucidated by the dependency theorists are limited in their effectiveness to any one particular area of the world. Thus, I am of the opinion that the tenets it projects in theory have intellectual validity and could prove to be useful as effective solutions to the socio-economic problems of other developing countries or regions of the Third World. To test my hypothesis I have chosen Iran as a case study.

The case of Iran as an example of an underdeveloped country is examined in this study in view of the general assumptions regarding the concepts of the state, the local bourgeoisie, development and underdevelopment and dual society as addressed by the dependency theory. In this instance, by presenting both critical argumentation
and substantial documentation, I will attempt to determine whether Iran is both underdeveloped and dependent.
CHAPTER II

DEPENDENCY THEORY

The dependency school has its origins in the Marxist conceptualization of history and the Leninist perception of imperialism. As hypothesized by Marx, in the course of the historical development, mankind moves from the state of a classless society to a slave society, then to feudalism and ultimately to capitalism.¹ Capitalism, as the ultimate pre-socialistic economic system is perceived by Marx as inherently exploitative.² Consequently, Marx believed that the surplus value upon which the capitalist economic system rests is extracted only through the exploitation of the working class. Hence, in order to sustain and assure continued growth of the capitalist system, the entrepreneurs must perpetuate the exploitation of one class by another thus ever exacerbating interclass antagonism.³ As this exploitative process continues, the

³Ibid., pp. 312-371.
means of production tend to be concentrated in fewer hands as more members of the lower-middle class are pushed toward impoverishment and into the army of the proletariat. With this development—the polarization of classes and the steady concentration of the means of production reaches its apex, the originally competitive nature into monopoly capitalism. It is at this phase, so continues the Marxist argument, that capitalism, by the very dictates of its internal contradictions, must necessarily reach beyond its national borders and expand into the world market. This, the highest stage of capitalism, Lenin calls imperialism and defines it as having the following five basic features:

1. The concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;

2. The merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital," a financial obligarchy;

3. The export of capital, as distinguished from the export of commodities, acquires exceptional importance;

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4 Ibid., pp. 312-371.
4. The formation of international monopolist combines which share the world among themselves; and

5. The territorial division of the whole world among the biggest capitalist powers is completed.

As imperialism imposes itself upon the world, essentially upon the Third World, it projects its domestic relations of production as well as its internal division of labor onto the international scene. Within the system of this international division of labor, the imperialists power takes on the role of exploiting the resources and markets of the Third World. Thus, all areas of the world are tied into the system of world capitalist expansion.

Thus, with the advent of the era of decolonization, more recent and contemporary Marxist authors (i.e. Magdoff, Sweezy and Baran) have expanded Lenin's theory of imperialism and developed the theory of "new imperialism" or "neo-colonialism." According to this view, physical occupation of a colony was no longer needed in order to ensure political and economic dominance over it.

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as long as the colony could be safely kept within the
network of capitalism. Once a colony has been assigned
a specific function within the system of international
division of labour, and the necessary economic and
political ties to the mother country--established, this
would be enough to keep that area under imperialist domi-
nation. This domination assumes the form of binding the
Third World country into a relationship of economic
dependency upon the imperialist power.\(^7\) The principle
features of the era of neo-colonialism, as Magdoff
identifies them are:\(^8\) First, a new trend away from the
old imperialist rivalries emerges that drives the imperi-
alist powers toward a collective effort to prevent the
contraction of the imperialist system as a whole. After
the necessary intertwining of former colonies into the
world market system has been completed, the main task now
becomes to secure them within the global capitalist system
as an economic and financial asset. Second, the United
States assumes a leading role in the world camp of
imperialism. Third, technological development adopts an
international character. This means that high level of
technology serves the purpose of essentially projecting

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\(^7\)Harry Magdoff, *The Age of Imperialism* (New York:

\(^8\)Ibid., pp. 27-62.
the value system of the United States in her guidance of the imperialist camp. And finally, multinational corporations--for the most part those of the United States--assume unprecedented dimensions of power and influence. Accordingly, any reading of the history of Third World underdevelopment--and development in other societies--must take into account the historical process by which the contemporary advanced and developed nations spread their network of intrusion, occupation, and dominance over contemporary underdeveloped nations. It is on this theoretical ground that the dependency school establishes its analytical framework for the study of development and underdevelopment.

The dependency school, in its analysis of the phenomenon of "dependence" basically views it in terms of the generally accepted definition as given by Theotonio dos Santos:

By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development.9

On the basis of this notion, the dependency approach explains underdevelopment in the Third World as being directly linked with the development in the First World. Also, it can be inferred from dos Santos' definition of dependency that the metropolis-periphery economic relation is characterized by the absence of autonomous decision-making in the satellite. Whatever shape the periphery economy assumes, it is conditioned by the needs and development of the metropolis. The dynamics of the former's economy is merely a response to, and a reflection of, the economic process and condition of the latter. This dependence has caused and generated underdevelopment in the Third World.\textsuperscript{10} Dos Santos distinguishes three historical forms of dependent relations: 1) colonial dependence; 2) financial-industrial dependence, and 3) technological-industrial dependence.\textsuperscript{11} But since the basic metropolis-satellite relationship has not changed ever since imperialism became a source of dominance-no matter how the form of dependency might have changed, "dependency" itself has not changed.\textsuperscript{12} In other words,


\textsuperscript{11}Dos Santos, op.cit., p. 232.

\textsuperscript{12}Ibid., pp. 231-236.
the effects of foreign penetration has continued to be detrimental to the satellite nations. Capital continues to flow out in the form of repatriated profit and the local potential for development basically continues to be checked.

Therefore, in the course of the establishment and continuation of a dependent relationship, the socio-political pattern of the metropolis is replicated in the peripheral nation. Along with the formation of export-import enclaves as the basis of foreign penetration, the class structure of dependent nations is transformed. A class of local merchants and industrialists emerges and establishes strong ties of common interests with its foreign counterpart. This local bourgeoisie is held responsible by the dependency school for generating policies of social, political, economic, and cultural underdevelopment. It does so for the perpetuation of its own power base. Through this local bourgeoisie the center - periphery pattern of relations is implemented on the internal and national level.13

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14Ibid., pp. 27-29.
will discuss this aspect in detail later in the sections of this study concerned with "Local Bourgeoisie" and "Dual Society".

The State

The perception of the state according to the dependency school, follows the Marxist-Leninist tradition. According to this school of thought, in a capitalist setting, the relation between society, the state, and the international economic regime can be visualized in the following way:

\[
\text{Society} \rightarrow \text{State} \rightarrow \text{International Capitalist System}
\]

As Lenin elaborates,\textsuperscript{15} in capitalist societies, the bourgeoisie, by virtue of its control over the means of production, assumes the role of the ruling class. As such, it dominates the state apparatus and determines state policies. The state, in turn, through the ruling class, dominates society. Viewed in the international context, the state, especially at its imperialist stage will shape

\textsuperscript{15}V. I. Lenin, State and Revolution (London: Communist Party of Great Britain, 1925), pp. 7-12.
the international economic order. But, in turn, the state itself is highly responsive toward the international system. The state will coordinate its policies so as to promote the openness of the international economic system. In this model, state policy is designed to preserve the general class structure of society. In other words, the dominance of the bourgeoisie will be fostered through state policies, since the state itself is a tool of the bourgeoisie.

According to Cockcroft, Frank, and Johnson who follow this line of argumentation, the state in the underdeveloped countries resembles an extended arm of the metropolitan state machinery.\textsuperscript{16} Since economic investment and political power have an interlocking character, obviously the state, as the reservoir of power and authority, becomes the expression of the dominant bourgeoisie. Since the bourgeoisie of the center needs, as implementor of its interests, a counterpart in the periphery, and since this satellite bourgeoisie itself depends upon that of the metropolis for its political-economic power base, the central state will

protect the client and support it in achieving stability; and the peripheral state, in turn, will, according to these authors, act in the interest of the imperialist state. The military dimension of the state is viewed as the main instrument to maintain stability and oppress "liberation" movements in the dependent countries. As an auxiliary to the central state, the dependent state cannot become a decisive agent toward political-economic independence and autonomous development.

Similarly Bodenheimer argues that the state in the underdeveloped countries has become a clientele institution, since its very power base and privileged position is derived from its ties to foreign interests. She points to the apparent contradiction in the role of the state. The state in the Third World is expanding its role in the national economy, and hence, one is easily led to characterize the state as the main force leading to national autonomy. But this is only an illusion, she says, since "when the primary function of the state is largely controlled by foreign interests, and when the state bureaucracy itself relies on material and ideological support from abroad..., the "autonomy" of the state bureaucracy must be illusory." On the other

18Ibid., p. 338.
end of the equation, the metropolis, the role of the imperialist state assumes another dimension in the age of multinational corporations. As the interests of the MNC's more and more coincide with that of the imperialist state, the former receives the protection of the latter in the underdeveloped countries. The state does so in order to maintain international capitalism. Thus, at an international level, the imperial state is seen as protector of private capital, while is itself guaranteed dominance over the local economy by the very presence of private corporations in the periphery. At the local level, the clientele state acts as an auxiliary to the central state.

To summarize, the dependency school views the state in the underdeveloped countries as a tool of the local bourgeoisie in the service of the imperialist counterpart. In such circumstances, the role of the state concentrates on preserving the conditions for perpetual dominance of internal and external bourgeoisie classes.

**Local Bourgeoisie**

The dependence of the Third World, according to the dependistas, is not simply a matter of foreign dominance. Imperialist powers not only dominate, but they also penetrate the very social structure of the peripheral country
and become an integral part of it. Foreign capital establishes its ties of mutual interest with natives of commercial background, and thus, it creates a local clientele that performs the dual function of protecting and encouraging foreign investment, and at the same time—indeed, by the very same process—cementing its own power base by pursuing its own economic interests. It is through the policies implemented through this clientele bourgeoisie class that economic, social, political and cultural underdevelopment is generated.

Susanne Bodenheimer, in her analysis of local bourgeoisie, calls it "clientele social classes" whose economic power foundations are intimately linked with their position in the international system. 

Clientele social classes have a dual position: At the same time that they obey their foreign masters in catering to their interests, they also enjoy a top position within their own society as the dominant elites.

Bodenheimer joins Paul Baran in citing as typical examples of the clientele classes those elements in society who flourish because of their links with the imperialist

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19 Ibid., p. 337.
20 Ibid., p. 338.
bourgeoisie and serve them either "as suppliers of local materials for foreign enterprises or as caterers to various other needs of foreign firms."  

What Bodenheimer calls the "clientele classes", Chilcote and Edelstein refer to as the "new" manufacturing bourgeoisie, and explains more explicitly the change of the old comprador class to this new bourgeoisie. This change, they say, is mainly due to change in the form of dependence. While in the period of commercialism, an agro-commercial "elite" formed the link with foreign interests, in the age of industrialization there occurs a shift in investment focusing mainly on manufacturing investment, so the local bourgeoisie—in order to serve the foreign and their own interests more efficiently—centered around industrial activities and thus, formed into what Chilcote and Edelstein called the new manufacturing bourgeoisie. This new bourgeoisie replaces the old agro-commercial bourgeoisie as the holders of internal economic power within the limits ascribed to them by their foreign partners.

