PLANNING AND POWER IN IRAN

EBTEHAJ AND ECONOMIC DEVELOPMENT UNDER THE SHAH

FRANCES BOSTOCK
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GEOFFREY JONES

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Ebtehaj in the early 1960s

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CONTENTS

LIST OF ILLUSTRATIONS

FOREWORD

This book is sure to become a major text for those seeking an understanding of the circumstances which led up to the Islamic Revolution in Iran at the end of the 1970s. It also contains powerful insights on the fateful course of relations between the West and Iran. However, and above all, it is a penetrating study of the life and times of one of the most significant Iranians in the post-second world war period: a man who, in different circumstances, might conceivably have saved the Shah his throne.

As president of the World Bank when Abol Hassan Ebtehaj was head of the Plan Organization in the 1950s, I had no hesitation in lending him the Bank's full support. Ebtehaj was, I believed, an outstanding pioneer of Third World development – a nationalist utterly committed to the promotion of his country's interests, but also a man prepared to work with international agencies to achieve this goal. His appointment to and management of the Plan Organization were of fundamental importance for the Bank in its dealings with Iran.

On a personal level, I have always held Abol Hassan Ebtehaj in high esteem, and my working relations with him were of the finest. It seems to me wholly characteristic of the man that he was prepared to talk openly and honestly to two independent historians, and I am delighted that his valuable services to his country have now been recorded.

Eugene Black

Southampton, New York
June, 1988

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PREFACE

This study of planning and development in Iran before the Islamic Revolution of 1979 has been written in full collaboration with the leading character portrayed, Abol Hassan Ebtehaj. He has given extensive interviews to the authors, and provided written memoranda on a wide variety of subjects. These materials will be made available for public consultation. The book is not an apologia for Mr Ebtehaj. We insisted, and he completely agreed, that we were to retain freedom of interpretation. Our book has benefited enormously from his collaboration, but the judgements expressed in it are our own.

The writing of modern Iranian history presents considerable difficulties in the wake of the Islamic Revolution. It proved impossible to undertake research on primary sources within Iran. We have consulted published Persian language sources, although the leading Iranian economists and historians have tended to publish in English over recent decades. More importantly, we have made extensive use of 'oral history' to compensate for deficiencies in primary Iranian documentation. This book rests heavily on interviews, not only with Mr Ebtehaj but also with other Iranian (as well as western) figures. The problems of faulty memories, retrospective justifications and so forth are well-known. Oral history is highly fallible when it comes to establishing dates. Nevertheless, we believe that interviews can provide unique insights into motivations and policies of the past, as well as illustrating the atmosphere of a particular period. In using interview material, we have frequently given substantial quotations which should enable readers to judge for themselves the weight to be given to the opinions expressed. We have not cited oral history quotations where written evidence suggests that the information is erroneous or misleading.

In interviewing Mr Ebtehaj, we were fortunate to be able to draw on the services of a professional oral historian, Christopher Cook, who conducted wide-ranging initial interviews with Mr Ebtehaj. We also drew extensively on the interview given by Dr Khodadad Farmanfarmaian to Habib Ladjevardi as part of the Iranian Oral History Project undertaken by Harvard University's Center for

Middle Eastern Studies in 1982. We are extremely grateful to Dr Farmanfarmaian for allowing us access to his copy of the transcript, and permission to quote from it.