22 Chilcote and Edelstein, op. cit., pp. 51-57.
Among the most radical dependency authors, Andre Gunder Frank takes an extreme posture towards the issue of local bourgeoisie. He describes the indigenous bourgeoisie as "Lumpenbourgeoisie" and the economic environment they function in as "lumpendevelopment".\(^{23}\)

Basically, Frank elaborates on four notions hidden behind this terminology. First he argues that the bourgeoisie in the satellite is as dependent upon the metropolis and limited in its scope of autonomy (virtually non existent for Frank) as the "development" that goes on in the Lumpen category. Second, as much as the local bourgeoisie is created and installed by imperialist powers, the internal "development" of the satellite country is fostered and generated through the policies of the indigenous bourgeoisie.

...the bourgeoisie maintains itself economically and socially on the basis of capitalism and in order to maintain itself has to make a political effort to preserve the same exploitative and underdevelopment-generating structure that brought it into existence.\(^{24}\)

Third, the bourgeoisie in the Third World is an underdeveloped bourgeoisie. Its lack of autonomy and national

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\(^{24}\)Cockcroft, Frank, Johnson, *op.cit.*, pp. xiv-xv.
orientation is inherent in its status as a dependent, underdeveloped bourgeoisie. "The bourgeoisie develops fully or not, according to whether it is dominant or satellized." Finally, the lumpenbourgeoisie is just as much a necessary outcome of imperialism as the lumpenproletrat is the product of capitalism.

Consequently, the local bourgeoisie, because of its ties to world imperialism, for the most part of its manufacturing capability, and since it must rely on foreign capital and foreign currency, its main allegiance goes to the foreign interests rather than the domestic economy. They play a destructive role in the national economy of the Third World. It is admitted that the local bourgeoisie plays a role in introducing some degree of industrialization into Third World countries, but in the final analysis, their presence has been more destructive than constructive to Third World countries' national economies.

Underdevelopment and Development

In the Marxist view, because of the internal contradictions of the capitalist system, the metropolis imperialist bourgeoisie needs, for its very survival, to exploit

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25Ibid., pp. xiv.
foreign countries in their markets and resource potential. To preserve this vital foreign base, the imperialist power shapes the internal economy of the periphery in a way that makes it constantly dependent upon itself. Thus, the periphery, for its survival in a capitalistic world economy, now depends on foreign interests. This relationship of dependence causes underdevelopment in the periphery as the reciprocal of the development of the metropolis. Thus, "the satellite national, regional and local metropolis in the Third World find that their economic development is at best a limited or underdeveloped development."26 This limited development, in fact, is structurally underdevelopment, because it is not self-sustaining, self-sufficient, self-generating, and because it lacks an autonomous decision-making direction.

Frank does admit that there has been some economic development in the Third World, gaining momentum during the two World Wars and in the interim. However, he says that first of all, this has been what could be called development by default rather than by achievement of industrial progress. That is to say, that whatever industrial development—mainly in the form of import-
substitution industries--did occur was a result of the great imperialist powers' preoccupation with crises of such dimensions that they diverted their attention away from the Third World. Thus, relative development materialized because of the imperialists' very neglect of, rather than their attention to, the underdeveloped countries. Second, this development not only did not solve any of the problems of the underdeveloped world, but it even made them more dependent upon foreign powers, essentially because it increased their need for sophisticated technology, monopolized by the West, to run these new industries. This condition further developed their underdevelopment. And finally, Frank argues that this relative development did not and could not break the Third World's ties of dependency, since it took place within a global-capitalistic framework of social, political and economic relations.27 From these observations, he infers that the satellites did (and will) experience their highest degree of development in times when their ties to foreign capital were (and are) weakest when the contact with the metropolis was (and is) at its lowest point.28 When those periods of low contact were over, the imperialists reinforced their penetration at even higher rates of intensity,

27 Ibid., pp. 7-11.
28 Ibid., p. 11.
as became especially the case with the relations between the United States and the Third World after World War II. Frank, on the basis of these observations, hypothesizes that these regions of the Third World that appear most backward and underdeveloped today are exactly the ones that, in their colonial past, had the most intimate relations with the metropole. But when these regions were abandoned by foreign interests due to a decline in the market demands for their products, their existing socio-economic structures were unable to generate a self-sustaining, autonomous economic development. Hence, he concludes that the underdevelopment of these regions and the Third World in general is not a result of the survival of feudal institutions and social relations, but can only be explained in terms of the damaging effect of foreign penetration on the indigenous process of growth and development.

Therefore, the essential features of dependent development which can be mentioned are: one that is not autonomous to the region, and that lacks self-perpetuation and self-sufficiency. The development is not a simple increase in per capita income or GNP, but it is rather

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29 Ibid., pp. 11-12.  
31 Ibid., p. 13
"growth without development" and it is in contrast with "real development." Real development is essentially a political, rather than an economic concept, because it aims at the transformation of the political basis of society through which socio-economic conditions are transformed. Furthermore, any change from a state of underdevelopment to development can only be achieved through political means. A revolution in political relations (i.e., in the domination of one class over another) will lead to a revolution in economic relations. Hence, development is defined "as the coincidence of structural change and the liberation of man from exploitation and oppression." It is through this change that the political, economic, social and cultural potential of a people is assumed to be realized. J. F. Ocampo and D. L. Johnson conclude succinctly: "Development involves the liberation of man from conditions of exploitation and oppression. Politics is the means of human liberation."

In the above stated definition, according to Frank, no development has taken place in the Third World and can

32 Ibid., pp. xv-xvi.
33 Ibid., pp. 399-420.
34 Ibid., p. xxvii.
not take place as long as the political-economic structure of imperialism is maintained. However, development in the sheer technical sense of industries and GNP's rising which exists, in fact is lumpendevelopment.36 This concept holds that not only has "real development" not occurred, but the seeming growth of indigenous industries has only plunged the Third World into more dependence, more unequal rates of exchange and more outflow of capital.

Dos Santos, like Frank, concludes that under present conditions of dependency, a healthy development of the entire economy for the benefit of the entire production is not achievable. He says that development is (a) dependent upon the strength of the export center to generate foreign exchange, (b) conditioned by the country's balance of payments fluctuations, (c) controlled by imperialist powers, since foreign capital controls the vital economic sectors, and (d) conditioned by the country's (i.e., the Third World's) position in the international division of labor.37 Given this framework, Dos Santos argues that all a dependent economy can achieve is reproduction of this productive system in which it functions. Any development that a dependent country can achieve serves only to

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36 A. Gunder Fran, Lumpenbourgeoisie: Lumpendevolvement, op. cit., pp. 75-91.
37 Dos Santos, op. cit., p. 233.
reproduce its conditions of dependency.

The development that it produces benefits very narrow sectors, encounters unyielding domestic obstacles to its continued economic growth (with respect to both internal and foreign markets), and leads to the progressive accumulation of balance-of-payments deficits, which, in turn, generate more dependence and more superexploitation.38

Susanne Bodenheimer, criticizes Frank for being one-dimensional in his analysis of the dynamics of dependency; yet she agrees with him on what kind of development is taking place in the Third World. In view of Third World development, she argues that it has manifested itself in the interest of foreign corporations to indeed make a degree of local "development". But she says that this has been a measure undertaken to create political stability, so the corporations can be secure and have a safe ground for further continuing their business. Insofar as these steps have led to relatively better distribution of wealth, she nevertheless characterizes modern imperialism as "welfare imperialism."39 But far from creating the conditions of autonomous self-generating economic development, Bodenheimer argues that in the age of neo-imperialism, whatever development does materialize in the Third World is merely a response "to the needs of the foreign corporations, rather than national needs; it is, in short,

38Ibid., p. 235.
fragmented, dependent, and ultimately illusory development."\(^{40}\) This dependent development not only is illusory, but is detrimental to the underdeveloped countries, since it creates social marginalization, more unemployment, denationalizes the local bourgeoisie, and hampers liberation movements.\(^{41}\)

Other authors, such as Sweezy and Magdoff, Chilcote and Edelstein, Osvaldo Sunkel and Pierre Jalee, arguing within the framework of the dependency model accept that some degree of development in terms of industrialization has come about in the Third World. However, all agree that this is essentially serving to perpetuate the pillars of dependency, a development more to the ultimate detriment, rather than benefit, of the Third World. It is not seen as a springboard for achieving autonomous economic development.

**Dual Society**

The phrase "dual society" describes two types of societies which exist in underdeveloped countries: one type is industry-based, technically more advanced, and western oriented; the other--agriculturally-based--is technically backward and is entrenched with a feudal

\(^{40}\)Ibid., p. 350.

\(^{41}\)Ibid., pp. 356-357.
value system.

The dependency school of thought explains this duality as: First, production in rural areas is profit-oriented and is exploitative in the Marxist sense, and thus is non-feudal. Second, there exists a capitalistic link between the urban centers and the countryside which promotes underdevelopment in the latter.

The first qualification is rather self-explanatory. Agricultural and mining production are no longer motivated by the goal of self-sufficiency, but rather are primarily market-oriented, which also introduces the capitalistic ingredient of profit-motivation. In this process, the peasantry become exploited in their profit-generating capacity, and as such, practically assumes the same positions on the land as the laborers in industry. As Andrew Pearce describes it, the feudal relations of caretaking landlord and a self-sufficiency oriented peasantry becomes replaced by a "capitalistic type of agricultural organization in which a large number of unfree laborers were employed under unified direction and control...."

The introduction of the capitalistic relationship, in turn, has itself been a reflection of the imperialist

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43 Ibid., p. 51
policies taking shape in the urban centers. When the merchants and industrialists of the imperialist country enter the satellite, the argument goes, they find their local counterparts in the cities and establish a pattern of trade beneficial to both sides. On the basis of this mutual interest, the native elites become a comprador class, acting as the local clientele for the metropolitan powers. As trade develops and manufacturing grows in the urban enclaves, the landholding elements of society join the comprador class and form the "agro-commercial" bourgeoisie. Since the interests of this class are directly tied with that of their foreign partners, the agro-commercial bourgeoisie orients itself according to the needs of the foreign markets. In so doing, the export sector becomes the focus of all economic activity. In this process, the agricultural and mining sectors of the economy are geared toward the production of raw materials that either go directly to foreign markets or are processed in the native enclaves for the production of export goods. Thus, the flow of capital and resources into "privileged export and industrial enclaves" creates a rural-urban imbalance at the expense of the underdevelopment of the rural periphery, while the enclave continues

44 Susanne Bodenheimer, op.cit., p. 337.
45 Chilcote and Edelstein, op.cit., pp. 47-51.
to grow. As a result, the bulk of the satellite population becomes increasingly marginalized from the economic pie. Hence, the apparent image of a dual society.

Andrew Gunder Frank, following the above sketched line of argumentation, bluntly rejects the notion of a dual society: "There is no dual society in the world today..."47 In his dialectical methodology he explains the differences between the rural and urban areas of the Third World as an outcome of the internal contradictions of capitalism, which are based on the relationship between the exploited and exploiters. This relationship produces within each satellite nation a dialectically divided society--dialectically divided in the sense that even though they are on different levels of economic and cultural development, they are not separate from each other but complementary--in the sense that the urban center needs and exploits the rural areas--and as such, they form a unity. The differences within the so-called "dual society"--just as those between the imperialist metropolis and the imperialized periphery in general:

Must be traced the dialectical unity of a single capitalist system whose contradictory and


47 Andrew Gunder Frank, Latin America: Underdevelopment
exploitative nature produces these differences. Underdevelopment of the satellite country as well as the countryside within the satellite itself, far from being due to any supposed "isolation" of the majority of the world's and the satellite's people from the modern capitalist expansion, or events any continued feudal relations and ways, is the result of the integral incorporation of these people into the fully integrated but contradictory capitalist system which has long since embraced them all.48

Just as underdevelopment, Frank argues, is an integral part of capitalist development, so "marginalization," i.e., the drive of the bulk of the population to the marginal development of the satellite's enclaves. Frank, however, takes exception to the expression "marginalization", for its distorting connotation that these masses have been forgotten by or not included into, the system of global capitalism.49

Frank distinguishes what he calls the "marginal-classes" from the people living in the "internal colonies." The former are those masses who have become dysfunctional for the capitalist system as a result of the adaptation of labor-displacing technology. Other than serving as part of the vast reserve army of the unemployed, the marginal underclasses are of no use for the system,


48Ibid., pp. 227-228.

49Ibid., pp. 224.
since "they drain off resources for their subsistence and involve large outlays of material, manpower, and money for preventing their revolt." On the other hand, internal colonies house the labor reservoir for the metropolitan industries. These people play an active role in the process of production and are of functional necessity to the capitalist system, since it is this bulk of the population from which all other classes derive their relative power and wealth. While the marginal underclasses are seen as a necessary evil byproduct of the capitalist system, it is both these underclasses and the internal "colonists" who are driven to the marginal level of subsistence.

Gonzalez Casanova holds that the phenomenon of dual society must be explained in terms of the concept of internal colonialism, which itself is related to international neo-colonialism:

...internal colonialism has created in the cities of the peripheral countries classes which are allied to the exploiting classes of the metropolitan countries and share the rewards. Thus we see an international system that bolsters capitalism not only in the metropolitan countries but also in the colonial countries, always by pushing the exploitation outwards to a region further removed from the center.  

50 James D. Cockcroft, Ander Dunder Frank, and Dale L. Johnson, op. cit., p. xix.  
51 Joseph A. Kahl, Modernization, Exploitation and Dependency in Latin America--Germani, Gonzalez-Casanova
As exploitation is "pushed" even further outwards, the process of marginalization gains momentum. Casanova points out that the immediate cause for marginalization is internal colonialism. After the colonialization of the periphery has taken place, then internal colonization sets in.

CHAPTER III

THE STATE IN IRAN

In recent history, the state in Iran has been associated with the Shah. This does not mean that in Iran, the state had been identical with the person of the Shah. Rather, in the period of weak Shahs, state power had been relatively open by the sharing of various groups within the ruling class at any given time. For example, the premiership of Dr. Mossadeg marked a period in which state power had escaped the royal court and had been mostly in the hands of the bourgeoisie and the native landlords, and—to a lesser extent—the clergy. On the other hand, in times of relatively strong Shahs, the state had been used as a reservoir of power at the Shah's disposal that he then threw behind any group of the ruling class or other classes as he deemed necessary for the state's support.

The period investigated in this thesis, post-1953 to 1979, was characterized by the increasing monopolization of state power by the Shah with the support of the Chief elite, the military.

Monarchist Dictatorship

Since following Mosadeg's overthrow in 1953, particu-
larly since 1960, the Shah increasingly moved toward monopolizing state power. This direction had been aimed at the preservation and the strengthening of the throne.\textsuperscript{52} Also, this direction manifested itself in the suppression of all opposition, strict censorship in the mass media, the banning of all forms of political organizations, activities and even the literary expression that the State found threatening to its security.\textsuperscript{53} No independent political activity was allowed by the government, and many opponents were jailed, tortured and killed. Literature of a "radical" nature was suppressed, and instead literature in support of the regime and of the United States was widely published and disseminated. In this respect, the American Franklin Book Program and the Imperial Foundation for Translation and Publishing were established. They both played a major role in reeducating the public about the "evils of Communism," on the value of friendship with the West, and were in support of the Shah's reforms.

\textsuperscript{52}See in detail, R. W. Cottam, The Rule of Iran in the Middle East: From American Client to Partners?, University of Pittsburgh, 1975.

and his endeavor to build a state-dominated capitalistic system.\textsuperscript{54} To reinforce these publications, the government closed down 95 percent of all publications by decreeing that they had to have a circulation of 3,000 or more.\textsuperscript{55}

Since 1957, the state allowed two political parties to operate--Melliyun, later Iran Novin Party and the "opposition" Mardon Party. In practice, both parties were both instigated and controlled by the monarchy. These parties were not allowed to suggest any candidates for the Majilis (Iranian Parliament) without their first being approved by SAVAK, and the limits of criticism were also laid down.\textsuperscript{56} In fact, the existence of these parties was primarily used as a resource of legitimacy for the regime's actions. However, in 1975, the Shah decided to finish this characteristic of State government and announced the establishment of a new single party called the Rastakhiz or National Resurgence Party. All Iranians were then pressured into joining it.

The legislature's procedures were also under the control of the executive power, and its members were elected on the basis of selections made by the regime.

\textsuperscript{54}Ibid., p. 63.


\textsuperscript{56}Ibid., p. 46.
Its function was thus reduced to that of a "rubber stamp", legitimizing what the political leadership required it to do.\(^57\)

The relationship between the state and the social class structure as a whole could be characterized by a rather severe impact of the state on the social structure in the sense that the state, in fact, determined the pattern of the social fabric. The various classes or groups within society never did have such an impact on the state. Rather, they merely responded to formative, regulatory pressures and influences of the state.

Finally, the process of concentration of the state's power into the hands of the Shah continued until 1978 when a popular upsurge broke down his power and terminated the monarchic dynasty in Iran.

The Causes of Dictatorship

Since the beginning of the 1950s', there has been a considerable increase in Iran's state power potential on the domestic and international levels. This was partly the result of a changing international atmosphere that accompanied the Cold War. Thus, Iran because of her geographical location (between Russia and Gulf countries)

\(^{57}\)Amin Saikal, op.cit., p. 63.
became very important to advanced capitalistic countries. The result was intensive economic and military support from the West especially from the United States. For example, between 1946 and 1970, Iran received $1,365.6 million dollars worth of military aid from the United States (U.S.); of this aid to Iran, $830.4 million dollars worth came in the form of military assistance; which sum amounted to 7 percent of all the U.S. aid which came under its Military Assistance Programme in this period; the remaining $504.1 million dollars came in the form of credit. Also, in the period from the end of World War II until 1975, a total of over 11,000 Iranian military personnel were trained at installations located in the U.S. Moreover, after the Vietnam war experience and in view of the Nixon Doctrine, it seemed unlikely that the United States could easily intervene directly in Third World countries and suppress local communist insurgencies. Therefore, the U.S. delegated this task to her regional allies. Because of this, the American policy towards Iran was "an easy approval arms export" by the U.S. government and the U.S. Congress. In this matter, it is worthwhile to note that in 1972, the Nixon Administration decided to

58 Fred Halliday, op.cit., p. 91
let Iran buy any military equipment she wanted, and exempted Iran from the arms sales review process of the State and Defense Department.\(^{59}\) As a result, between 1972 and 1976, Iran purchased $10.4 billion dollars worth of military supplies from the Pentagon and became the largest single arms customer of the U.S.\(^{60}\) This military aid and assistance and arms exportation of imperialist countries, particularly the United States, strengthened and stabilized the Iranian state's position. Thus, the Iranian state became able to crush any democratic movement that arose. In fact, it was the Sheman tanks that were used to crush popular resistance in Tehran and other Iranian cities. It was the computerized installations placed in police and army facilities in Iran by the U.S. and the 890 helicopters which succeeded in crushing the popular resistance movement in Tehran. Therefore, the Iranian state's ability to enforce repression and to shape a dictatorial regime has certainly been reinforced by aid which Iran received from outside sources. Obviously, then it was the U.S.'s supplying of military aid and assistance to Iran and, in fact, her influence in the internal


\(^{60}\)Ibid., p. vii.
Iranian affairs that helped to cause the dictatorship in Iran.

Another important factor in the rise of the Iranian dictatorship— and which was closely related to U.S. imperialism—was the exploration and production of oil. Oil was the major source of income for the Iranian state in the post-Shah period. It enabled the Shah to pursue and to promote his own leadership at both national and international levels. One reason for this was that the oil revenues were paid to the state and because of this, the state was able to buy and finance a great amount of arms and to establish a massive repressive military apparatus. For example, 1974, during which period Iranian oil income quadrupled reaching a record level of $17 billion, and the country's GNP rose to over $40 billion, marked a turning point in the Shah's drive for a military build-up. Therefore, oil and its revenues were effective factors for the Shah's autocratic rule and for his dominant position in all public activities.

Generally, oil revenues and foreign aid (notably from the United States) were the most important factors responsible for maintaining the dictatorial regime of the Shah.

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The Mechanisms of Dictatorship

The following analysis is presented in terms of army and SAVAK that applied to the Iranian society for persuading the Shah's dictatorial policies. The analysis of the army as a mechanism of a tyrannical regime of the Iranian state, and its role in sustaining that dictatorial power of the Shah over the Iranian society, has two fundamental bases: First, constitutionally, the Shah was Commander-in-Chief. Secondly, the very existence of his regime was directly due to a military coup in 1953. These two facts enabled the Shah to use and rely on the army as the prime means for sustaining his power and enforcing his policies over the Iranian society. Therefore, the army, acting as an apparatus for ensuring the government of its absolute political control, was the principal agent for effecting the consolidation of the Shah's regime. Also, the army's supportive role in the ruling regime enabled the Shah to effectively crush the uprising of any democratic movement and to demoralize all political opposition in order to maintain his government's stability. For instance in 1946-47, it crushed the autonomous movement of Azerbaijan and Kurdistan, and, in addition, following the overthrow of Mossadeg in 1953, it subsequently defeated
the communist and national front movement. Therefore, there can be no doubt that the army coupled with arms purchases greatly strengthened the position of the Shah and were used as mechanisms of his dictatorship. Additionally, the United States also must be considered as the country most responsible for the Iranian army's capabilities. Those capabilities entailed foreign aid, arms exportation, military assistance and the training of Iranian military personnel both inside Iran and abroad and also played a major role in the repression of the Iranian society, as well as the crushing of all resistance and possible uprising of any democratic movement. In this instance, it is noteworthy here to mention what Senator Hubert Humphrey quoted hearing from one of the heads of the Iranian army, "Do you know what the head of the Iranian army told one of our people? He said the army was in good shape, and thanks to U.S. aid, it was now capable of coping with the civilian population."63

SAVAK, or the National Organization for Information and Security, was another main instrument of political control in Iran. SAVAK was made up of many different units or organizations with each performing separate duties, e.g.,

62 Fred Halliday, op.cit., p. 75.
63 Ibid., p. 75.
espionage. However, the most horrendous section of SAVAK, which is also the central concern of this study, is the agency for "Internal Security and Action," and is most responsible in this writer's opinion for the domestic repression in Iran.