We used a variety of archival sources in the West in writing this book. There are grave dangers in seeing Iran through foreign eyes but – as with the use of oral history – we believe the benefits outweigh the costs. We would like to thank the Hongkong Bank Group and the Bank of England for permission to use and cite their historical records. The British Public Record Office yielded much important information, and we would like to thank the Controller of H.M. Stationery Office for permission to quote previously unpublished crown copyright material. Many of our most valuable sources were found in the United States. The use of the Freedom of Information Act yielded a fruitful crop of documents about events in Iran in the 1950s and 1960s, many of which have not – at the time of writing – been made available in the National Archives in Washington. Unfortunately some of the documents released under the Act were not stamped with any file or access code, and this will make the checking of these when the Iranian files are eventually opened to scholars in the National Archives very difficult. The External Relations Department of the International Monetary Fund, Washington, kindly supplied us with the group photograph of heads of delegations at Bretton Woods; it has proved impossible, however, to trace the copyright. We are grateful to the Estate of the late Roloff Beny, and to the National Archives of Canada, for permission to reproduce Beny's photograph of the Dez Dam.

No special rules have been followed for transliteration of Persian words, except those of current common usage, general phonetics and, so far as possible, consistency: names, in particular, have been transcribed, where appropriate, according to the practice of the people concerned, and in the case of certain institutions – for example, the Bank Melli and Bank Rahni – anglicised. Diacriticals have been omitted.

As already implied, our greatest debt in writing this book is to Abol Hassan Ebtehaj himself. He greeted the initial suggestion with enthusiasm, made himself available for interview whenever necessary, was endlessly interested in all the information elicited from archival sources whether this reflected well or badly on him, allowed us access to his library and papers, and provided us with as much help as he could in our efforts to cross-check information. The contribution of Dr Azar Ebtehaj was also considerable. She not only agreed to be interviewed, but helped us to find suitable

photographs for inclusion.

Our special thanks are due to Alireza Arouzi, who is helping Mr Ebtehaj to write his memoirs in Persian, for his help and advice generally and with Persian language sources; Dr Khodadad Farmanfarmaian, who not only allowed us access to his Harvard interview but also talked to us at length; Dr Cyrus Ghani, who was a mine of information and suggestions; and Dr John Gurney and Professor Fred Halliday, who read the manuscript and made a number of useful comments.

We talked to and corresponded with a number of people who knew Abol Hassan Ebtehaj at various stages of his career. We should like to thank the following in particular for their help – Peter Avery, Aqa Khan Bakhtiar, Eugene Black, Dr Eprime Eshag, Dr Weldon Gibson, Manouchehr Kazemi, Jan Kruthoffer, Habib Ladjevardi, Dr Reza Moghaddam, Hector Prud'homme, Mehdi Samii, Robert Schott, Peter Wodtke, Sir Denis Wright, Colonel Gratian Yatsevitch.

Finally, our grateful thanks are due to our respective families for their unfailing encouragement and support at all times.

Frances Bostock
Geoffrey Jones

London
November 1987

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INTRODUCTION

This book is a study of the origins of development planning in Iran, focusing on the career of a remarkable twentieth-century Iranian, Abol Hassan Ebtehaj. As Governor of Iran's Bank Melli – effectively the central bank – between 1942 and 1950, and head of the country's Plan Organisation between 1954 and 1959, he pioneered planning in his country, and, indeed, in the Third World. As a leading public figure, he was close to the Shah for two critical decades in the 1940s and 1950s, and a central influence on economic decision-making. And in a regime in which corruption appeared to be endemic, he became, as the *New York Times* observed in 1962, 'a symbol of incorruptibility'.[1]

Ebtehaj's life spans a period of enormous political, social and economic change within Iran. When he was born at the end of the nineteenth century Iran was a poor, backward and almost entirely isolated state. It was primarily an agricultural country, with more than three quarters of its population of some ten million consisting of nomadic tribes or existing in poor villages. Industrial activity was very limited. There were hardly any roads and the first proper railway was not to be constructed until the 1930s. The administration of government was rudimentary in the extreme. Tax and revenue collection was 'farmed' to the highest bidder. The country was subject to constant interference from the imperial powers, Russia and Britain, and seemed at times on the verge of disintegration.[2]

In the 1920s Iran began to change under the influence of Reza Khan, a former army colonel who staged a coup in 1921 and declared himself first shah of the Pahlavi dynasty in 1925. After re-asserting the authority of the central government, Reza Shah launched campaigns to modernise, industrialise and secularise his country. Reza Shah's son, Mohammad Reza Shah, continued these general policies. For a period in the 1960s and early 1970s, Iran was hailed in some western quarters as the Japan of the Middle East, as economic growth rates soared and an affluent – and very secular – middle-class emerged. However, the Revolution at the end of the 1970s, and

subsequent establishment of the Islamic Republic, set Iran on another course.