SAVAK's central activities or main tasks were focused on obtaining information from those persons it suspected of anti-monarchical activities and/or attempting to harm either the King or Crown Prince, and finally their duties involved identification and destruction of all those suspected of opposing the Shah in any way.

The size and scope of SAVAK's operations were varied from 3,120 as the Shah announced in 1976 to 30,000-60,000 as Newsweek reported in 1974. Besides these agents, SAVAK also had some three million part-time informers that were spread throughout the country. Additionally, these informers came from every walk of life such as workers, farmers, students, professors, teachers, guild members, political parties, and numerous other associations, etc. Therefore, the agency's eyes and ears were anywhere and everywhere. Directly resulting from the agency's use of members of society from such multifarious range of activities, there was created a kind of aura of suspicion within

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64 Ibid., p. 80.
the Iranian populace and especially toward anyone suspected of being a SAVAK agent. This suspicion also prevented efforts toward unity among the Iranian people and thus discouraged the rise of any opposition to the ruling regime and also served to reinforce their repression.

Torture after arrest was common. SAVAK used torture before trial to get both information and confessions from detainees, and also used it after a trial in an effort to both intimidate and pressure prisoners into making public confessions. A summary of the Amnesty reports concerning the use of torture in Iran states the following:

Alleged methods of torture include whipping and beating, electric shocks, the extraction of nails and teeth, boiling water pumped into the rectum, heavy weights hung on the testicles, tying the prisoner to a metal table heated to a white light, inserting a broken bottle into the anus, and rape.65

In this matter, I would like to cite one case of torture and brutality from thousands and thousands of others which were carried out by the Shah's secret police. This is a case of a political prisoner by the name of Masoud Ahmadzadeh, an engineer who was executed by the Shah's

65 Fred Halliday, Iran: Dictatorship and Development, p. 87, also see Political Prisoners in the Oil States: Oman, Bahrein, Saudi Arabia, Iran, by the organization of Arab Students in the U.S. and Canada and the Gulf Solidarity Committee, Eugene, Orgeon (March 1975), pp. 26-31.
regime. The following is an observation of a French lawyer, Nuki Albala, who was allowed to attend Ahmadzadeh trial in 1972.

At one point Ahmadzadeh pulled up his pullover to reveal the marks of torture on himself. The whole middle of his chest and his stomach was a mass of twisted scars from very deep burns. They looked appalling.... His back was even worse. There was a perfect oblong etched into it, formed by a continuous line of scar tissue. Inside the oblong, the skin was again covered in shining scars from burning. I would estimate that the width of table marks on his back was at least nine inches.66

Furthermore, Albala said, upon investigation, he found that Ahmadzadeh and other prisoners had been toasted on a special hot table—an iron frame, rather like a bed frame, covered with wire mesh which was electrically heated like a toaster.

Also, the reports of the Amnesty International and the International Commission of Jurists at the end of 1967, further substantiate SAVAK's brutal system as well as the ruthless methods it employed. These reports can be summarized as follows:67

1. Arrest and Detention: SAVAK arrested and detained persons at will. There was no legal preliminary

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66 Ibid., p. 87, also see Ali-Reza Nobari, Iran Erupts, (Stanford University; Iran-American Documentation Group 1978), p. 148.
67 Ibid., p. 85.
to searches and arrests, no time limit on detention, and no right of the detainee to independent access to lawyers. SAVAK's power was arbitrary and absolute.

2. **Trial:** All political trials were held before a military tribunal. The judges were either army officers or SAVAK officials. They were held in secret. No defense witnesses were allowed.

3. **Prison Condition:** Pre-trial prisoners were locked up in small damp cells with only a straw mattress on which to sleep. Lack of heating in winter or cooling in the summer created extra hardships frequently remarked upon by prisoners. Analogous conditions prevailed after sentencing and in addition, medical treatment was practically non-existent and prisoners were hardly ever seen by a doctor, sent to a hospital or allowed to receive medicine.

Generally, with consideration to the above explanation, most political prisoners were extremely sick and/or handicapped after being released from prison, and some of them were either killed or died under torture before finishing their terms. It is worthwhile to note here the

*See in detail, Political Prisoners in the Oil States, op. cit., pp. 29-30; and Ali-Reza Nobari, op. cit., pp. 140-172.
expression of the Secretary General of Amnesty International concerning SAVAK, he said, "No country in the world has a worse record in human rights than Iran." 68

As a consequence of this wide range of activities of SAVAK as well as its ruthless methods in expressing the Shah's intolerance for any kind of opposition, there was created a strong central government under firm control of the Court with concentration of power and absolute authority resting in the hands of the Shah. Therefore, the Shah increasingly relied on his oppressive organs to both prevent and suppress any possible democratic and resistance movement. However, the Shah and his regime did not fully understand nor appreciate the spirit of the Iranian people and the fact that repression alone cannot prevent the development of a resistance movement. Thus, as we have seen the friction caused by the state rather provided the spark that ignited popular resistance and eventually broke down the Shah's regime in 1978.

Grantor of Capitalism

According to the Marxist tradition, the state has two basic characteristics. First, the state is a highly responsive organ and is, in fact, a formation of societal

68 Ibid., p. 85
interest. Secondly, it has no life of its own. In other words, it lacks autonomy. Contrarily, in the capitalistic system, the state is the guarantor and defender of the interests of a capitalistic ruling class.

The political functions of a capitalistic state can be exercised in different ways in different societies. For example, in developing capitalistic countries, the bourgeoisie penetrates the state apparatus through its elected representatives and then acts to influence state policy in favor of the interests of its allies. However, in Iran, the bourgeoisie, compared to other more developed capitalistic countries, was weak; therefore, it was unable to play as active a role as it had done elsewhere. As a result of this lack of power of the bourgeoisie, and the impossibility of the imperialistic powers to perform their exploitative policies through their local agents, they chose the Shah as the head of the Iranian state in order to carry out and impose their capitalistic process on the Iranian society. The underlying cause of Iran's weak bourgeoisie is that Iran has no post-colonial state in the history of its development and thus the links formed between a local bureaucratic ruling power with an outside imperialistic power were nonexistent. Again, because of this lack of development of a local bourgeoisie, the
imperialistic countries seeking to dominate Iran had no effective power base from within Iran's bureaucratic system from which to operate and thus failed to subjugate Iran as it had subjugated other Third World countries. Thus, I concur with Claudio Veliz's state model, who uses the concept of "underdeveloped countries" and believe this description best portrays the Iranian state. Veliz's model concerning the relationship existing between the state and society can be visualized as follows: 69

This model ascribes a high degree of institutional autonomy to the state. Also, it suggests that economic, social and political dependency of underdeveloped countries are affixed with the institutional autonomy and cohesion of the state in dependent nations. The patron-client relationship is especially affected by the internal cohesion of the dependent state.

The state in Iran followed Veliz's model. Thus, it was the state that "shaped" the society in the interests of capitalistic classes as well as for what its patron wanted. Additionally, the political function of the state in Iran during the Shah's regime, was often seen as acting directly or indirectly for the benefit of the interests of the Iranian bourgeoisie. For instance, the political functions which substantiate the above statement can be classified as follows:

1. The state provided for the sectors on whose cooperation it rested and without which it could not remain in existence;
2. The state organized the distribution of the country's wealth in such a way that the Iranian bourgeoisie class benefitted disproportionately from it, and;
3. The state managed the accumulation of wealth and its investment in accordance with the interests of the upper strata of state employees, capitalist landlords, and those engaged in finance, trade and industry.

In fact, the autonomous rule of the state in Iran provided the conditions from which the bourgeoisie enjoyed state power in terms of protective measures, and the sub-

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70 Fred Halliday, op. cit., p. 44.
duing of particular interests to certain groups or classes to override national interests. In other words, Jazany called this situation a "fixed-bayonet" economy. He stated that it was precisely the kind of autocratic system of the Shah's regime with its bureaucratic bourgeoisie character, which upheld the interests of all other sections of the bourgeoisie as well as those of the imperialists. 71

Thus, it was in such a condition of state policy within which the ownership of lands was allocated. Those of the bourgeoisie class who agreed with state policy and its capitalistic transformation retained ownership of lands after land reform in order to transform the countryside along the capitalist's line; or were encouraged to participate in industry and urban trade under the guaranteed protection of the state, generous credit, and low taxation. 72

In the matter of foreign enterprise, the state offered to provide some special protectionist measures and thus guaranteed foreign investment. In this instance, it is of note to mention the special protection that the Iranian state provided the American investors. This

72 Fred Halliday, op. cit., p. 42.
protection was guaranteed under a treaty which was signed in 1955 between Iran and the United States. The content of this treaty may be summarized as follows:

A Treaty of Amity, Economic Relations, and Consular Rights was signed by the United States and Iran in 1955, which provided a legal basis upon which U.S. nationals and companies could invest and conduct business in Iran, and Iranian nationals could do likewise in the United States. In addition to their rights spelled out in that treaty, American investors also enjoyed special protection under the Investment Guaranty. This agreement was concluded between the two countries in 1957. This agreement, as it was broadened in 1970, covered expropriation, nonconvertibility, war, insurrection and extended risk.73

Therefore, such variables as capitalistic land reform (which was dictated by the Kennedy Administration in 1961) for the promotion of expanded growth of capitalistic social relations and for the extended development of the productive forces along capitalistic lines, are obvious indicators that the State of Iran had become a guarantor of capitalism. Furthermore, (in view of the weakness of the local bourgeoisie as previously mentioned) the goal of a strong central government, implemented in this case by political repression by the Shah's regime with its seemingly resultant political stability, was also a necessary condition for the

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development of the process of capitalism in Iran. Thus the state central government in Iran did, in fact, operate under the dictates of imperialistic policy as well as for the local Iranian comprador bourgeoisie interests.

As for my opinion of the evaluation of the Iranian state within the dependency school of thought, this writer is of the opinion that the state of Iran in the era of the Shah's regime should not be merely considered as an appendage of the bourgeoisie at least not in the same sense that the concept of "dependence" refers to in other underdeveloped countries; rather, the state, in this particular instance should be thought of as a regulatory organ which functioned primarily to provide the conditions best suited to fulfill the interests and enjoyment of the bourgeoisie but under the control of the ruling power of the state.

Local Bourgeoisie in Iran

With the establishment of the Anglo Iranian Oil Company (AIOC), foreign businessmen established themselves as a new group within the Iranian upper class. Those indigenous elements who made business with these foreigners gradually emerged as the new economic elite, such as bankers,
contractors, industrialists, etc.\textsuperscript{74} Therefore, the motives of individual profit maximization, enhancement of one's own social status, and the achievement of more influence in the government became the prevalent incentives for the Iranian bourgeoisie and encouraged them to do business with foreign investors. This condition is exactly parallel with the dependistas argument concerning local bourgeoisie as stated by Susanne Bodenheimer, "...at the same time that they obey their foreign master in catering to their interests, they also enjoy top position within their own society as the dominant elites."\textsuperscript{75} Nevertheless, this group, as the comprador class, shared the interests and cooperated with their foreign counterparts. This group, which Bizhan Jazany referred to as a "by-product of imperialism"\textsuperscript{76} developed in the process of the growth of capitalism and destroyed the pre-existing productive forces in Iran.

Jazany while dividing the Iranian bourgeoisie into national and comprador, believed that what we could say


\textsuperscript{75}Susanne Bodenheimer, \textit{op. cit.}, p. 338.

\textsuperscript{76}Bizhan Jazany, \textit{op. cit.}, p. 71.
that national bourgeoisie in Iran during the Shah's reign, were engaged only in small undertakings and the remnants of feudalism which also rapidly disappearing from the rural areas. But the comprador bourgeoisie, in contrast, grew rapidly in various fields. Thus, according to the activities they performed, Jazany categorized them in four sections as follows:77

1. Commercial bourgeoisie--specialized mainly in the import of foreign consumer items. Thus, the distribution of goods produced by dependent industries, and the investment of large sums of capital into retail trade through the establishment of large stores as well as the chain store where the primary fields of activities that concerned the commercial comprador bourgeoisie.

2. Industrial bourgeoisie--were involved in the two basic fields of mining and consumer goods industries. But because most of the heavy industrial investment was primarily handled by the government, most industrial bourgeoisie's activities were mainly focused on consumer industries such as food, clothing, medical supplies, toiletries, metal work, household goods and transport.

3. Agricultural bourgeoisie--were involved in starting of mechanized farms, large agricultural units

77 Ibid., pp. 78-87.
and livestock farming corporations which were, in fact, the result of seemingly the Shah's land reform which, in turn, created this new comprador bourgeoisie. Thus, by supporting the Shah's regime, the bourgeoisie deprived and exploited the farmers, drove off peasants from their lands in order to establish a capitalistic system of production. As a consequence, the farmers became landless and forced to work on what was previously their own lands as wage workers and thus were directly exploited by the Shah's land reform through the newly created Agricultural bourgeoisie.

4. **Bureaucratic bourgeoisie**-- This bourgeoisie were members of the political and administrative apparatus of the Court and thus the courtiers. In other words, the Shah and his courtiers were the perfect manifestation of this bourgeoisie in Iran. Its important role was to exploit the country's resources directly.

Also, Fred Halliday, in his analysis of the Iranian society and its development of capitalisms joins Jazany and argues that because of the special role played by the state, it created a bureaucratic stratum. That stratum had three employees, capitalist landowners, and those engaged in finance, trade, and industry. This stratum through participating in the economy formed a component of the
dominant class in Iranian society. In addition, he argues, with the availability of oil revenues, there was also an increase in the incomes of a large number of persons employed in civil service positions and thus was formed a new bourgeoisie in Iran. 78

These were basically the economic elite or Iranian bourgeoisie that acted as the link with foreign investors in the sense of channeling capital and advanced technological know-how to Iran. Furthermore, the royal family and the military elite were also heavily involved in promoting the flow of capital and technology to Iran.

However, the bourgeoisie, generally speaking, in Iran was weak. It was something like a political shadow and was unable to challenge the dictatorial character of the Shah's regime. 79 Rather it was the Shah, himself, who determined the extent to which members of the military elite, the royal family, as well as the economic elite might press for the attraction of foreign capital to Iran. This means, besides the economic elites, the military and royal family, the Shah who had absolute control at the top was the most comprador bourgeoisie in Iran and as such the most responsible for Iran's underdevelopment.

78 Fred Halliday, op. cit., pp. 41-42.
79 Ibid., p. 34.
CHAPTER IV

ECONOMIC DEVELOPMENT AND UNDERDEVELOPMENT IN IRAN

To present an accurate picture of the Iranian economy during the post-Shah period, and to reveal the nature of this economy from the view of the dependency school's definition of a dependent and underdeveloped economy, it is necessary that we study the impact of foreign participation on the Iranian economy. To do so, special attention will be given to the Iranian industry and agriculture in which the United States, and the West as a whole, participated.

Industry

Non-oil Industry--After the Shah was returned to Iran by the C.I.A. in 1953, the United States continued its economic support of his regime with loans and grants. From the year of the coup, until the end of 1956, and in the years following the coup, the United State's economic assistance to Iran totalled $250 million dollars; $85 million in 1954; $76 million in 1955 and $73 million in 1956. Since then, the Iranian economy underwent a fundamental structural change in the modern industrial

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sector. Hence, such assistance provided the necessary sources of credit extension to enable the government to stimulate the private sector for the country's economic build up and to further the growth of the banking system.\(^{81}\) The outcome of this policy was the creation of the Industrial and Mining Development Bank of Iran (IMDBI) in 1959, which was founded with the help of foreign capital.\(^{82}\) Later, in the period of the 1960s (as a result of the past regime's policy of protection for foreign investment in order to promote capitalist development) foreign capital made a major penetration into the Iranian economy. Thus, by the beginning of 1975, 162 joint ventures initiated outside of the oil industry had begun investment in Iran.\(^{83}\) This trend is indicated in Table 1. The Iranian state's usual policy was a limit of 25 percent to 33 percent for joint firm's holdings, although guarantees and rapatriation facilities were generous. As for foreign capital, usually alien firms


\(^{82}\) For an in-depth analysis of foreign role and their composition, see Benedick. Ibid, pp. 118-174.

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<td>1.7</td>
<td>64</td>
<td>1.6</td>
<td>201</td>
<td>4.5</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>--</td>
<td>--</td>
<td>52</td>
<td>7.8</td>
<td>--</td>
<td>--</td>
<td>1121</td>
<td>27.7</td>
<td>1337</td>
<td>29.7</td>
</tr>
<tr>
<td>Auto Industry and transport</td>
<td>31</td>
<td>6.8</td>
<td>35</td>
<td>5.2</td>
<td>99</td>
<td>7.4</td>
<td>1027</td>
<td>25.4</td>
<td>22</td>
<td>0.5</td>
</tr>
<tr>
<td>Food</td>
<td>--</td>
<td>--</td>
<td>7</td>
<td>1.0</td>
<td>119</td>
<td>8.9</td>
<td>144</td>
<td>3.5</td>
<td>9</td>
<td>0.2</td>
</tr>
<tr>
<td>Mining</td>
<td>63</td>
<td>13.7</td>
<td>159</td>
<td>23.8</td>
<td>146</td>
<td>10.9</td>
<td>274</td>
<td>6.8</td>
<td>109</td>
<td>2.4</td>
</tr>
<tr>
<td>Agro-business</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>122</td>
<td>9.1</td>
<td>458</td>
<td>11.3</td>
<td>33</td>
<td>0.7</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>2.6</td>
<td>8</td>
<td>1.3</td>
<td>229</td>
<td>17.1</td>
<td>439</td>
<td>10.9</td>
<td>508</td>
<td>11.2</td>
</tr>
</tbody>
</table>

could legally own a share in Iranian industry, and repatriate profits freely. Their profits of 50 percent on capital were normal profit margins in Iran. While in trade and industry, foreign investment increased to 100 to 200 percent. In this matter, automobile production, rubber and petrochemicals were the most favored areas for investment. As Table 2 demonstrates the United States was the leading investor in Iran.

With these facts established we may now examine the effects of foreign investment on the Iranian economy. This will be done by analyzing...types of technological skills and capital equipment transferred to Iran, patterns of production created, and developments in agriculture production and distribution.

1. **Machinery and technological skill** that was in itself capable of producing a further means of production. In other words, this is the type of machinery and factory capable of producing other factories, which then, in turn, put out other various consumer goods. The technology and factories of this type were virtually non-existent in Iran. They still remained a monopoly of the West.

2. **Labor intensive joint ventures** were employed extensively in Iran. However, the technology necessary

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### TABLE 2

Inflow of Foreign Private Capital and Loans to Iran According to National Origin (Million rials)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value</td>
<td>%</td>
<td>value</td>
<td>%</td>
<td>value</td>
</tr>
<tr>
<td>United States</td>
<td>1609</td>
<td>54.1</td>
<td>855</td>
<td>54.0</td>
<td>2696</td>
</tr>
<tr>
<td>West Germany</td>
<td>230</td>
<td>7.6</td>
<td>178</td>
<td>11.2</td>
<td>125</td>
</tr>
<tr>
<td>Great Britain</td>
<td>196</td>
<td>6.6</td>
<td>242</td>
<td>15.3</td>
<td>118</td>
</tr>
<tr>
<td>France</td>
<td>173</td>
<td>5.8</td>
<td>67</td>
<td>4.3</td>
<td>99</td>
</tr>
<tr>
<td>Japan</td>
<td>20</td>
<td>0.1</td>
<td>0</td>
<td>0.0</td>
<td>10</td>
</tr>
<tr>
<td>Others(^a)</td>
<td>743</td>
<td>25.8</td>
<td>241</td>
<td>15.2</td>
<td>216</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2971</td>
<td>100.0</td>
<td>1583</td>
<td>100.0</td>
<td>3264</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>%</th>
<th>1973</th>
<th>%</th>
<th>1974</th>
<th>%</th>
<th>Total 1963-74</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>349</td>
<td>26.1</td>
<td>1090</td>
<td>26.9</td>
<td>797</td>
<td>17.7</td>
<td>8458</td>
<td>39.4</td>
</tr>
<tr>
<td>West Germany</td>
<td>131</td>
<td>9.8</td>
<td>662</td>
<td>16.4</td>
<td>130</td>
<td>2.9</td>
<td>2471</td>
<td>11.5</td>
</tr>
<tr>
<td>Great Britain</td>
<td>29</td>
<td>2.2</td>
<td>25</td>
<td>0.6</td>
<td>52</td>
<td>1.1</td>
<td>1261</td>
<td>5.8</td>
</tr>
<tr>
<td>France</td>
<td>102</td>
<td>7.6</td>
<td>23</td>
<td>0.6</td>
<td>61</td>
<td>1.4</td>
<td>769</td>
<td>3.6</td>
</tr>
<tr>
<td>Japan</td>
<td>221</td>
<td>16.6</td>
<td>1659</td>
<td>41.0</td>
<td>2867</td>
<td>63.7</td>
<td>4961</td>
<td>23.1</td>
</tr>
<tr>
<td>Others(^a)</td>
<td>504</td>
<td>37.7</td>
<td>586</td>
<td>14.5</td>
<td>594</td>
<td>13.2</td>
<td>3573</td>
<td>16.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1336</td>
<td>100.0</td>
<td>4044</td>
<td>100.0</td>
<td>4501</td>
<td>100.0</td>
<td>21493</td>
<td>100.0</td>
</tr>
</tbody>
</table>


\(^a\)Includes mixed companies
for the final labor intensive stages was made available. These observations indicate that, first, a certain type of technology never did find its way into the Iranian economy, and; second, the type of machinery available in Iran was only sufficient to meet the technological requirements of the last few stages of production, even though these stages were accompanied by foreign technicians.