Iran's recent history has been marked by apparently puzzling paradoxes. The process of intense westernisation which the country underwent under Reza Shah was accompanied by an equally intense xenophobia, expressed in terms of suspicion and resentment of foreigners and foreign influence. Westernisation and modernisation were accompanied, simultaneously and relatedly, by a fierce assertion of national spirit.[3] Iran's two major twentieth-century revolutions provided similar ambivalences. The Constitutional Revolution of 1905–9 saw the triumph, albeit shortlived, of a modern intelligentsia, inspired by such western notions as nationalism, liberalism and socialism, who drew up a predominantly secular constitution and hoped to model their society in the image of contemporary Europe. The 1979 Revolution, on the other hand, brought to power a traditional clergy inspired by the golden age of Islam, who drew up a thoroughly clerical constitution and denounced all western influence. Yet, ironically, the considerable socio-economic transformation undergone by Iran between these revolutions had served to swell the ranks of the intelligentsia and industrial proletariat and reduce the ranks of such traditional classes as the clergy.[4]

While the Constitutional Revolution had looked towards Europe for its inspiration, the 1979 Revolution turned its back on 'western' influences and ideals in favour of the precepts of Fundamentalist Islam. Iran was not unique in this sense. The establishment of an Islamic republic after the Revolution was part of a trend which saw the rise and spread of Fundamentalist Islam throughout the Middle East, and parts of Africa and Asia. Where Iran was unique, perhaps, was in the complete *volte face* this represented, and the speed and success with which it was implemented. Furthermore, the implicit contradictions of Iran's 1979 Revolution gave it a distinctive character in comparison with other Third World rebellions and coups of the 1970s for it took place in the context of rapid capitalist growth and political independence rather than in the more archaic conditions of revolt against old colonial regimes or pre-capitalist monarchies.[5] But the real novelty of Iran's Revolution lay in the paradox that it was both 'reactionary' – in its leadership and ideology – and 'modern' – in being the result of a massive urban protest movement. It was the first Third World revolution to take place exclusively in the cities, using such tactics as the mass demonstration and the political general strike more normally associated with

conflict in the developed world. Yet it was also the first 'to be unequivocally religious, and so deeply hostile to ideas of progress'.[6]

Not only therefore has the twentieth century been one of dramatic change for Iran, but the process has been neither smooth nor painless. As well as such major social and political upheavals as the Constitutional and Islamic Revolutions and Reza Shah's modernisation programme, the country has long remained subject to foreign interference in its affairs – most dramatically during the First and Second World Wars and in the overthrow of Mossadeq (the Iranian Prime Minister responsible for carrying out the nationalisation of British oil interests in the early 1950s), but perhaps most insidiously in the pervasive Americanisation of the 1960s and 1970s. This, together with its often chaotic internal situation, helps to explain why Iran's periods of economic growth have alternated with periods of grave economic difficulty.

Few Asian, African or Latin American countries this century have found the path of economic and social development an easy one. Yet Iran's difficulties have been particularly acute for a country so blessed with natural resources. The discovery of oil in 1908, the first such discovery in the Middle East, presented Iran with unique opportunities. While many developing countries have had to battle against scarce resources and rapidly increasing populations, Iran has had no such difficulties. Although never sufficient for perceived needs, Iran's oil revenues poured into the coffers of government at a rate which many a developing country might have envied, expanding from £600,000 per annum in 1920 to £16 million in 1950 and £464 million in 1970.[7] At the same time population growth, which was under 1 per cent before the 1920s, was still under 3 per cent in 1970; there was no pressing shortage of arable land; there were other exploitable mineral resources apart from oil; and, although water was short, the rainfall of the country's two great mountain ranges – the Zagros in the west and the Alborz in the north – offered plenty of opportunity for expanding the supply.