The Iranian units were also much less efficient than those elsewhere. For example, in 1976, in order to assemble a GM Chevrolet in Iran, it took 45 hours, while the same process could be done in 25 hours in West Germany. The underlying cause of this was in sufficient training programs for the local work force needed to acquaint them adequately with the necessary technological know-how. As Table 3 demonstrates, the number of individuals who receive training by their firms was very small in comparison to the total number of employees. This reveals that foreign investors did not want and were reluctant to teach the Iranian work force the technology and know-how to become


<table>
<thead>
<tr>
<th>Industry</th>
<th>No. of firms</th>
<th>Years passed since the start of training programs&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Total number of employees</th>
<th>Total number of employees trained</th>
<th>Total number of employees trained/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>1</td>
<td>--</td>
<td>800</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Rubber products</td>
<td>2</td>
<td>13</td>
<td>1540</td>
<td>1220</td>
<td>94</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1</td>
<td>8</td>
<td>200</td>
<td>8</td>
<td>1-2</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>4</td>
<td>9</td>
<td>686</td>
<td>455-500</td>
<td>50-55</td>
</tr>
<tr>
<td>Metal products</td>
<td>1</td>
<td>8</td>
<td>200</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>2</td>
<td>7</td>
<td>780</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Non-electrical machinery</td>
<td>3</td>
<td>4</td>
<td>360</td>
<td>225</td>
<td>56</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>2</td>
<td>4</td>
<td>2270</td>
<td>500</td>
<td>125</td>
</tr>
<tr>
<td>Miscellaneous&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3</td>
<td>7</td>
<td>1330</td>
<td>85</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td></td>
<td><strong>8136</strong></td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: Sample Survey of Multinational Enterprises in Iran, Conducted by Yekom Consultants, 1975

<sup>a</sup>In industries with more than 1 firm, years of training are represented by the firms' average.

<sup>b</sup>Includes 1 firm in dry battery, 1 firm in glass and 1 firm in safety

--No reply.
efficient workers. The primary reason for this reluctance on the part of foreign investors was the need to keep the Iranian society in a dependent state. In addition, as the Central Bank of Iran reported, current payments for foreign engineering and other service people totalled some $4.1 billion in 1976-77 including interest, although thousands of Iranian engineers were deprived of employment in Iran and were exiled by the regime.

Iranian industry remained backward even though 22 percent of government income was allocated for industrial development during the period of 1959-1972 and $69 billion following the rise of oil prices in 1973. In comparison only 8 percent was earmarked for agriculture. An American economist was not mistaken when he said that the Iranian economy was operating "full speed in the wrong direction." 30

Oil Industry--From 1908, when Iranian oil production began up to the oil nationalization struggle of the 1950s,

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87 U.S. Department of Commerce, op. cit., p. 3.
89 Fred Halliday, MERIP Reports, op. cit., p. 17.
the exploitation of this important economic and industrial resource had been carried out under a concession of a British-owned company known as the Anglo-Iranian Oil Company (AIOC), now known as British Petroleum (BP). 91 It initially paid only modest revenue to the Iranian government, i.e., between 1915 and 1950, the company had a profit of $613 million and paid only $316 million to the government, 92 and was entirely self-contained and enjoyed special import concessions. 93 It was in response to this that after the Second World War, a growing movement developed in Iran, of which the most prominent spokesman was Dr. Mohammad Mossadeq, who called for oil nationalization. In 1951, oil was nationalized; but because of the imposition of a world-wide boycott on Iranian oil, the nationalization was aborted. In fact, from 1951 until 1954, the Iranian oil industry was virtually closed down. In 1953, Mossadeq was overthrown by the C.I.A., and a year after, the Iranian government signed a new oil agreement. Under this new agreement, the oil industry was formally still nationalized; AIOC was disbanded and Iran obtained a fifty/fifty

91Bizhan Jazani, op. cit., p. 90.
92Fred Halliday, Iran: Dictatorship and Development, op. cit., p. 141.
93Robert Graham, op. cit., p. 38.
division of profits. But it replaced AIOC with a new company known as "Consortium" comprising the seven major companies with BP getting the leading share of 40 percent. However BP lost its monopoly position and the U.S. capitalists received a share of 40 percent which was divided among the five major U.S. oil companies (7 percent for each) and a group of smaller U.S. firms sharing 5 percent. The remaining 20 percent was divided between Shell Oil Company with 14 percent, and Compagnie Francois Petroles (CFP) 6 percent. In this regard, the Iranian state body, the National Iranian Oil Company (NIOC), was given a small share in production what was called "non-basic operation" (servicing). Fred Halliday, in this matter, says: "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." Also, Robert Graham said,

Unknown to Iran, the Consortium members worked out a secret agreement amongst themselves over the future level of production from the Iranian fields. Iranian production was to be balanced against the global oil interests of the major

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94 Ibid., p. 35.
95 Fred Halliday, op. cit., p. 142.
96 Ibid., p. 141.
oil companies so that any increase in production was the result of an internal agreement and Iranian revenues were entirely dependent upon the level at which the Consortium chose to produce. 97

In the early 1970s, Iran had joined the Organization of Petroleum Exporting Countries (OPEC) when it was established in 1960. On February 14, 1971, an OPEC and international oil companies' representative meeting was held in Tehran where a coordinated breach in the oil company's control of prices was made. Consequently, in March 1973, in an agreement whereby the Consortium handed over all remaining operations and ownership to NIOC and officially limited the oil companies to the role of being purchasers of Iranian oil and providers of some technical services. 98 In December 1973, the largest price rises occurred at $11.65 a barrel in comparison to $1.79 a barrel in 1971. Again, Fred Halliday believes that the price increases of oil were a matter of secondary concern of the companies, as far as their continued power was concerned. They, themselves, reaped a proportion of the benefit from the price rise but their real power was derived from the locus of Iran's distribution in the markets to

98 Ibid., p. 36.
99 Fred Halliday, op. cit., p. 142.
which Iran exported her oil.\textsuperscript{100}

However, an effect of the oil boom was the rise of the Iranian government's revenues from $817 million in 1968 to $2.25 billion in 1972-73 and to $19.16 billion in 1975-76. Between 1966 and 1978, the cumulative oil income came to over $100 billion.\textsuperscript{101} As oil revenues increased, the Iranian economy also became more dependent upon them. To prove this hypothesis, the Iranian foreign trade statistics clearly reveal the central role of petroleum in the nation's economy. For example, during 1972/73, the last Iranian high income year prior to sharp price increase, Iranian exports totalled about $4.2 billion, of which the oil and gas share was slightly over 88.1\% in 1967/77 when exports totalled close to $20.1 billion of which oil and gas counted for $19.4 billion or over 96\%.\textsuperscript{102} Furthermore, in mid-1976, the oil industry provided 85 percent of Iran's foreign exchange and financed 80 percent of its government's budget,\textsuperscript{103}

\begin{flushleft}
\begin{footnotesize}
\textsuperscript{100}Ibid., p. 144.
\textsuperscript{101}The Middle East and North Africa, 1976-1977, p. 94.
\textsuperscript{102}U.S. Department of Commerce, \textit{op. cit.}, p. 2.
\textsuperscript{103}London Economist, August 28, 1976, "Special Report on Iran," p. 27.
\end{footnotesize}
\end{flushleft}
while in 1977, it accounted for 77 percent of the government's revenue and 87 percent of foreign exchange earning.104

As these observations indicate, Iran's export sector was being dominated by a single product. As a result, when in December 1976, an open split occurred between the two camps of OPEC (led respectively by the Iranians and Saudis), the price of oil was raised by 10 percent in the former and the latter by only 5 percent, the demand for Iranian oil fell off and brought about a continuing decline in oil revenues ($19.5 billion in 1977 as against $20.5 billion in 1976), and a budget deficit in foreign trade.105 This demonstrates the fact that Iranian industry was, in many ways, backward and heavily reliant on oil revenues to sustain itself.

However, Iran, unlike most other Third World countries, had a basic modern industrial infrastructure and was rich in natural resources, especially in natural gas and copper which could be used for building a powerful industrial export sector. Generally, whenever imperialistic countries try to dominate Third World countries

104 Fred Halliday, MERIP Reports, op. cit., p. 11.
105 Thierry Brun and Rene Dumont, op. cit., p. 15.
through one or another channel, their main interests usually reside in the controlling of exports and in keeping the world market under their control. As a result of this imperialistic policy, the Iranian economy subsequently took a distorted path and the oil income spent for arms purchases and the import of semi-finished goods, caused the establishment of a piecemeal industry in Iran based on immediate demand, rather than on a planned diversified industrial base which is necessary to have a self-sustaining national economy not dependent on any single resource.

Consequently, the underdevelopment of Iran's overall economy can be traced to the absence of the necessary advanced technology and machinery for efficient production in the entire production process, the absence of sufficient and adequate training programs to enable Iranian workers to handle the imported machine technology, and finally the absolute weakness of the non-oil export sectors which was the most vulnerable aspect of the Iranian industrial complex.

Agriculture

Before Land Reform and Traditional Agriculture--

In Iran, because of unfavorable topographical and climatic conditions, out of a total land surface area of 165 million
hectares, 55 percent is classified as uncultivable because it is desert, mountaneous, swamps, and another 30 percent or more is forest and pasture.\textsuperscript{106} According to 1961 figures, only 6.2 million hectares (3.5 percent) were cultivated and about 11.8 hectares of arable land was left fallow every year.\textsuperscript{107} Above all, it is the lack of water that prevents an abundant agricultural yield. Throughout the country, rainfall averages 300 mm to 35 mm a year. Even this rainfall is distributed unevenly; with the Caspian Coast receiving the highest proportions over the vast arid central and eastern plateaus.\textsuperscript{108} Therefore, a highly evolved system of underground water channels, known as "ganats" has been the traditional means of irrigation. These channels, constructed in soft alluvial soil, and up to 50 Km long, bring water from the mountains to cultivated areas. Roughly one-third of all irrigation as late as the early 1970s relied on "ganatas,"\textsuperscript{109} which

\textsuperscript{106} Fred Halliday, \textit{Iran: Dictatorship and Development}, \textit{op. cit.}, p. 105.


\textsuperscript{108} Robert Graham, \textit{op. cit.}, p. 38.

\textsuperscript{109} Ibid., p. 39.
involve a great amount of skilled labor but allows for a democratic division of water and does no ecological harm. But after land reform which caused rural migration (I will discuss this in the next section) "ganats" suffered seriously because they are labor-intensive and require constant maintenance. As a result, a quarter of the ganat system has become inoperative through lack of repair.\(^\text{110}\)

There is no precise statistics on land holdings before the reform, however, eighty-five percent of the arable land was located in the large and private estates; 14 percent was farmed by small peasants, and 1 percent was under mixed ownership.\(^\text{111}\) The land was cultivated by sharecroppers. The nature of the sharecropping arrangement varied; for cash crops like cotton, the landlord usually took half the production while for wheat or barley, the landlord could take up to two-thirds.\(^\text{112}\) But the most common pattern was for the crop to be divided into five, according to the five inputs—land, labour, water, animals and seed.\(^\text{113}\) Hence, a peasant who provided only labour

\(^{110}\) Ibid., p. 39.
\(^{111}\) Bahman Nirumand, op. cit., p. 126.
\(^{112}\) Robert Graham, op. cit., p. 40
\(^{113}\) Fred Halliday, op. cit., p. 107.
might get 20 percent of the crop, while the landowner automatically gets his 20 percent. Holdings were small and generally fragmented, and even where a single owner possessed a large land area, it became a barrier to effective action and self-determination among the Iranian peasantry.

According to Nikki Keddie almost every village has several strata of adult male agriculturalists with some peasants in more than one of them. In general, the declining order of wealth and prestige is as follows:

I. Non-cultivators
1. Absentee landlord, including state, crown, and vagf trustees (religious endowment).
2. Large-scale renter from above, often absentee.
3. Village officials: headman, landlord's agent, water official, field watcher, etc.
4. Non-cultivating small owner.
5. Non-cultivating small renters from strata 1 or 2 (one village or less).
6. Non-cultivating leasor of productive instruments, usually cattle, sometimes water.
7. Non-cultivating head of work team, providing at least one instrument of production.

II. Cultivators
8. Cultivating small owners.
9. Cultivator paying a fixed cash rental.

10. Cultivating head of work team.

11. Sharecroppers with some productive instruments, usually oxen, not head of a work team.

12. Sharecropper with only his labour to sell, but with a regular position on a work team or on land.

13. Labour with a regular wage, in cash or kind.

14. Casual labour, without a place or a work team or land, often hired by the day only at peak seasons.¹¹⁴

Yet, despite such unfavorable conditions, Iran had managed to be self-sufficient in food during the early 1960s.¹¹⁵ After 1961, Iran's agriculture yeild lost its self-sufficiency status; this was partly because of the rise in domestic food consumption and population growth, i.e., food consumption has risen by 10 percent a year and the population by about 3 percent, whereas output in agricultural products has risen by only 2-4 percent annually.¹¹⁶


¹¹⁵ London Economist, op. cit., p. 27.

But the most significant reason for Iran's loss of agricultural self-sufficiency can be traced to the Shah's land reform initiative, which deteriorated the Iranian agricultural sector. I will discuss this more fully below:

Land Reform and Modern Agriculture--The Iranian land reform program, which was the centerpiece of the Shah's White Revolution, was initiated under the advice of the Kennedy Administration. It had two major goals.

1. To win over the rural masses, and create a reservoir of support for the Shah in the countryside to be used with great effect against the urban middle class opponents for some years. 117

2. To create a new social division in the countryside, in other words, to transform the countryside into a capitalist mode of production. 118

As Robert Graham pointed out, little thought was given to the matter of improved performance from the agricultural sector. 119

117 Helmut Richards, "Land Reform and Agri-Business in Iran," MERIP Reports, No. 43, (December 1975), p. 3.

118 Fred Halliday, Iran: Dictatorship and Development, op. cit., p. 103.

Implementation of these goals occurred in three consecutive stages, known as "phases":

The First Phase--The "first phase" (1962-64) called for the following: 120

1. Ownership was limited to one village or to six bangs in separate villages. Exempted were orchards, tea plantations, homesteads, groves, and land where there was mechanized cultivation during daily wage-labour.

2. Landowners were to be compensated by the state over 10 years (later extended to 15) on the basis of the taxes they had been paying. The peasants who received land were to repay the value plus 10 percent over a period of 15 years; those who defaulted for three years running were to be dispossessed.

3. Land was to be redistributed to those who were already farming land, with priority going to those who provided more than just labour, i.e., oxen-owners had priority. Then came nasagh*-holders, and finally labourers.

120 Fred Halliday, op. cit., p. 110.

*Who conventionally works the land.
All those receiving land had to become member cooperatives.

4. Where no distribution took place, that is, in villages retained by landlords, there was to be an end to arbitrary dismissal of peasants. Share-cropping rates were raised by 5 percent of the crop on irrigated land and by 10 percent on non-irrigated.

Wherever, the limitation of the first phase applied to an individual and not to a family, it provided loopholes to the landowners; so that many large landowners registered their lands in the name of a close dependant and kept their lands. Additionally, some allegedly mechanized their farms and drove the peasants off the land in order to qualify for this exemption. And finally, some owners were able, by bribing reform officials, to retain their lands. As a result, by September 1963, the date set for completion of this phase, only about 15 percent of all Iranian villages were covered by this phase and 7-8 percent of the entire peasantry became landholders. With consideration of the rural families in that year, which was 3.5 million, only 690,466 families or under a fifth of them received land from this phase. The vast majority

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122 Fred Halliday, op. cit., p. 111.
of those who received some land were the wealthier peasants or oxen owners.

In the case of membership in a village cooperative, which was required by provision of the first phase, it was supposedly established to provide for the credit needs for new landholders who formerly resorted to obtaining it from landlords, shopkeepers, peddlers, or traders. But studies have shown that the cooperatives were undercapitalized and could not provide enough low-interest loans to those who needed them. Therefore, the new landholder continued to borrow money, like before, from the money lenders with the highest rate of interest. In effect, this situation expanded the money relationship into villages and increased the peasants' indebtedness.\textsuperscript{123}

The Second Phase--The second phase of the land reform initiated by the Shah (1964-67) was even more conservative than the first. It was designed to cover that land which had not been affected by the first phase, and under it, landlords were given the following options:\textsuperscript{124}

1. Rent the land to the peasants on the basis of the average net income of the past three years; the lease

\textsuperscript{123}George Stauth, \textit{op. cit.}, p. 101, and also, Helmut Richard, \textit{op. cit.}, pp. 9-10.

\textsuperscript{124}Helmut Richard, \textit{op. cit.}, p. 8.
to be for 30 years and subject to a 3-year revision.

2. Sell the land to the peasant at a mutually-agreed upon price.

3. Divide the land in proportion to the prevailing crop-sharing agreement.

4. By mutual agreement, set up a joint stock company with the peasants, with the landlord's share in the company to be equal to his former share of the crop.

5. Purchase the peasant's use-rights.

This phase resulted in the distribution of land among an additional 6-7 percent of the peasantry. This made a total of only about 14-15 percent of Iran's peasantry receiving any land from the land reform. In many instances, this phase was merely formalized in an effort to make redistribution more palatable to the landlord, i.e., by the end of 1971, slightly over 80 percent (1.25 million) of the peasants receiving land under this phase became long term (30 year) lessees; only 3.6 percent were able to purchase land from their old landlords.

The Third Phase--This phase of the land reform (1968-72) was designed to convert the tenancy arrangement of


phase two into ownership. Land affected by sections one
and four of phase two, i.e. tenanted and joint-stock
company land was to be sold to the peasants. But after
four years of rearrangement, under which this land was
distributed, only 738,119 of the 1.3 million eligible
families had, in fact, acquired land; that is, under the
third phase, about 592,000 families (cultivators) lost
their tenancy position they had acquired under the second
phase and became landless laborers or migrants workers.

Consequently, as a result of land reform, as Professor
N. Keddie explained, only parts of strata 1 and 2 (refer
to his chart which is cited in Section A) were actual
eliminated and, contrarily, served to reinforce stratas
4, 6, 7, 8, 9, 10 and some number 11. In fact, priori-
ty in receiving land was given throughout Iran to those
who owned some instrument of production or who had cus-
tomary use rights to the land and paid the landlord an
annual rent in cash or in kind. "In practice, this meant
that non-cultivating classes 5, 6 and 7 received land,
while cultivating classes 12, 13 and 14, who probably
account for 40 to 50 percent of the villagers, did not."
Therefore, a small group of relatively well-off peasants

\begin{footnotes}
\item[127] Fred Halliday, \textit{op. cit.}, p. 112.
\item[128] Ibid., p. 112.
\item[129] N. Kiddie, \textit{op. cit.}, p. 75.
\item[130] Ibid., p. 75.
\end{footnotes}
had been formed, while the bulk of the rural population (estimated at 6 million)\textsuperscript{131} with nothing to offer except their labor, had either been completely untouched by the reform or had merely become leaseholders or shareholders, rather than landowners. By the official end of the land reform, these share holders made up two-thirds of those peasants who received land.\textsuperscript{132} On the other hand, those pieces of land which most peasants received were under five hectares, and too small for them to sustain themselves and their families.\textsuperscript{133} In addition, they did not have the necessary capital for cultivation.

It was in this situation that, in early 1967, the government introduced the Farm Corporation. In these units one, or usually more, villages were combined into a corporation, with small landholders who were forced to join this corporation as shareholders or had to return their pieces of land which they had recently received or were forced to sell their land to the

\textsuperscript{131}Hassein Amirsadeghi, \textit{op. cit.}, p. 184.
\textsuperscript{132}N. Keddie, \textit{op. cit.}, p. 87.
\textsuperscript{133}George Stauth, \textit{op. cit.}, p. 102.
wealthier peasants, and themselves became wage earners on the land.\textsuperscript{134} The share which a peasant received when he joined the corporation was dependent on the value of the land and other assets, such as tools or animals, which he then placed at the disposal of the corporation.\textsuperscript{135} Again, this practice favored the wealthier peasants and further strengthened the divisions among the peasantry. Thus, it is possible to say that the third phase of the land reform was, in fact, a preparation for this new process. On the other hand, since farm corporations used modern machinery, and peasants lacked the necessary training or agricultural education to be of use, it caused a massive migration of the peasantry into overcrowded cities especially Tehran; these cities were without the necessary housing or basic amenities and jobs to adequately cope with such an influx of people. Farm corporations were run by government specialists (including foreigners) sent from Tehran, and required large amounts of capital for expenditures for machinery, salaries, housing and other buildings for nonfarmers. Professor Keddie states regarding this matter in an excellent description of

\textsuperscript{134}N. Keddie, \textit{The Roots of Revolution}, op. cit., p. 164.