Constraints on economic development in Iran focused not so much on scarcity of revenue and natural resources as on a variety of other factors – exogenous and endogenous. The country's geopolitical situation led after the Constitutional Revolution, during the World Wars, and in 1953, to political and military intervention in its affairs by the Great Powers, and in the 1960s and 1970s, when Iran became an integral part of American regional strategy in the Persian Gulf area, to a degree of western encouragement of military aggrandisement, which distorted the process of development.

Internally, the degree of Iran's backwardness relative to its financial resources – as characterised by such factors as illiteracy, low productivity of agriculture, inadequate communications, absence of institutional infrastructure, and a weak modern industrial sector – provided major constraints on economic development. There were other problems also. The nature of the state under the two Pahlavi shahs – Reza Shah's autocracy in the 1930s, and the increasingly dictatorial tendencies of Mohammad Reza Shah from the 1960s – interfered with the process of development. So also did the clash of values which existed between western notions of modernisation, development and planning, and a society which reflected, despite twentieth-century attempts at secularisation, the often quietist, oppositional and anti-structuralist nature of Twelver Shiism, the state religion of Iran. It was an individualistic society in which personal relations, personal influence and personal advantage were all important; a society which inclined towards authoritarianism on the one hand and conspiracy and schism on the other.[8]

Despite Iran's enormous natural endowment for development, therefore, there were equally great, and distinct, obstacles in its path. However, as oil revenues grew, greater political stability was established, and the need to bolster national independence became an overwhelming preoccupation, the country's central problem was increasingly seen as how it could best use its resources to promote economic development in a rational fashion which would bring benefits to all. It was a problem which became not only Ebtehaj's principal concern, but the focus of his crusading zeal.

The significance of Ebtehaj's career in twentieth-century Iranian history is threefold. First, he was a great nationalist. From the time of his appointment as Governor of the 'central' bank, the Bank Melli, Ebtehaj worked to reduce the influence of foreign business within Iran, to gain credibility for his country in international financial circles, and generally to raise its status in the world. He headed, for example, Iran's delegation to the International Monetary Conference at Bretton Woods in 1944. Ebtehaj offered an alternative model of nationalism to that of many twentieth-century Iranians, as symbolised most vividly perhaps by Mossadeq. For Ebtehaj was never simply anti-foreign: rather he sought to use foreigners for the benefit of Iran. Within some circles in Iran this attitude earned him – quite unjustly – a reputation as a foreign 'stooge'. At the same time, outside Iran, while ironically he was regarded by some as a rabid nationalist, he gained the respect of

many who tended to criticise his countrymen in general. A British Foreign Office official described him in 1951 as 'by far the strongest and ablest of all Persians and perhaps indeed the ablest Government official in the Middle East'.[9] In the United States his reputation stood, if anything, even higher, and the State Department, like the Foreign Office, looked upon him as 'possibly the ablest banker and administrative executive in the Middle East'.[10]

Second, Ebtehaj was a builder of institutions. As inter-war Iran embarked on rapid modernisation under Reza Shah, competent administrators were in desperately short supply. Iran, like many Third World countries, faced a critical problem of how to construct an effective bureaucracy and institutional framework which could implement government policies. Ebtehaj in the 1940s and 1950s played a decisive role in creating the efficient institutions which were a vital prerequisite for sustained development. He was Iran's first technocrat.

Third, but most importantly, Ebtehaj was the pioneer of the idea of planned economic development in Iran. During the late 1930s, confronted by the inconsistencies and inefficiencies in the implementation of Reza Shah's industrialisation programme, Ebtehaj began to argue the case for a more rational approach to economic development. As Governor of the Bank Melli, he was the moving force behind the establishment of a planning organisation. Between 1954 and 1959, Ebtehaj ran the Plan Organisation, and launched – among many other projects – a massive regional development programme in Khuzestan province.

Ebtehaj's role here has been neglected by posterity. A recent study of Iran's economic planning system by Hossein Razavi and Firouz Vakil typically contains no mention of his name.[11] In part this neglect arises because of a widespread assumption that 'real' planning in Iran only began in the 1960s. According to Razavi and Vakil, the Third Development Plan launched in 1962 – three years after Ebtehaj left the Plan Organisation – 'was the first effort in the direction of comprehensive planning'.[12] 'Despite the initiation of planned development in the early post-Second World War period', a journalist writing in 1978 commented, 'the emergence of strategic objectives has been a recent phenomenon. Growth until the Fourth Five Year Plan was piecemeal.'[13] While not disputing that Iranian planning became more comprehensive and sophisticated over the years, we will argue that the 'Ebtehaj period' of planning has a significance far beyond that of a historical footnote.

If Ebtehaj as an individual has been forgotten by historians, the

professional technocrats and planners of whom he was a forerunner have received considerable criticism for pursuing policies which led to the Islamic Revolution. This book is not yet another attempt to explain the causes of that Revolution. There is, however, a powerful strand of interpretation which needs to be considered because it argues that it was Mohammad Reza Shah's rush for modernisation and westernisation, implemented by his apolitical technocrats, which was responsible for the tensions which underlay the Revolution.[14] Ebtehaj is an obvious candidate for consideration as a pioneer westerniser and moderniser, and there has been, in this context, more explicit criticism of the specific policies favoured by Ebtehaj as 'yet another example of the by now almost bankrupt development strategy of the 1950s and 1960s with its undue emphasis upon maximal growth, industrialisation and foreign technical assistance at the expense of better income distribution, more balanced growth and greater self-reliance'.[15]

Throughout his career Ebtehaj was always a controversial figure. While some accused him of being a foreign 'stooge', the British bank in Iran, which he vigorously challenged in the late 1940s, was among others who believed that he was consumed by blind hatred of foreigners. His absolute conviction that he was right was regarded by detractors as a sign of personal ambition and an overwhelming egotism. Ebtehaj's honesty, and his determination that Iran's resources should be used rationally to promote development, led him into conflict with the political system he nominally served. The inevitable result, perhaps, was his forced resignation from the Plan Organisation in 1959, and his arrest and imprisonment in Iran two years later, soon after having delivered a paper in the United States implicitly criticising the 'corruption, graft [and] suppression of freedom' in his country.[16]

This book will ask three central questions about Ebtehaj's career. To begin with, where did his ideas and motivations come from? Ebtehaj was a man who made things happen, a man who created wealth for his country. But he did so in a way which was distinctly unusual for his time and place. In part his story bears comparison with the great entrepreneurs of the West, and yet his life has also to be set against the wider canvas of Iran's – and indeed the Third World's – struggle for development. Why does Ebtehaj stand out and apart from the beliefs and conventions of so many of his fellow Iranians?

Second, why was Ebtehaj able to achieve so much? Although the plans of the 1950s may seem primitive by later standards, it will be

argued that they were nevertheless a major achievement given the many and varied obstacles they faced. To some extent Ebtehaj's achievements can be explained by the very distinctiveness which set him apart in Iran, but it will also be necessary to explore his relations with the Shah and the nature of decision making in the Pahlavi regime.