\textsuperscript{135}\textit{Ibid.}, p. 164.
the Iranian land reform that she refers to as a "bourgeoisie land reform." She says, there was no real intent to create equality, but rather there was an intent to create a new propertied class which would be politically conservative and would support the regime which gave them the property. 136 Additionally, James Bill states that:

...has been the widening gap that has separated those peasants who have had the right to work a particular piece of land and those who have had no such right. The land reform and the resulting situation has seen the wealthier peasants become wealthier and the poorer peasants, poorer.137

However, with all these inadequate land reform plans, Iran's agricultural yield was greatly diminished and failed to meet the nutritional needs of the populace. Consequently, in the mid-1970s, Iran became one of the leading exporters of food and other agricultural products in the Middle East.138 According to Business Week reports, the value of food exports increased from $32 million in 1973 to $1.5 billion in 1978.139

Thereafter, when the government's land reform plans

138 Thierry Brun and Rene Dumont, op. cit., p. 15.
failed to increase productivity, it attempted to attract foreign interests to invest in large-scale agricultural projects in order to increase its agricultural yield. Thereupon, three joint-ventures in agro-business were launched with intensive American participation which were as follows:¹⁴⁰

- The Iran-California Corporation (10,000 hectares) Shareholders: Iranians 30%, Americans 70%;
- Iran Shellcott Co. (15,00 hectares)
  Shareholders: Iranians 25%, Shell International Ltd. 75%;
- International Agricultural Corporation of Iran
  (17,000 hectares) Shareholders: Iranians 50%,
  Americans 45.1%, Japanese 5%.

The important point here is that all these ventures failed and did not increase Iran's agricultural output in any way nor did they lower the volume of food exports needed to feed the populace. Contrarily, during their operation in the Khuzistan region, 58 villages and their occupants (173,888) people were displaced against their wishes.¹⁴¹

Thus, in actuality, this was a dependent capitalist development program which was initiated with the subservient Iranian government support.

Nevertheless, this discussion of the Iranian economy with its accompanying findings better enables us to understand the state of Iran's economy in the era of the Shah's regime in relationship to the spectrum of underdevelopment and dependence.

Dual Society in Iran

There exists grave cleavages which serve to separate the bulk of the Third World's rural areas and their inhabitants from the modernized urban centers of those countries. This phenomenon, at least in the view of those supporting the dependency school of thought, is a necessary condition for the function of capitalism and is both created and generated by the use of imperialistic policies.

The origin of the dual conditions in Iran mentioned above can be traced to the establishment of the AIOC and the creation in the 1930s of the modern western industrial complex in that country. From this time, Tehran in particular and to some extent, the cities surrounding the oil industry in the southern part of the country, grew and became Iran's major metropoles. After the mid-1950s, when strong incentives were provided for the investment of foreign capital (such as political stability, contact and involvement of the local
bourgeoisie) other urban areas also evolved and became industrial centers. Thus, most major cities were surrounded by large manufacturing plants and the capital city, Tehran, became the essential nucleus or power base of this vast industrial conglomerate.\footnote{142}

With the spiraling growth of industry around these urban centers in Iran, the process of urbanization also increased. The 1976 census taken in Iran revealed that from the some 65,000 villages in Iran only 18,000 had populations of more than than 25 inhabitants.\footnote{143} On the other hand, according to the report of UNESCO in 1976, the percentage of urban dwellers rose from 37.4% of the total Iranian population to a total of 44.01% in 1975.\footnote{144} Furthermore this acceleration in the process of urbanization also produced a large discrepancy in food expenditure between urban and rural populations. As Table 4 indicates, an urban family spent twice as much on consumptive expenditures than did the rural family. This dual economy—a dynamic urban sector and a diminishing, stagnating rural sector—was certainly an inescapable result of industrialization or the seeming modernization of Iran. The last

\footnote{142}{Jane W. Jacgy, op. cit., pp. 31-177.}
\footnote{143}{Robert Graham, op. cit., p. 28.}
\footnote{144}{UNESCO, Demographical Statistics Yearbook, (1976), p. 4.}
TABLE 4

Ratio of Urban Private Consumptive Expenditures Per Capita to Rural Private Consumptive Expenditures Per Capita for Iran in Constant 1972 Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban Consumptive Expenditures</th>
<th>Urban Population (million)</th>
<th>Ratio 3=1/2 (urban per cap.)</th>
<th>Rural Consumptive Expenditures</th>
<th>Rural Population</th>
<th>Ratio 6=4/5 (rural per cap.)</th>
<th>Gap Ratio 7=3/6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>164.9</td>
<td>7,703</td>
<td>20,109</td>
<td>148.8</td>
<td>14,695</td>
<td>10,126</td>
<td>1.99</td>
</tr>
<tr>
<td>1962</td>
<td>167.1</td>
<td>8,091</td>
<td>20,652</td>
<td>150.2</td>
<td>14,947</td>
<td>10,049</td>
<td>2.06</td>
</tr>
<tr>
<td>1963</td>
<td>175.2</td>
<td>8,495</td>
<td>20,623</td>
<td>153.6</td>
<td>15,201</td>
<td>10,104</td>
<td>2.04</td>
</tr>
<tr>
<td>1964</td>
<td>187.9</td>
<td>8,915</td>
<td>21,077</td>
<td>168.8</td>
<td>15,458</td>
<td>10,920</td>
<td>1.93</td>
</tr>
<tr>
<td>1965</td>
<td>197.2</td>
<td>9,353</td>
<td>21,084</td>
<td>173.8</td>
<td>15,716</td>
<td>11,059</td>
<td>1.91</td>
</tr>
<tr>
<td>1966</td>
<td>233.2</td>
<td>9,808</td>
<td>23,776</td>
<td>183.3</td>
<td>15,977</td>
<td>11,473</td>
<td>2.07</td>
</tr>
<tr>
<td>1967</td>
<td>254.6</td>
<td>10,282</td>
<td>24,762</td>
<td>194.9</td>
<td>16,240</td>
<td>12,001</td>
<td>2.06</td>
</tr>
<tr>
<td>1968</td>
<td>295.5</td>
<td>10,775</td>
<td>27,424</td>
<td>207.9</td>
<td>16,505</td>
<td>12,596</td>
<td>2.18</td>
</tr>
<tr>
<td>1969</td>
<td>320.9</td>
<td>11,287</td>
<td>28,430</td>
<td>219.7</td>
<td>16,772</td>
<td>13,099</td>
<td>2.17</td>
</tr>
<tr>
<td>1970</td>
<td>370.0</td>
<td>11,820</td>
<td>31,303</td>
<td>225.2</td>
<td>17,041</td>
<td>13,215</td>
<td>2.37</td>
</tr>
<tr>
<td>1971</td>
<td>392.6</td>
<td>12,375</td>
<td>31,725</td>
<td>199.5</td>
<td>17,311</td>
<td>11,524</td>
<td>2.75</td>
</tr>
<tr>
<td>1972</td>
<td>455.7</td>
<td>12,951</td>
<td>35,186</td>
<td>192.9</td>
<td>17,583</td>
<td>10,971</td>
<td>3.21</td>
</tr>
<tr>
<td>1973</td>
<td>491.3</td>
<td>13,550</td>
<td>36,258</td>
<td>205.0</td>
<td>17,856</td>
<td>11,481</td>
<td>3.16</td>
</tr>
</tbody>
</table>

Source: Aspen Institute for Humanistic Studies
column of Table 4 also indicates growing differences in urban and rural living conditions which took special momentum during the 1970s. Such a wide discrepancy between the amounts of consumption expenditures of urban and rural dwellers was, in fact, largely reflective of their different life styles and standards of living. For instance, 95 percent of the rural population dwelled primarily in clusters of low mud brick houses without piped water, sanitary facilities, or electricity.  

Additionally, another variable, resulting from the urbanization process occurring in Iran, may be observed in the changing employment pattern of that country. The agricultural work force declined from 75 percent of the total economically-active population of 1940 to less than 50 percent by 1966 and to approximately 33 percent by the late 1970s.  

By 1977, out of an economically-active population totalling some 10.4 million, an estimated 2.5 million were employed in manufacturing firms and another one million found their job opportunities in the construction sector. The above pattern of change in the employment market of Iran can be mainly attributed to the destruction of the traditional mode of employment in Iran, that of agricultural production, and the substitution of industrially-
produced commodities that primarily benefitted foreign born investors as well as the local domestic bourgeoisie. Furthermore, because of the lack of any real organization among the peasantry of Iran, there was also an absence of unionization and thus the ruling classes—the foreign-born industrialists and local capitalistic bourgeoisie—were provided with an abundant supply of cheap labor to man their industries. Hence, they exploited both of the country's natural resources—its raw materials as well as its peasant workers—in order to expand the profitability of their industrial concerns.

The evaluation given by those who ascribe to the dependency school of thought—that the dual socio-economic conditions (those existing between urban and rural workers) resulted from both the intensified contact between the Iranian citizenry, especially those of the local bourgeoisie, and the West on the one hand, and from the intrinsic nature of the capitalistic economic theory which defines its mode of production on the other—is, in this writer's opinion, absolutely correct insofar as it goes. However, I do not feel that the dependency school's narrow focus essentially on the political and economic conditions existing in Iran can fully explain the existence of a dual society in Iran; other variables, such as traditionalism, the rate of Iran illiteracy
and the persistence of Islamic values that penetrate both urban and rural areas also must be considered as contributing factors to polarization of the Iranian community.
CHAPTER V

CONCLUSION

In the period of the Shah's regime, Iran's national economy was in the process of being transformed from a previously ruralistic agriculturally-based socio/economic system into an industrial/capitalistic mode of production. The implementation of the above mentioned transformation had been accompanied by the launching of an ill-considered and inadequate industrial and agricultural program which resulted in a stagnant economy and widespread poverty. As a consequence of this changing economic trend in Iran, the peripheral economic units of the country such as village communities, which had been independent in producing their economic necessities and thus were self-sufficient, lost their autonomous structures and became dependent on the industrialized centers (metropoles). These industrialized centers also became, because of the domination of the forces and mechanisms of the world capitalist centers, specialized centers of production for the world capitalist market; and thus, Iran, as a whole, became a dependent nation. Ultimately, this capitalistic transformation both caused and generated underdevelopment in Iran. This condition of underdevelopment in Iran adds
strength to the thesis of the dependist school of thought that postulates that "underdevelopment" is a phenomenon caused by particular patterns created by the capitalistic mode of production at certain stages of its development.

This growing economic dependence of the Iranian state on the western imperialistic powers manifested itself in both the growing political dependence of the Shah's regime expressed through its internal and regional policies which it implemented as a result of its subservient position to those external capitalistic powers. Of considerable note here are the following activities, all of which point to the regime's growing political dependence on outside imperialistic powers: The brutal suppression of all opposition to the Shah's regime which it enforced by use of the military and SAVAK: the military action initiated against the people of Doufar, and; the state's membership in CENTO.

Therefore, our central duties, as conscientious Iranian citizens, is to increase our efforts to educate the masses regarding the neo-colonialist relationship that results from the implementation of capitalistic principles on developing Third World economies. Thus by use of mass education regarding the crippling and disabling effects brought about by national dependency on imperialistic outside powers will awaken in the masses a need to participate
in mass demonstrations, and armed struggle, if necessary, in order to cut off the capitalists' locus of control within the country--the state and local bourgeoisie--which in the long run will "cut off" the imperialists' hands (the local bourgeoisie) and end their interference in the internal affairs of the country.
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