Finally, the question arises as to why Ebtehaj ultimately failed – for, after his dismissal from the Plan Organisation, Iran's vast oil revenues were increasingly diverted to support ever more wasteful schemes of military and imperial grandeur, and planning became subordinated to power. The issues here are complex. On some interpretations Ebtehaj was an individual aberration, out of tune with his time and place. Commentators, for example, have sometimes suggested that the whole notion of planned economic development was doomed in Iran's 'anti-planning' culture.[17] From the perspective of the free market policies fashionable in the late 1980s, on the other hand, the entire concept of development planning might be seen as inappropriate and likely to fail in the end. Or did Ebtehaj present, perhaps, a viable alternative to the course eventually taken by the Shah; an alternative which might possibly have prevented the Revolution?

Ebtehaj himself had no doubts about where the policies and practices pursued after his resignation would lead. He was appalled by the corruption and waste of the Shah's regime, and by the strong and continuous support given to the Shah by successive American governments who saw him as a bulwark against Communism. From his prison cell in 1961 he warned the United States' State Department that

> The situation in Iran today is explosive. This statement is not intended to impress or scare anybody. It is a naked reality. Let me go down on record as the man who gave the warning even though it may not be heeded.
>
> When the explosion comes the reaction against the US and the West will be unavoidable and uncontrollable. It will be equally damaging to Iran.
>
> I firmly believe this danger *can be avoided.* The present regime could not survive but for US financial, military, moral and political support, it has no other alternative to turn to. The US can remedy the past mistakes by dissociating itself from all the evils and in this way by gaining the sympathy and friendship of the *people* of Iran. This would not only be in the interest of the US. It is the surest and perhaps the only way to save Iran.[18]

Eighteen years later, the Islamic Revolution, and the subsequent capture of the American hostages, demonstrated just how prescient his diagnosis was.

This examination of the life and times of Abol Hassan Ebtehaj will, it is hoped, offer new insights into the origins of development planning in Iran by restoring the period of the late 1940s and 1950s to the debates about the effectiveness and strategies of Iranian planning. In the process the problems of modernisation and economic growth in that country will be explored – and important new evidence shed on what went wrong with the Pahlavi regime. More fundamentally, this is the story of a man who offered twentieth-century Iran an alternative – an alternative which has, for the moment, been spurned, but might yet provide a guideline for the future.

PART ONE

REVOLT AGAINST THE OLD ORDER

1900–1936

1. The Ebtehaj family in the early 1900s

1

PRIDE AND PREJUDICE

Where did Ebtehaj get the ideas and outlook which differentiated him so starkly from most of his Iranian contemporaries? The answer to such a question for any great political figure or entrepreneur is never easy, lying as it does in the complex interaction between family and cultural background and external circumstances. This chapter attempts to understand how Ebtehaj's views and character evolved by looking at his family background, and his first career as an employee of a British-owned bank in Iran. By 1936, when he left the British bank, he had still to make a great mark on his country's affairs, yet many of the skills and ideas which were to flourish in subsequent years were already in place.

Abol Hassan Ebtehaj was born in Rasht in northern Iran on 29 November 1899, the second child of Ebrahim, Ebtehaj ol-Molk, and his wife, Fatemeh Khanoum. The couple had five other children, two more sons and three daughters. Abol Hassan's father was a professional functionary and his mother belonged to a middle-ranked landowning family.

The young Ebtehaj grew up against a background of political and economic chaos. Iran was one of the handful of Asian countries – alongside Japan, China and Thailand – which had avoided occupation by the great European imperial powers during the nineteenth century. Yet by the time of Ebtehaj's birth the country's internal condition was desperately fragile. In May 1896 Naser al-Din Shah, Iran's ruler since 1848, had been assassinated by a Muslim fanatic. Thereafter the Qajar dynasty sank into decline. Mozaffar al-Din Shah, who succeeded his father, was more interested in religion, cats and his own failing health than in government and diplomacy. During his reign Iran's political system came close to collapse, and the country acquired its first foreign debt, although debt per capita remained tiny compared with such similar countries as Egypt. The last two Qajar shahs, Mohammad Ali Shah and Ahmad Shah, were even more ineffectual.